

TELECOMMUNICATIONS CO OF CHILE
Form 6-K
May 17, 2007

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 MAY 17, 2007

(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

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

for the three-month periods ended

March 31, 2007 and 2006

(CONSOLIDATED)

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

(Translation of financial statements originally issued in Spanish See Note 2)

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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.

Report of Independent Auditors

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

To the Shareholders and Directors of
Compañía de Telecomunicaciones de Chile S.A.:

We have reviewed the consolidated balance sheets of Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income and cash flow for the three-month periods then ended. These interim financial statements and the accompanying notes are the responsibility of the management of Compañía de Telecomunicaciones de Chile S.A. The accompanying Management's Discussion and Analysis of the Consolidated Financial Statements is not an integral part of these financial statements, and therefore this report does not cover this item.

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

Based on our review of the interim consolidated financial statements as of March 31, 2007 and 2006, we are not aware of any material modifications that are required for them to be in conformity with accounting principles generally accepted in Chile.

Andrés Marchant V.

ERNST & YOUNG LTDA.

Santiago, Chile, April 23, 2007

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2007 AND 2006

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of March 31,2007)

| ASSETS | Notes | 2007 | 2006 | LIABILITIES | Notes | 2007 | 2006 |
|--|-------|--------------------|--------------------|---|--------|--------------------|--------------------|
| | | ThCh\$ | ThCh\$ | | | ThCh\$ | ThCh\$ |
| CURRENT ASSETS | | | | CURRENT LIABILITIES | | | |
| | | | | Short-term obligations with banks and financial institutions | | | |
| Cash | | 9,059,296 | 7,504,915 | | | | |
| Time deposits | (34) | 65,949,738 | 28,479,757 | Commercial paper | (15) | 2,448,765 | 2,059,848 |
| Marketable securities, net | (4) | 14,327,069 | 16,291,470 | Current maturities of bonds payable | (17 a) | - | 47,617,695 |
| Accounts receivable, net | (5) | 169,180,973 | 152,813,907 | Current maturities of other long-term obligations | (17 b) | 2,539,688 | 28,909,456 |
| Notes receivable, net | (5) | 4,513,053 | 3,663,602 | | | 12,550 | 12,628 |
| Other receivables | (5) | 8,664,521 | 12,281,108 | Dividends payable | | 1,600,878 | 1,780,761 |
| Accounts receivable from related companies | (6 a) | 17,544,288 | 13,537,991 | Trade accounts payable | (35) | 118,659,110 | 78,683,124 |
| Inventories, net | | 5,835,441 | 3,539,068 | Notes payable | | - | 271,595 |
| Prepaid taxes | | 3,261,042 | 3,832,973 | Other payables | (36) | 10,901,451 | 18,769,315 |
| Prepaid expenses | | 1,885,313 | 3,066,892 | Accounts payable to related companies | (6 b) | 32,653,674 | 27,670,459 |
| Deferred taxes | (7 b) | 14,414,073 | 12,657,000 | Accruals | (18) | 3,346,144 | 4,487,289 |
| Other current assets | (8) | 9,156,709 | 59,728,209 | Withholdings | | 11,508,857 | 14,420,585 |
| | | | | Deferred Revenue | | 8,213,041 | 9,071,139 |
| | | | | Other current liabilities | | - | 1,933,254 |
| TOTAL CURRENT | | 323,791,516 | 317,396,892 | TOTAL CURRENT LIABILITIES | | 191,884,158 | 235,687,148 |

ASSETS

| | | | | | | | |
|--|-------------|----------------------|----------------------|---|---------------|--------------------|--------------------|
| PROPERTY, PLANT AND EQUIPMENT | (10) | | | LONG-TERM LIABILITIES | | | |
| Land | | 27,914,978 | 27,861,363 | Long-term debt with banks and financial institutions | (16) | 334,920,908 | 335,315,787 |
| Buildings and improvements | | 795,460,232 | 794,453,740 | Bonds payable | (17 b) | 66,273,928 | 67,625,481 |
| Machinery and equipment | | 2,777,677,156 | 2,747,994,738 | Other accounts payable | | 29,719,217 | 23,135,344 |
| Other property, plant and equipment revaluation | | 334,534,589 | 276,355,168 | Accruals | (18) | 35,707,788 | 35,554,964 |
| Accumulated depreciation | | (2,729,991,442) | (2,549,198,611) | Deferred taxes, net | (7 b) | 52,055,262 | 58,551,654 |
| | | | | Other liabilities | | 3,733,733 | 4,406,999 |
| TOTAL PROPERTY, PLANT AND EQUIPMENT, NET | | 1,214,990,081 | 1,307,435,110 | TOTAL LONG-TERM LIABILITIES | | 522,410,836 | 524,590,229 |
| | | | | MINORITY INTEREST | (20) | 350,742 | 1,598,500 |
| OTHER LONG-TERM ASSETS | | | | SHAREHOLDERS' EQUITY | (21) | | |
| Investments in related companies | (11) | 8,429,645 | 8,164,611 | Paid-in capital | | 890,894,953 | 936,532,592 |
| Investments in other companies | | 4,187 | 4,187 | Price-level restatement of paid-in capital | | 1,781,790 | (2,809,598) |
| Goodwill, net | (12) | 15,633,503 | 17,736,547 | Other reserves | | (2,273,759) | (1,627,995) |
| Other receivables | (5) | 14,033,878 | 13,787,748 | Retained earnings | | 13,945,297 | 15,724,005 |
| Intangibles | (13) | 39,228,736 | 35,829,361 | Retained earnings | | 23,399,752 | 25,763,594 |

| | | | | | | |
|--|------|----------------------|----------------------|---|----------------------|----------------------|
| Accumulated amortization Others non-current asset | (13) | (14,359,821) | (8,782,548) | Net income | 1,053,131 | 753,284 |
| | (14) | 17,242,292 | 18,122,973 | Less: Interim dividend | (10,507,586) | (10,792,873) |
| TOTAL LONG-TERM ASSETS | | 80,212,420 | 84,862,879 | TOTAL SHAREHOLDERS' EQUITY | 904,348,281 | 947,819,004 |
| TOTAL ASSETS | | 1,618,994,017 | 1,709,694,881 | TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 1,618,994,017 | 1,709,694,881 |

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

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIOD ENDED MARCH 31, 2007 AND 2006**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of March 31, 2007)

| | 2007 | 2006 |
|---|--------------------|---------------------|
| | ThCh\$ | ThCh\$ |
| OPERATING INCOME: | | |
| Operating revenues | 143,033,987 | 144,481,842 |
| Operating costs | (95,805,222) | (92,059,300) |
| | | |
| Gross profit | 47,228,765 | 52,422,542 |
| | | |
| Administrative and selling expenses | (34,267,444) | (32,464,605) |
| | | |
| OPERATING INCOME | 12,961,321 | 19,957,937 |
| | | |
| NON-OPERATING RESULTS: | | |
| Interest income | 1,634,376 | 690,753 |
| Equity in earnings of equity-method investees | (11) 288,013 | 471,400 |
| Other non-operating income | (22 a) 1,967,844 | 511,916 |
| Equity in losses of equity-method investees | (11) (24,380) | (37,970) |
| Amortization of goodwill | (12) (361,054) | (1,142,281) |
| Interest expense and other | (4,038,853) | (5,071,691) |
| Other non-operating expenses | (22 b) (1,569,288) | (10,389,750) |
| Price-level restatement, net | (23) (4,596,719) | (669,082) |
| Foreign currency translation, net | (24) 163,580 | 232,710 |
| | | |
| NON-OPERATING (LOSS) NET | (6,536,481) | (15,403,995) |
| | | |
| INCOME BEFORE INCOME TAXES AND MINORITY INTEREST | 6,424,840 | 4,553,942 |
| Income taxes | (7 c) (5,458,468) | (3,866,954) |
| | | |
| INCOME BEFORE MINORITY INTEREST | 966,372 | 686,988 |
| Minority interest | (20) 86,759 | 66,296 |
| | | |
| NET INCOME | 1,053,131 | 753,284 |

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

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE PERIOD ENDED MARCH 31, 2007 AND 2006**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of March 31, 2007)

| | 2007 | 2006 |
|--|--------------------|--------------------|
| | ThCh\$ | ThCh\$ |
| NET CASH | | |
| FROM OPERATING ACTIVITIES | 60,566,416 | 49,466,121 |
| Net income | 1,053,131 | 753,284 |
| Sales of assets: | - | 39,801 |
| Net (income) loss on sale of investments | - | 39,801 |
| Charges (credits) to income that do not represent cash flows: | 62,076,155 | 62,334,655 |
| Depreciation | 50,279,779 | 51,234,206 |
| Amortization of intangibles | 1,350,350 | 1,050,570 |
| Provisions and write offs | 5,503,608 | 8,335,921 |
| Equity participation in income of equity method investees | (288,013) | (471,400) |
| Equity participation in losses of equity method investees | 24,380 | 37,970 |
| Amortization of goodwill | 361,054 | 1,142,281 |
| Price-level restatement, net | 4,596,719 | 669,082 |
| Foreign currency translation, net | (163,580) | (232,710) |
| Other credits to income that do not represent cash flows | (199,537) | (57,115) |
| Other charges to income that do not represent cash flows | 611,395 | 625,850 |
| Changes in operating assets (increase) decrease: | 2,697,167 | (9,323,263) |
| Trade accounts receivable | 4,901,702 | (11,551,185) |
| Inventories | (85,665) | (1,227,290) |
| Other assets | (2,118,870) | 3,455,212 |
| Changes in operating liabilities increase (decrease): | (5,173,278) | (4,272,060) |
| Accounts payable related to operating activities | 6,787,464 | (3,007,453) |
| Interest payable | 1,146,476 | 228,730 |
| Income taxes payable, net | - | 85,835 |
| Other accounts payable related to non-operating | | |

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| | | |
|---|-----------------|-----------------|
| activities | (9,919,495) | (1,151,219) |
| V.A.T. and other similar taxes payable | (3,187,723) | (427,953) |
| Net (loss) income from minority interest | (86,759) | (66,296) |

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

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE PERIOD ENDED MARCH 31, 2007 AND 2006**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of March 31, 2007)

| | 2007 | 2006 |
|---|---------------------|---------------------|
| | ThCh\$ | ThCh\$ |
| NET CASH USED IN FINANCING ACTIVITIES | - | (39,467,285) |
| Obligations with the public | - | 66,505,517 |
| Repayment of obligations with the public | - | (105,972,802) |
| NET CASH USED IN INVESTING ACTIVITIES | (23,609,158) | (19,422,136) |
| Sales of property, plant and equipment | - | 61,934 |
| Sale of other investments | 1,969,493 | - |
| Acquisition of property, plant and equipment | (25,578,651) | (19,484,070) |
| NET CASH FLOWS FOR THE PERIOD | 36,957,258 | (9,423,300) |
| EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS | (73,758) | 288,418 |
| NET INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS | 36,883,500 | (9,134,882) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 41,429,751 | 97,456,576 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 78,313,251 | 88,321,694 |

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

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

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

a) Compañía de Telecomunicaciones de Chile (Telefónica Chile , the Parent Company when referred to on an individual basis or the Company when referred in conjunction with its subsidiaries) is a publicly-held corporation that is registered in the Securities Registry under No. 009 and is therefore subject to supervision by the Chilean Security and Exchange Commission (SVS).

b) Subsidiary companies registered with the Securities Registry:

| SUBSIDIARIES | TAXPAYER No. | Registration Number | Participation (direct & indirect) | |
|--|-----------------|------------------------|--------------------------------------|-----------|
| | | | 2007 % | 2006 % |
| Telefónica Larga Distancia S.A. | 96,551,670-0 | 456 | 99.83 | 99.16 |
| 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 three-month periods ended March 31, 2007 and 2006.

(b) Basis of preparation:

These consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in Chile (Chilean GAAP) and standards set forth by the Chilean Security and Exchange Commission (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 consolidated 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. The Company voluntarily submits the quarterly financial statements as of March 31 and September 30 to an interim financial information review performed in accordance with 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 2006 and their notes have been adjusted for comparison purposes by 2.6% in order to allow comparison with the 2007 consolidated financial statements. For comparison purposes, certain reclassifications have been made to the 2006 consolidated 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 (Note 20).

(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

2. Summary of Significant Accounting Policies, continued:

(d) Basis of consolidation, continued:

Companies included in consolidation:

As of March 31, 2007, the consolidated group (The Company) is composed of Compañía de Telecomunicaciones de Chile S.A. and the following subsidiaries:

| TAXPAYER No. | Company Name | Ownership Percentage | | | 2006 Total |
|-----------------|--|----------------------|------------------|-------|---------------|
| | | Direct | 2007 Indirect | Total | |
| 96,551,670-0 | Telefónica Larga Distancia S.A. Telefonica Gestión de Servicios | 99.83 | - | 99.83 | 99.16 |
| 96,961,230-5 | Compartidos Chile S.A. | 99.99 | - | 99.99 | 99.99 |
| 74,944,200-K | Fundación Telefónica Chile | 50.00 | - | 50.00 | 50.00 |
| 96,971,150-8 | Telefónica Asistencia y Seguridad S.A. | 99.99 | - | 99.99 | 99.99 |
| 90,430,000-4 | Telefónica Empresas Chile S.A. | 99.99 | - | 99.99 | 99.99 |
| 78,703,410-1 | Telefónica Multimedia Chile S.A. (1) | 99.99 | - | 99.99 | 99.99 |
| 96,834,320-3 | Telefónica Internet Empresas S.A. (2) | 99.99 | - | 99.99 | 99.99 |
| 96,811,570-7 | Instituto Telefónica Chile S.A. (4) CTC Equipos y Servicios de | - | 99.99 | 99.99 | 79.99 |
| 96,545,500-0 | Telecomunicaciones S.A. (3) | - | - | - | 99.99 |
| 96,887,420-9 | Globus 120 S.A. (4) | - | - | - | 99.99 |

1) On January 26, 2006, Telefónica Internet Empresas S.A. sold its entire ownership interest of 449,081 shares to Telefónica Chile for ThCh\$1,624,273 (historical). On that same date, CTC Equipos y Servicios de Telecomunicaciones S.A. sold its entire ownership interest of 1 share to Telefónica Chile S.A. for ThCh\$4.

On April 19, 2006, Tecnonáutica S.A. changed its name to Telefónica Multimedia Chile S.A.

2) On January 26, 2006 CTC Equipos y Servicios de Telecomunicaciones S.A. sold its entire ownership interest of 16 shares to Telefónica Chile for ThCh\$132.

On January 27, 2006, Telefónica Empresas Chile sold its entire ownership interest of 215,099 shares to Telefónica Chile for ThCh\$1,468,683 (historical).

3) On May 1, 2006 Telefónica Mundo S.A. absorbed the subsidiary Globus 120 S.A. and subsequently changed its name to Telefónica Larga Distancia S.A.

4) On October 20, 2006, Telefónica Internet Empresas S.A. sold 1,703,999 shares to Telefónica Gestión de Servicios Compartidos Chile S.A. for ThCh\$12,800.

On that same date, Telepeajes de Chile S.A. changed its name to Instituto Telefónica Chile S.A.

(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

2. Summary of Significant Accounting Policies, continued:

(e) Price-level restatement:

The 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 exercises. The accumulated variation in the Chilean Customer Price Index (CPI) as of March 31, 2007 and 2006, for initial balances, is 0.2% and -0.3%, respectively.

(f) Basis of conversion:

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

| YEAR | US\$ | EURO | BRAZILIAN REAL | UF |
|------|--------|--------|-------------------|-----------|
| 2007 | 539.21 | 720.00 | 262.02 | 18,372.97 |
| 2006 | 526.18 | 637.56 | 243.26 | 17,915.66 |

Foreign currency translation differences resulting from the application of this Standard are credited or debited to income for the period.

(g) Time deposits:

Time deposits are carried at cost plus UF indexation adjustments, where applicable, and accrued interest as of period end.

(h) Marketable securities:

Fixed income securities and shares are recorded at their price-level restated cost plus interest accrued as of each period end using the actual interest yield determined at the purchase date, or their market value, whichever is less.

(i) Inventories:

Depending on the nature of respective items, equipment held for sale is carried at the lower of either its price-level restated acquisition or development cost or at its market value.

Inventories are expected to be used during a period of twelve months after their acquisition and classified as current assets. Their cost is price-level restated. The obsolescence provision has been determined on the basis of an analysis of materials with slow turnover.

(j) Allowance for doubtful accounts:

The Allowance for doubtful accounts is estimated on the basis of the aging of such accounts, up to 100% of accounts outstanding for more than 120 days and 180 days in the case of large customers (corporations).

(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

2. Summary of Significant Accounting Policies, continued:

(k) Property, plant and equipment:

Property, plant and equipment are carried at their price-level restated acquisition 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. Some assets subsequently acquired were subject to a technical revaluation to their 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 8.27% .

The estimated useful lives are summarized as follows:

| Assets | Range of years |
|--------------------------------|----------------|
| Buildings | 40 |
| Central telephone equipment | 7 to 12 |
| Subscriber equipment | 4 |
| External plant | 20 to 40 |
| Office furniture and equipment | 4 to 10 |
| Software | 3 |
| Others | 4 to 10 |

(m) Leased assets:

Leased assets with a purchase option, whose contracts satisfy the characteristics of a financial lease, are recorded similarly 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:

Rights to underwater cable correspond to the rights acquired by the Company for the use of an underwater cable to transmit voice and data. These rights are 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 3 years.

(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

2. Summary of Significant Accounting Policies, continued:

(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 as defined in Technical Bulletin No. 64 is applied. Investments in countries deemed to be unstable and whose activities are not an extension of the operations of the Parent Company are controlled in US dollars.

(o) Goodwill:

This account corresponds to the differences originated when adopting the equity method and adjusting the cost of investments, or with the realization of new acquisitions. 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 (Note 12).

(p) Transactions with repurchase agreements:

Purchases of financial instruments including repurchase agreements are recorded as fixed rate instruments and are classified as Other Current Assets (Note 8).

(q) Obligations with the public:

Bonds payable are presented under liabilities at the par value of the issued bonds (note 17b). The difference between par and placement value, determined on the basis of the actual interest rate for the transaction, is deferred and amortized over the term of the respective bond (Notes 8 and 14).

Commercial papers are presented under liabilities at placement value plus accrued interest (Note 17a).

Costs directly related to the placement of these obligations are deferred and amortized over the term of the respective liability (notes 8 y 14).

(r) Current and deferred income taxes:

Income tax is recorded on the basis of taxable net income. Deferred taxes on all temporary differences, tax loss carry forwards that can be realized as future tax benefits, and other events that create differences between the tax and accounting values are recognized in accordance with Technical Bulletins No. 60 and complementary technical bulletins thereto issued by the Chilean Association of Accountants, and with SVS Circular No.1,466 dated January 27, 2000.

(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 method to the projected benefit obligation using an annual discount rate of 6%, considering assumptions about the future service period of the employees, mortality rate of employees and salary increases used as the basis of actuarial calculations.

Costs for past services of employees resulting from changes in assumptions used as the actuarial bases, are deferred and amortized over average of the employees' future service periods (Note 8 and 14).

(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

2. Summary of Significant Accounting Policies, continued:

(t) Revenue recognition:

The Company's revenues are recognized on an accrual basis in accordance with Chilean GAAP. Since billing dates are different from the accounting close date, as of the date of preparation of these consolidated 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 period. These amounts are recorded under Trade Accounts Receivable.

(u) Foreign currency forwards:

The Company has entered into short-term forward contracts to purchase foreign currency. These contracts are hedging liabilities in foreign currency against changes in exchange rates.

These instruments are valued in accordance with Technical Bulletin No. 57 of the Chilean Association of Accountants.

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.

(v) Interest rate coverage:

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

(w) Computer software:

The cost of software purchased is deferred and amortized using the straight-line method over a maximum period of three years and classified as other property, plant and equipment.

(x) Cumulative translation adjustment:

The Company recognizes in this equity account the effect of exchange rate fluctuations and the Consumer Price Index (C.P.I.) resulting from measuring those investments abroad that are controlled in United States dollars. The balance of this account is recognized in income in the same period in which the net income or loss is recognized on the total or partial disposal of these investments.

(y) Statement of cash flows:

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

Cash flows related to the Company's operations and all those not defined as from investing or financing activities are included under Cash Flows from Operating Activities .

2. Summary of Significant Accounting Policies, continued:

(z) Correspondents:

The Company has agreements with foreign counterparties to set the conditions that regulate international traffic., determining the payments for each counterparty based on fixed rates for the net exchange of traffic.

The receivables/payables related to these agreements are recorded on an accrual basis, recognizing the costs and income for the period in which these are incurred, recording the the net receivable and payable for each counterparty where the legal right to offset exists under Accounts Receivable or Accounts Payable , as applicable.

3. Accounting Changes:

a) Accounting changes

During the periods covered in these interim consolidated financial statements, the accounting principles have been consistently applied.

(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

4. Marketable Securities:

The balance of marketable securities is as follows:

| Description | 2007 ThCh\$ | 2006 ThCh\$ |
|-----------------------------------|-------------------|-------------------|
| Publicly offered promissory notes | 14,327,069 | 16,291,470 |
| Total | 14,327,069 | 16,291,470 |

Publicly offered promissory notes (Fixed Income)

| Instrument | Date | | Par | Book Value | | Market | Provision |
|------------|-----------|--------------|-------------------|-------------------|-----------|-------------------|-----------------|
| | Purchase | Maturity | Value ThCh\$ | Amount ThCh\$ | Rate % | Value ThCh\$ | ThCh\$ |
| BCD0500907 | 06-Dec-04 | 01-Sep-07 | 2,696,050 | 2,703,220 | 5% | 2,703,220 | (15,691) |
| BCD0500907 | 09-Aug-05 | 01-Sep-07 | 1,887,235 | 1,892,254 | 5% | 1,892,254 | (6,102) |
| BCD0500907 | 01-Sep-05 | 01-Sep-07 | 2,156,840 | 2,162,577 | 5% | 2,162,577 | (10,531) |
| BCD0500907 | 06-Sep-05 | 01-Sep-07 | 2,696,050 | 2,703,221 | 5% | 2,703,221 | (13,058) |
| BCD0500907 | 07-Sep-05 | 01-Sep-07 | 2,696,050 | 2,703,221 | 5% | 2,703,221 | (12,554) |
| BCD0500907 | 08-Sep-05 | 01-Sep-07 | 539,210 | 540,644 | 5% | 540,644 | (2,513) |
| BCD0500907 | 08-Sep-05 | 01-Sep-07 | 539,210 | 540,644 | 5% | 540,644 | (2,421) |
| BCD0500907 | 14-Sep-05 | 01-Sep-07 | 1,078,420 | 1,081,288 | 5% | 1,081,288 | (4,801) |
| | | Total | 14,289,065 | 14,327,069 | | 14,327,069 | (67,671) |

(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

5. Current and long-term receivables:

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

| Description | Current | | | | | | | |
|--|--------------------|--------------------|----------------------|-------------------|--------------------|--------------------|---------------------|------------------------------|
| | Up to 90 days | | Over 90 up to 1 year | | Subtotal | | Total Current (net) | |
| | 2007 ThCh\$ | 2006 ThCh\$ | 2007 ThCh\$ | 2006 ThCh\$ | 2007 ThCh\$ | 2007 ThCh\$ | % | 2006 ThCh\$ |
| Trade accounts receivable | 233,041,199 | 201,247,102 | 3,202,491 | 15,343,617 | 236,243,690 | 169,180,973 | 100.00 | 152,813,907 |
| Fixed telephony service | 186,389,751 | 172,797,938 | 283,755 | 1,144,791 | 186,673,506 | 130,227,819 | 76.98 | 119,232,398 |
| Long distance | 22,437,661 | 10,334,764 | - | 12,108,098 | 22,437,661 | 15,795,278 | 9.34 | 16,289,491 |
| Communications corporate | 18,110,327 | 16,685,868 | 2,423,613 | 1,732,365 | 20,533,940 | 18,651,168 | 11.02 | 16,910,976 |
| Other | 6,103,460 | 1,428,532 | 495,123 | 358,363 | 6,598,583 | 4,506,708 | 2.66 | 381,042 |
| Allowance for doubtful accounts | (67,062,717) | (57,570,206) | - | (6,206,606) | (67,062,717) | - | - | - |
| Notes receivable | 8,605,592 | 8,286,879 | 442,240 | 167,094 | 9,047,832 | 4,513,053 | | 3,663,602 |
| Allowance for doubtful notes | (4,534,779) | (4,790,371) | - | - | (4,534,779) | - | - | - |
| Miscellaneous accounts receivable | 6,516,392 | 9,620,157 | 2,148,129 | 2,660,951 | 8,664,521 | 8,664,521 | | 12,281,108 |
| Allowance for doubtful accounts | - | - | - | - | - | - | - | - |
| | | | | | | | | Long-term receivables |

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(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

6. Balances and transactions with related entities:

a) Receivables from related parties are as follows:

| Taxpayer No. | Company | Short term | | Long term | |
|-----------------|--|-------------------|-------------------|----------------|----------------|
| | | 2007 ThCh\$ | 2006 ThCh\$ | 2007 ThCh\$ | 2006 ThCh\$ |
| 87,845,500-2 | Telefónica Móviles Chile S.A. | 673,736 | - | - | - |
| 96,672,150-2 | Telefónica Móviles Chile Inversiones S.A. | 76,571 | - | - | - |
| 96,672,160-k | Telefónica Móviles Chile Larga Distancia S.A. | 325,686 | 897,834 | - | - |
| 96,834,230-4 | Terra Networks Chile S.A. | 2,608,326 | 1,319,041 | - | - |
| 96,895,220-k | Atento Chile S.A. | 581,459 | 543,529 | - | - |
| 96,910,730-9 | Telefónica International Wholesale Services Chile S.A. | 642,599 | 180,761 | - | - |
| 96,786,140-5 | Telefónica Móvil de Chile S.A. | 7,375,754 | 6,468,673 | - | - |
| 59,083,900-0 | Telefónica Ingeniería de Seguridad S.A. | 13,326 | 4,268 | - | - |
| 96,990,810-7 | Telefónica Móviles Soluciones y Aplicaciones S.A. | 133,421 | 51,043 | - | - |
| 96,942,730-3 | Telefónica Móviles Soluciones Chile S.A. | - | 128,065 | - | - |
| 96,527,390-5 | Telefónica Internacional Chile S.A. | 351 | - | - | - |
| Foreign | Telefónica España | 1,085,212 | 224,319 | - | - |
| Foreign | Telefónica LD Puerto Rico | 218,019 | - | - | - |
| Foreign | Telefónica Data Usa Inc. | 26,609 | 40,565 | - | - |
| Foreign | Telefónica Data España | - | 420,455 | - | - |
| Foreign | Telefónica Argentina | 1,403,455 | 1,347,391 | - | - |
| Foreign | Telefónica Soluciones de Informática España | 1,522,632 | - | - | - |
| Foreign | Telefónica International WholeSale Services | 391,526 | 525,436 | - | - |
| Foreign | Telefónica Gestión de Servicios Compartidos España | - | 11,495 | - | - |
| Foreign | Telefónica Perú | 429,726 | 1,985 | - | - |
| Foreign | Telefónica Procesos Tec. de Información | - | 1,373,131 | - | - |
| Foreign | Telefónica Móvil El Salvador S.A. de C.V. | 5,502 | - | - | - |
| Foreign | Telecomunicaciones de Sao Paulo | 30,378 | - | - | - |
| | Total | 17,544,288 | 13,537,991 | - | - |

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

b) Payables to related parties are as follows:

| Taxpayer No. | Company | Short term | | Long term | |
|-----------------|---|-------------------|-------------------|-------------|-------------|
| | | 2007 ThCh\$ | 2006 ThCh\$ | 2007 M\$ | 2006 M\$ |
| 96,527,390-5 | Telefónica Internacional Chile S.A. | 429,927 | 430,177 | - | - |
| 96,834,230-4 | Terra Networks Chile S.A. | 5,559,797 | 4,918,755 | - | - |
| 96,895,220-k | Atento Chile S.A. | 3,089,360 | 1,306,328 | - | - |
| 96,910,730-9 | Telefónica International Wholesale Services Chile S.A. | 4,289,095 | 1,179,509 | - | - |
| 96,786,140-5 | Telefónica Móvil de Chile S.A. | 14,349,390 | 14,459,054 | - | - |
| 87,845,500-2 | Telefónica Móviles Chile S.A. | 1,726,555 | - | - | - |
| 96,672,160-k | Telefónica Móviles Chile Larga Distancia S.A. | 17,788 | 3,916,052 | - | - |
| 59,083,900-0 | Telefónica Ingeniería de Seguridad S.A. | 160,973 | 2,238 | - | - |
| | Telefónica Gestión de Servicios | | | | |
| Foreign | Compartidos España | 161,699 | - | - | - |
| Foreign | Telefónica Argentina | 57,494 | - | - | - |
| Foreign | Telefónica Perú | 842,380 | - | - | - |
| Foreign | Telefónica Guatemala | 54,725 | 69,530 | - | - |
| Foreign | Telefónica Móvil El Salvador S.A. de C.V. | 44,326 | 17,880 | - | - |
| | Telefónica International WholeSale Services | 180,185 | 740,593 | - | - |
| Foreign | Telefónica Puerto Rico | 14,446 | 14,181 | - | - |
| Foreign | Telefónica Investigación y Desarrollo | 586,877 | 524,929 | - | - |
| Foreign | Telecomunicaciones de Sao Paulo | 64,858 | 30,305 | - | - |
| | Telefónica International WholeSale | | | | |
| Foreign | Services USA | 8,287 | - | - | - |
| | Telefónica International WholeSale | | | | |
| Foreign | Services Uruguay | 1,015,512 | - | - | - |
| Foreign | Atento Servicios Técnicos y Consultorías | - | 60,928 | - | - |
| | Total | 32,653,674 | 27,670,459 | - | - |

As per Article No. 89 of the Corporations Law, all these transactions are carried out under normal market conditions.

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(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

6. Balances and transactions with related companies, continued:

c) Transactions:

| Company | Tax No. | Nature of Relationship | Description of transaction | 2007 ThCh\$ | | 2006 ThCh\$ | |
|-------------------------------------|--------------|---------------------------|------------------------------|----------------|-------------|----------------|-------------|
| Telefónica España | Foreign | Related to parent company | Sales | 457,426 | 457,426 | 116,769 | 116,769 |
| | | | Purchases | (91,945) | (91,945) | (78,969) | (78,969) |
| Telefonica Data Usa Inc. | Foreign | Related to parent company | Sales | 8,048 | 8,048 | 11,085 | 11,085 |
| | | | Other non-operating expenses | (143,685) | (143,685) | (143,438) | (143,438) |
| Telefónica Internacional Chile S.A. | 96,527,390-5 | Parent company | | | | | |
| Terra Networks Chile S.A. | 96,834,230-4 | Related company | Sales | 668,263 | 668,263 | 1,433,736 | 1,433,736 |
| | | | Purchases | (2,665,167) | (2,665,167) | (173,095) | (173,095) |
| Atento Chile S.A. | 96,895,220-k | Related company | Sales | 302,671 | 302,671 | 212,636 | 212,636 |
| | | | Purchases | (4,805,187) | (4,805,187) | (4,006,735) | (4,006,735) |
| Telefónica Argentina | Foreign | Related to parent company | Sales | 590,766 | 590,766 | 515,912 | 515,912 |
| | | | Purchases | (545,473) | (545,473) | (269,686) | (269,686) |
| Telecomunicaciones de Sao Paulo | Foreign | Related to parent company | Sales | 42,956 | 42,956 | 52,819 | 52,819 |
| | | | Purchases | (49,469) | (49,469) | (55,649) | (55,649) |
| Telefónica Guatemala | Foreign | Related to parent company | Sales | 3,507 | 3,507 | 1,962 | 1,962 |
| | | | Purchases | (32,960) | (32,960) | (18,397) | (18,397) |
| | Foreign | | | | | | |

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| | | | | | | | |
|---|--------------|---------------------------|-----------|-------------|-------------|--------------|--------------|
| Telefónica del Perú | | Related to parent company | Sales | 329,631 | 329,631 | 165,932 | 165,932 |
| | | | Purchases | (1,004,835) | (1,004,835) | (230,080) | (230,080) |
| Telefónica LD Puerto Rico | Foreign | Related to parent company | Sales | 110 | 110 | 1,610 | 1,610 |
| | | | Purchases | (219) | (219) | (4,676) | (4,676) |
| Telefónica El Salvador | Foreign | Related to parent company | Sales | 5,634 | 5,634 | 1,312 | 1,312 |
| | | | Purchases | (40,871) | (40,871) | (10,540) | (10,540) |
| Telefónica Móvil de Chile S.A. | 96,786,140-5 | Related to parent company | Sales | 3,720,948 | 3,720,948 | 3,125,870 | 3,125,870 |
| | | | Purchases | (9,125,297) | (9,125,297) | (11,116,196) | (11,116,196) |
| Telefónica Moviles Chile Larga Distancia S.A. | 96,672,160-k | Related to parent company | Sales | 101,263 | 101,263 | - | - |
| | | | Purchases | (584) | (584) | - | - |
| Telefónica WholeSale International Services España | Foreign | Related to parent company | Sales | (1,013,654) | (1,013,654) | - | - |
| | | | Purchases | - | - | - | - |
| Telefónica Móviles Chile Inversiones S.A. | 96,672,150-2 | Related to parent company | Sales | 12,096 | 12,096 | 255,716 | 255,716 |
| | | | Purchases | - | - | (2,472,718) | (2,472,718) |
| Telefónica Wholesale Internacional Services Uruguay | Foreign | Related to parent company | Purchases | - | - | (281,298) | (281,298) |
| Telefónica Gestión de Serv.Compartidos España S.A. | Foreign | Related to parent company | Sales | (68,959) | (68,959) | - | - |
| Telefónica Ingeniería de Seguridad S.A. | 59,083,900-0 | Related to parent company | Sales | 3,388 | 3,388 | - | - |
| | | | Purchases | (72,120) | (72,120) | - | - |
| Telefónica Moviles Soluciones y Aplicaciones | 96,990,810-7 | Related to parent | | | | | |

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| | | | | | | | |
|--|--------------|---------------------------|-----------|-------------|-------------|-------------|-------------|
| S.A. | | company | Sales | 29,465 | 29,465 | - | - |
| Telefónica International Wholesale Services USA | Foreign | Related to parent company | Purchases | (8,290) | (8,290) | - | - |
| Telefónica Internacional Wholesale Services Chile S.A. | 96,910,730-9 | Related to parent company | Sales | 347,839 | 347,839 | 255,640 | 255,640 |
| | | | Purchases | (1,556,372) | (1,556,372) | (1,153,468) | (1,153,468) |
| Telefónica Móviles Chile S.A. | 86,845,500-2 | Related to parent company | Sales | 40,896 | 40,896 | - | - |
| | | | Purchases | (1,651,719) | (1,651,719) | - | - |
| Telefónica Investigación y Desarrollo | Foreign | Related to parent company | Purchases | (392,023) | (392,023) | - | - |
| Telefónica Data Corp España | Foreign | Related to parent company | Sales | 149,036 | 149,036 | - | - |

The intercompany account with Telefónica Internacional Chile S.A. includes short-term and long-term positions denominated in US dollars, accruing interest at a variable rate adjusted to market rates (US\$ + Market Spread)

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

(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

7. Current and deferred income taxes:

a) General information:

As of March 31, 2007 and 2006, the Parent Company recorded a first category income tax provision based on taxable income of ThCh\$30,621,765 and ThCh\$27,920,258, respectively.

In addition, as of March 31, 2007 and 2006, a provision for first category income tax in subsidiaries was recorded based on the subsidiaries' respective taxable income of ThCh\$13,100,976 and ThCh\$8,616,176, respectively.

As of March 31, 2007 and 2006, accumulated tax losses of subsidiaries amount to ThCh\$7,457,482 and ThCh\$6,911,871 respectively.

According to current legislation the tax years subject to an eventual review by the fiscal authority consider transactions generated from 2004 to date for most of the taxes to which the Company's operations are subject.

In the normal course of its operation, the Company is subject to the regulation and oversight of the Chilean Internal Revenue Service. Based on the information available to date, management believes that there are no additional significant liabilities other than those recorded in the financial statements. However, actual taxable results may differ from these estimations.

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\$ |
|--|---|---|---|---|---|----------------------------------|
| Telefónica Larga Distancia S.A. | 2,187,933 | 828,941 | 4,961,210 | 66,373,696 | 6,480,593 | 15,118,947 |
| Telefónica Empresas Chile S.A. | 103 | - | 1,724,646 | 45,613,623 | 4,394,152 | 9,683,352 |
| Telefónica Chile S.A. | - | - | - | 132,018,719 | 29,288,521 | 27,039,942 |
| Telefónica Internet Empresas S.A. | - | - | - | 3,698,831 | 598,020 | 757,591 |
| Total | 2,188,036 | 828,941 | 6,685,856 | 247,704,869 | 40,761,286 | 52,599,832 |

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(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

7. Current and deferred income taxes, continued:

b) Deferred taxes:

As of March 31, 2007 and 2006, the net deferred tax liabilities amounted to ThCh\$37,641,189 and ThCh\$45,894,654, respectively and the detail is as follows:

| Description | 2007 | | | | 2006 | | | |
|---|----------------------|---------------------|--------------------------|---------------------|----------------------|---------------------|--------------------------|---------------------|
| | 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 | 10,882,968 | - | - | - | 10,774,483 | - | - | - |
| Vacation provision | 247,147 | - | - | - | 409,956 | - | - | - |
| Tax benefits for tax losses | - | 1,267,772 | - | - | 106,261 | 1,068,757 | - | - |
| Staff severance indemnities | - | 520 | - | 3,837,681 | - | 17,461 | - | 5,321,500 |
| Leased assets and liabilities | - | 48,191 | - | 75,574 | - | 59,452 | - | 79,690 |
| Property, plant and equipment | - | 610,270 | - | 140,171,181 | - | 4,275,216 | - | 165,247,840 |
| Employee benefits | - | - | - | - | 125,159 | - | - | - |
| Difference in amount of capitalized staff severance | - | 330,591 | - | 229,196 | - | 498,229 | - | - |
| Deferred charge on sale of assets | - | 4,466 | - | 254,381 | - | - | - | 861,530 |
| Development software | - | - | - | 3,689,393 | - | - | - | 1,750,550 |
| Collective negotiation bonus | - | - | - | 139,372 | - | - | - | 146,800 |
| Other | 3,348,741 | 852,845 | 64,783 | 5,925,486 | 1,301,253 | 278,507 | 60,112 | 4,172,880 |
| Sub-Total | 14,478,856 | 3,114,655 | 64,783 | 154,322,264 | 12,717,112 | 6,197,622 | 60,112 | 177,580,810 |

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| | | | | | | | | |
|--|-------------------|------------------|---------------|-------------------|-------------------|------------------|---------------|-------------------|
| Complementary accounts net of accumulated amortization | - | (843,532) | - | (99,995,879) | - | (3,633,226) | - | (116,464,760) |
| Sub-Total | 14,478,856 | 2,271,123 | 64,783 | 54,326,385 | 12,717,112 | 2,564,396 | 60,112 | 61,116,050 |
| Tax reclassification | (64,783) | (2,271,123) | (64,783) | (2,271,123) | (60,112) | (2,564,396) | (60,112) | (2,564,396) |
| Total | 14,414,073 | - | - | 52,055,262 | 12,657,000 | - | - | 58,551,654 |

(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

7. Current and deferred income taxes, continued:

c) Income tax detail:

The current tax expense recorded by the Company in the periods 2007 and 2006 result from the following items:

| Description | 2007 ThCh\$ | 2006 ThCh\$ |
|--|--------------------|--------------------|
| Common tax expense before tax credit (income tax 17%) | 7,432,866 | 6,211,124 |
| Current tax expense (article 21 single tax at 35%) | 1,503 | 7,818 |
| Income tax subtotal | 7,434,369 | 6,218,942 |
| - Current period deferred taxes | (5,272,701) | (5,812,785) |
| - Effect of amortization of complementary accounts for deferred assets and liabilities | 3,296,800 | 3,460,797 |
| Deferred tax subtotal | (1,975,901) | (2,351,988) |
| Total expense tax | 5,458,468 | 3,866,954 |

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Notes to the Consolidated Financial Statements

8. Other Current Assets:

The detail of other current assets is as follows:

| Description | 2007 ThCh\$ | 2006 ThCh\$ |
|--|------------------|-------------------|
| Fixed income securities purchased with resale agreement (note 9) | 3,304,217 | 52,337,018 |
| Deferred union contract bonus (1) | 1,470,146 | 810,990 |
| Deferred exchange insurance premiums | - | 39,627 |
| Telephone directories for connection program | 1,536,083 | 1,773,203 |
| Deferred higher bond discount rate (note 25) | 229,872 | 240,586 |
| Deferred disbursements for placement of bonds (note 25) | 127,853 | 290,220 |
| Deferred disbursements for foreign financing proceeds (2) | 366,151 | 875,246 |
| Exchange insurance receivable | 774,462 | 1,131,774 |
| Deferred staff severance indemnities charges (3) | 1,210,332 | 1,248,054 |
| Dispensable property | 121,188 | 120,824 |
| Others | 16,405 | 860,667 |
| Total | 9,156,709 | 59,728,209 |

(1) Between May and September 2006, the Company negotiated a 38-month and 48-months union contract with a number of its employees, granting them, among other benefits, a signing bonus. That bonus was paid between July and December 2006. The total benefit of ThCh\$4,918,946 (historical), is amortized using the straight-line method over the term of the union agreement. The long-term portion is presented under Others (in Other non-current Assets) (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. The long-term portion is presented under Others (in Other Assets) (Note 14).

(3) Corresponds to the short-term portion to be amortized due to changes in the actuarial hypothesis and to the concept of loans to employees. The long-term portion is presented under Others (in Other Assets) (Note 14).

9. Information regarding sales commitment transactions (agreements):

| Code | Dates | | Counterparty | Original currency | Subscription value ThCh\$ | Rate | Final Value ThCh\$ | Instrument Identification | Book Value ThCh\$ |
|------|-------------|-------------|-----------------|----------------------|---------------------------------|-------|--------------------------|------------------------------|-------------------------|
| | Inception | End | | | | | | | |
| CRV | 20-March-07 | 02-April-07 | BANCO ESTADO | CLP | 2,200,000 | 4.92% | 2,203,909 | BCP0800708 | 2,203,307 |
| CRV | 21-March-07 | 02-April-07 | BANCO ESTADO | CLP | 600,000 | 5.04% | 601,008 | BCP0800811 | 600,840 |
| CRV | 30-March-07 | 05-April-07 | | CLP | 500,000 | 5.04% | 500,420 | BCP0800615 | 500,070 |

BANCO
ESTADO

Total

3,300,000

3,305,337

3,304,217

21

(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

10. Property, plant and equipment:

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

| Description | 2007 | | 2006 | |
|--|------------------------------------|--|------------------------------------|--|
| | Accumulated depreciation ThCh\$ | Gross prop., plant and equipment ThCh\$ | Accumulated depreciation ThCh\$ | Gross prop., plant and equipment ThCh\$ |
| Land | - | 27,914,978 | - | 27,861,363 |
| Building and improvements | 365,676,153 | 795,460,232 | 343,892,866 | 794,453,740 |
| Machinery and equipment | 2,162,714,361 | 2,777,677,156 | 2,034,282,373 | 2,747,994,738 |
| Central office telephone equipment | 1,331,873,684 | 1,552,142,322 | 1,254,195,129 | 1,559,326,673 |
| External plant | 612,261,791 | 939,019,758 | 592,983,882 | 948,094,104 |
| Subscribers equipment | 181,898,146 | 249,114,593 | 149,876,432 | 202,476,777 |
| General equipment | 36,680,740 | 37,400,483 | 37,226,930 | 38,097,185 |
| Other Property, Plant and Equipment | 190,858,578 | 334,534,589 | 159,841,030 | 276,355,168 |
| Office furniture and equipment | 100,204,403 | 112,933,930 | 84,763,917 | 108,662,556 |
| Projects, work in progress and materials (2) | - | 108,573,108 | - | 73,807,316 |
| Leased assets (1) | 66,978 | 504,032 | 58,570 | 504,032 |
| Assets temporarily out of service | 7,011,514 | 7,011,514 | 5,862,023 | 6,691,649 |
| Software | 82,561,246 | 104,331,335 | 68,192,955 | 85,513,624 |
| Other | 1,014,437 | 1,180,670 | 963,565 | 1,175,991 |
| Technical revaluation Circular 550 | 10,742,350 | 9,394,568 | 11,182,342 | 9,968,712 |
| Total | 2,729,991,442 | 3,944,981,523 | 2,549,198,611 | 3,856,633,721 |

(1) Leased assets with a gross value of ThCh\$504,032 and ThCh\$504,032 relate to the category of buildings for 2007 and 2006, respectively, with accumulated depreciation of ThCh\$666,978 and ThCh\$58,570 for 2007 and 2006, respectively.

(2) Up to December 31, 2002, work in progress included capitalization of finance costs of related loans according to Technical Bulletin No. 31 of the Chilean Association of Accountants Therefore, the gross property, plant and equipment balance includes interest of ThCh\$197,871,417. Accumulated depreciation for this interest amounts to ThCh\$140,320,692 and ThCh\$130,268,495 for 2007 and 2006, respectively.

Operating costs include a depreciation charge for the periods ended March 31, 2007 and 2006 amounting to ThCh\$49,277,805 and ThCh\$48,884,865, and administrative and selling expenses a depreciation charge of ThCh\$2,050,220 and ThCh\$2,001,128 for 2007 and 2006, respectively. Assets temporarily out of service are made up mainly of telephone equipment under repair, and incurred depreciation amounting to ThCh\$348,213 in 2006, which is classified as Other non-operating expenses (note 22b).

During the normal course of its operations the Company monitors both new and existing assets, and their depreciation rates, adjusting them to the technological evolution and development of the market in which it competes.

(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

10. Property, plant and equipment, continued:

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

| Description | Net Balance | Accumulated Depreciation | Gross property, plant and equipment 2007 | Gross property, plant and equipment 2006 |
|---------------------------|--------------------|--------------------------|--|--|
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| Land | (518,226) | - | (518,226) | (518,226) |
| Building and improvements | (787,527) | (4,185,551) | (4,973,078) | (4,972,535) |
| Machinery and equipment | (42,029) | 14,927,901 | 14,885,872 | 15,459,473 |
| Total | (1,347,782) | 10,742,350 | 9,394,568 | 9,968,712 |

Depreciation of the technical reappraisal surplus amounted to ThCh\$(16,370) and ThCh\$(14,811) for 2007 and 2006, respectively.

Gross property, plant and equipment includes assets that have been fully depreciated in the amount of ThCh\$1,387,626,472 in 2007 and ThCh\$1,153,418,419 in 2006, which include ThCh\$12,811,897 and ThCh\$13,268,427, respectively, from the reappraisals mentioned in Circular No. 550.

11. Investments in related companies:

The detail of investments in related companies is as follows:

| Exp. No. | Company | Country of origin | Currency controlling the investment | Number of shares | Percentage participation | | Equity of the company | |
|----------|--|-------------------|-------------------------------------|------------------|--------------------------|-------|-----------------------|-------------|
| | | | | | 2007 | 2006 | 2007 | 2006 |
| | | | | | % | % | ThCh\$ | ThCh\$ |
| Foreign | TBS Celular Participación S.A. (1) (2) | Brazil | Dollar | 48,950,000 | 2.61 | 2.61 | 152,217,275 | 153,206,427 |
| 95,220-K | Atento Chile S.A. (2) | Chile | Pesos | 3,209,204 | 28.84 | 28.84 | 15,453,449 | 14,444,444 |

| Exp. No. | Company | Net income (loss) of the companies | | Equity in income (loss) of the investment | | Investment value | | Investment book value | |
|----------|--|---------------------------------------|----------------|---|----------------|------------------|------------------|--------------------------|------------------|
| | | 2007 ThCh\$ | 2006 ThCh\$ | 2007 ThCh\$ | 2006 ThCh\$ | 2007 ThCh\$ | 2006 ThCh\$ | 2007 ThCh\$ | 2006 ThCh\$ |
| 95,220-K | TBS Celular Participación S.A. (1) (2) Atento Chile S.A. (2) | (934,100) | (1,454,754) | (24,380) | (37,970) | 3,972,871 | 3,998,678 | 3,972,871 | 3,998,678 |
| | Total | | | | | 8,429,645 | 8,164,611 | 8,429,645 | 8,164,611 |

(1) The company records its investment in TBS Celular Participación S.A. using the equity method since it exercises significant influence through the Telefónica group to which it belongs, as established in paragraph N° 4 of Circular N° 1,179 issued by the Superintendency of Securities and Insurance and ratified in Title II of Circular N° 1,697. Although Telefónica Chile only has a 2.61% direct participation in TBS Celular Participación S.A., its Parent Company, Telefónica S.A., Spain, direct and indirectly has a percentage exceeding 20% ownership of the capital stock of that Company.

(2) As of March 31, 2007, the value of the investment was recognized on the basis of unaudited financial statements.

As of the date of these financial statements, there are no liabilities for hedge instruments assigned to foreign investments.

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Notes to the Consolidated Financial Statements

12. Goodwill:

The detail of goodwill is as follows:

| Taxpayer No. | Company | 2007 | | 2006 | | |
|-----------------|---|------|---|----------------------------------|---|----------------------------------|
| | | Year | 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 | 47,050 | 1,666,680 | 47,050 | 2,496,265 |
| 96,551,670-0 | Telefónica Larga Distancia S.A. | 1998 | 290,280 | 13,605,694 | 290,280 | 14,782,939 |
| 78,703,410-1 | Telefónica Multimedia Chile S.A. (1) | 1998 | - | - | 781,227 | - |
| 96,834,320-3 | Telefónica Internet Empresas S.A.(2) | 1999 | 23,724 | 361,129 | 23,724 | 457,343 |
| | Total | | 361,054 | 15,633,503 | 1,142,281 | 17,736,547 |

(1) As indicated in Note 2(d) No. 1, on January 26, 2006 the Board of Directors of Telefónica Internet Empresas S.A. agreed to sell the shares of Telefónica Multimedia Chile S.A. (formerly Tecnonáutica S.A.) to Telefónica Chile S.A. This sale was performed at book value, not taking into consideration the amount corresponding to goodwill in the price, which meant recognizing in results (in an extraordinary manner) the amortization of the balance of goodwill as of that date.

(2) On January 27, 2006 Telefónica Empresas CTC Chile sold to Telefónica Chile S.A. 215,099 shares at ThCh\$1,468,683, which corresponded to its participation in this company.

On January 26 CTC Equipos y Servicios de Telecomunicaciones sold to Telefónica Chile S.A. 16 shares at ThCh\$132, which corresponded to its participation in this company.

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.

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Notes to the Consolidated Financial Statements

13. Intangibles:

The detail of intangibles is as follows:

| Description | 2007 ThCh\$ | 2006 ThCh\$ |
|--|-------------------|-------------------|
| Underwater cable rights (gross) | 23,718,135 | 23,730,180 |
| Accumulated amortization, previous exercises | (4,331,627) | (3,159,555) |
| Amortization for the exercises | (302,104) | (301,637) |
| Licenses (Software) (gross) | 15,510,601 | 12,099,181 |
| Accumulated amortization, previous exercises | (8,677,844) | (4,572,422) |
| Amortization for the period | (1,048,246) | (748,934) |
| Total Net Intangibles | 24,868,915 | 27,046,813 |

14. Other non-current assets:

The detail of other non-current assets is as follows:

| Description | 2007 ThCh\$ | 2006 ThCh\$ |
|---|-------------------|-------------------|
| Deferred issuance cost for obtaining external financing (note 8(2)) (1) | 717,374 | 1,159,031 |
| Deferred union contract bonus (note 8(1)) | 2,746,040 | 52,548 |
| Bond issue expenses (note 25) | 651,140 | 779,443 |
| Bond discount (note 25) | 1,065,322 | 1,295,945 |
| Securities deposits | 138,366 | 140,778 |
| Deferred charge due to change in actuarial estimations (note 8(3)) (2) | 7,812,195 | 9,940,974 |
| Deferred staff severance indemnities (3) | 4,111,855 | 4,674,865 |
| Other | - | 79,389 |
| Total | 17,242,292 | 18,122,973 |

(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. The short-term portion is presented under Other Current Assets (Note 8).

(2) With the implementation of new contractual conditions derived from the organizational changes in the Company, there have been a series of studies that allowed, with primary effect in 2004, the modification in the calculation basis for staff severance indemnities of the variable for future service life of employees. After concluding these studies, in 2005, other changes in estimates were incorporated, such as personnel fluctuation rate, mortality of employees and

future salary increases and includes the rate change mentioned in Note 3 b (i) for 2006, all determined on the basis of actuarial calculations, as established in Technical Bulletin No. 8 of the Chilean Association of Accountants. The short-term portion is presented under Other Current Assets (Note 8).

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 over the estimated average remaining future service life of the employees that will receive the benefit (see Note 2 (s)).

(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 at the date of the grant. The short-term portion is presented under Other Current Assets (Note 8).

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 future service life of employees that subscribe to the benefit. The loan is presented under Other Long-term Receivables.

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Notes to the Consolidated Financial Statements

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

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

| Taxp.No. | Bank or financial institution | US\$ | | U.F. | | TOTAL | |
|--------------|---|------------------|------------------|----------------|----------------|------------------|------------------|
| | | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| | Current maturities of long-term debt | | | | | | |
| 97,015,000-5 | BANCO SANTANDER SANTIAGO | - | - | 950,265 | 707,563 | 950,265 | 707,563 |
| Foreign | CALYON NEW YORK BRANCH AND OTHERS | 170,750 | 143,890 | - | - | 170,750 | 143,890 |
| 97,008,000-7 | CITIBANK (2) | 636,942 | 570,295 | - | - | 636,942 | 570,295 |
| Foreign | BBVA BANCOMER AND OTHERS | 690,808 | 638,100 | - | - | 690,808 | 638,100 |
| | Total | 1,498,500 | 1,352,285 | 950,265 | 707,563 | 2,448,765 | 2,059,848 |
| | Outstanding principal | - | - | - | - | - | - |
| | Average annual interest rate | 5.69% | 5.17% | 3.04% | 2.32% | 5.17% | 4.69% |

Percentage of obligations in foreign currency : 61.19% for 2007 and 65.65% for 2006

Percentage of obligations in local currency : 38.81% for 2007 and 34.35% for 2006

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Notes to the Consolidated Financial Statements

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

Long-term obligations with banks and financial institutions:

| Taxp.No. | Bank or financial institution | Currency or Indexation Index | Years to maturity for long-term portion | | | Long-term portion as of March 31, 2007 | Average annual interest rate % | Long-term portion as of March 31, 2007 |
|--------------|-------------------------------------|------------------------------|---|--------------------|--------------------|--|--------------------------------|--|
| | | | 1 to 2 | 2 to 3 | 3 to 5 | | | |
| | | | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | |
| | LOANS IN DOLLARS | | | | | | | |
| | CALYON NEW YORK BRANCH AND OTHERS | | | | | | | |
| Foreign | (1) | US\$ | - | 107,842,000 | - | 107,842,000 | Libor + 0.35% | 107,842,000 |
| | BBVA BANCOMER AND OTHERS | | | | | | | |
| Foreign | (3) | US\$ | - | - | 80,881,500 | 80,881,500 | Libor + 0.334% | 80,881,500 |
| 97,008,000-7 | BANCO CITIBANK (2) | US\$ | 80,881,500 | - | - | 80,881,500 | Libor + 0.31% | 80,881,500 |
| | SUBTOTAL | | 80,881,500 | 107,842,000 | 80,881,500 | 269,605,000 | 5.69% | 269,605,000 |
| | LOANS IN UNIDADES DE FOMENTO | | | | | | | |
| | BANCO SANTANDER SANTIAGO | | | | | | | |
| 97,015,000-5 | (4) | UF | - | - | 65,315,908 | 65,315,908 | Tab 360+0.325% | 65,315,908 |
| | SUBTOTAL | | - | - | 65,315,908 | 65,315,908 | 3.04% | 65,315,908 |
| | TOTAL | | 80,881,500 | 107,842,000 | 146,197,408 | 334,920,908 | 5.17% | 335,236,816 |

Percentage of obligations in foreign currency : 80.50% for 2007 and 80.51% for 2006

Percentage of obligations in local currency : 19.50% for 2007 and 19.49% for 2006

(1) In December 2004, the Company renegotiated this loan, extending its due date from February and August 2005 to December 2009, in addition to changing the agent bank, that until then 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 until then 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 until then was the ABN Amro Bank.

(4) In April 2005, the Company renegotiated this loan, which allowed it to extend the due date from April 2008 to April 2010. In February 2007 the spread was changed from 0.45% to 0.325% .

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Notes to the Consolidated Financial Statements

17. Obligations with the Public:

a) Commercial paper:

On January 27, 2003 and May 12, 2004, Telefónica Chile registered a series of commercial paper in the securities registry, the inspection numbers of which are 005 and 015, respectively. The maximum amount of each line is ThCh\$35,000,000, and placements charged to this line may not exceed that amount. The term of each 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 October 25, 2005, there was a placement in series G and H for ThCh\$35,000,000 of the same type of instrument. The placement agent was Scotiabank Sudamericano Corredores de Bolsa, the instruments' maturity date was April 20, 2006.

On March 21, 2006, a Series I placement of the same type of instrument was made for ThCh\$12,000,000, maturing on December 6, 2006. The placement agent was Inversiones Boston Corredores de Bolsa.

The details of these transactions are described below:

| Registration or identification number of the instrument | Series | Current nominal amount placed ThCh\$ | Bond readjustment unit ThCh\$ | Interest rate % | Final Maturity | Accounting value | | Placement in Chile or abroad |
|--|--------|--|--|-----------------------|-------------------|------------------|----------------|------------------------------------|
| | | | | | | 2007 ThCh\$ | 2006 ThCh\$ | |

Short-term
commercial paper

| | | | | | | | | |
|--------------|---|------------|------------------------|--------|-----------------|---|-------------------|-------|
| 015 | G | 17,500,000 | Ch\$ non-adjustable | 0.5100 | Apr 20, 2006 | - | 17,899,301 | Chile |
| 005 | H | 17,500,000 | Ch\$ non-adjustable | 0.5100 | Apr 27, 2006 | - | 17,877,816 | Chile |
| 005 | I | 12,000,000 | Ch\$ non-adjustable | 0.4800 | Dec 06, 2006 | - | 11,840,578 | Chile |
| Total | | | | | | - | 47,617,695 | |

(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

17. Obligations with the public, continued:**b) Bonds**

The detail of obligations with the public for bond issued, 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 | Interest payment | Frequency | | Par value | | |
|---|---------------------|-------------------------|----------------------------|------------------------------|----------------|------------------|---------------|--|--------------|-------------------|-------------------|
| | | | | | | | Amortizations | | 2007 ThCh\$ | 2007 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 | | 1,652,270 | 1,652,270 | |
| 281,20,12,01 | L (1) | - | U.F. | 3.750 | Oct, 2012 | Semi-annual | Maturity | | 887,418 | 887,418 | |
| Issued in New York | Yankee Bonds | 49,603,000 | US\$ | 7.625 | Jul, 2006 | Semi-annual | Maturity | | - | 27,200,000 | |
| | | | | | | | | | Total | 2,539,688 | 28,900,000 |
| Long-term bonds | | | | | | | | | | | |
| 143,27,06,91 | F | 607,143 | U.F. | 6.000 | Apr, 2016 | Semi-annual | Semi-annual | | 11,155,018 | 12,400,000 | |
| 281,20,12,01 | L (1) | 3,000,000 | U.F. | 3.750 | Oct, 2012 | Semi-annual | Maturity | | 55,118,910 | 55,118,910 | |
| | | | | | | | | | Total | 66,273,928 | 67,600,000 |

(1) On March 29, 2006, the Company placed bonds in the local market for a nominal amount of UF3,000,000 equivalent to US\$102.1 million (historical) of a series denominated L, which is composed of 6,000 bonds with a value of UF 500 each.

These bonds mature in one installment on October 25, 2012. The annual interest rate amounts to UF + 3.75% and interest is paid semi-annually. There is a redemption option as of October 25, 2007.

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Notes to the Consolidated Financial Statements

18. Accruals and Write-offs:

The detail of accruals shown in liabilities is as follows:

| | 2007 | 2006 |
|-----------------------------|-------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| Current | | |
| Staff severance indemnities | 541,437 | 295,987 |
| Vacation | 1,454,199 | 2,411,504 |
| Other employee benefits (1) | 3,749,910 | 3,192,350 |
| Employee benefit advances | (2,399,402) | (1,412,552) |
| Sub-Total | 3,346,144 | 4,487,289 |
| Long-term | | |
| Staff severance indemnities | 35,707,788 | 35,554,964 |
| Total | 39,053,932 | 40,042,253 |

(1) Includes provisions as per current union agreement.

During the period, there were bad debt write-offs of ThCh\$229,504 in 2007 and ThCh\$2,126,703 in 2006, 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:

| | 2007 | 2006 |
|---------------------------------------|-------------------|-------------------|
| | ThCh\$ | ThCh\$ |
| Beginning balance (historical values) | 35,988,274 | 36,748,817 |
| Payments for the period | (525,927) | (4,461,230) |
| Transfers | (96,934) | (1,859) |
| Provision increase | 883,812 | 3,565,223 |
| Total | 36,249,225 | 35,850,951 |

20. Minority interest:

Minority interest recognizes the portion of equity and net income of subsidiaries owned by third parties. The detail for 2007 and 2006 is as follows:

| Subsidiaries | Percentage Minority Interest | | Participation in equity | | Participation in net income (loss) | | |
|--|------------------------------------|--------|----------------------------|----------------|---------------------------------------|-----------------|-----------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | |
| | % | % | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | |
| Instituto Telefónica Chile S.A. | - | 20.000 | - | 240,356 | - | (11,911) | |
| Telefónica Larga Distancia S.A. | 0.171 | 0.840 | 269,760 | 1,162,391 | 8,940 | 26,018 | |
| Fundación Telefónica Chile | 50.000 | 50.000 | 80,967 | 195,740 | (95,700) | (80,403) | |
| Telefónica Gestión Servicios Compartidos de Chile S.A. | 0.001 | 0.001 | 15 | 13 | 1 | - | |
| | | | Total | 350,742 | 1,598,500 | (86,759) | (66,296) |

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Notes to the Consolidated Financial Statements

21. Shareholders' equity:

During 2007 and 2006, changes in shareholders' equity accounts are as follows:

| | Paid-in capital | Reserve equity indexation | Other reserves | Retained earnings | Net income | Interim dividend | Total shareholders' equity |
|---|----------------------------|--------------------------------------|---------------------------|------------------------------|-----------------------|-----------------------------|---|
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| 2007 | | | | | | | |
| Balances as of December 31, 2006 | 890,894,953 | - | (3,000,511) | - | 23,353,046 | (10,486,613) | 900,760,875 |
| Transfer of 2006 income to retained earnings | - | - | - | 23,353,046 | (23,353,046) | - | - |
| Cumulative translation adjustment | - | - | 49,042 | - | - | - | 49,042 |
| Price-level restatement, net | - | 1,781,790 | (4,636) | 46,706 | - | (20,973) | 1,802,887 |
| Other reserves | - | - | 682,346 | - | - | - | 682,346 |
| Net income | - | - | - | - | 1,053,131 | - | 1,053,131 |
| | | | | | | | |
| Balances as of March 31, 2007 | 890,894,953 | 1,781,790 | (2,273,759) | 23,399,752 | 1,053,131 | (10,507,586) | 904,348,281 |
| | | | | | | | |
| 2006 | | | | | | | |
| Balances as of December 31, 2005 | 912,692,729 | - | (1,751,241) | - | 25,183,320 | (10,549,786) | 925,575,022 |
| Transfer of 2005 income to retained earnings | - | - | - | 25,183,320 | (25,183,320) | - | - |
| | - | (2,738,078) | 159,433 | - | - | - | 159,433 |

| | | | | | | | |
|-----------------------------------|---|---|-------|----------|---------|--------|-------------|
| Cumulative translation adjustment | | | | | | | |
| Price-level restatement, net | - | - | 5,254 | (75,550) | - | 31,650 | (2,776,724) |
| Net income | - | - | - | - | 734,109 | - | 734,109 |

| | | | | | | | |
|-------------------------------|--------------------|--------------------|--------------------|-------------------|----------------|---------------------|--------------------|
| Balances as of March 31, 2006 | 912,692,729 | (2,738,078) | (1,586,554) | 25,107,770 | 734,109 | (10,518,136) | 923,691,840 |
|-------------------------------|--------------------|--------------------|--------------------|-------------------|----------------|---------------------|--------------------|

| | | | | | | | |
|--|--------------------|--------------------|--------------------|-------------------|----------------|---------------------|--------------------|
| Restated balances as of March 31, 2007 | 936,532,592 | (2,809,598) | (1,627,995) | 25,763,594 | 753,284 | (10,792,873) | 947,819,004 |
|--|--------------------|--------------------|--------------------|-------------------|----------------|---------------------|--------------------|

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Notes to the Consolidated Financial Statements

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

As of March 31, 2007 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 | 813,490,434 | 813,490,434 |
| B | 77,404,519 | 77,404,519 |

(b) Shareholder distribution:

As indicated in SVS Circular No.792, the stratification of shareholders by their percentage of ownership in the Company as of March 31, 2007 is as follows:

| Type of shareholder | Percentage of Total holdings % | Number of shareholders |
|---|-----------------------------------|------------------------|
| 10% holding or more | 57.03 | 2 |
| Less than 10% holding: | | |
| Investment equal to or exceeding UF 200 | 42.22 | 1,546 |
| Investment under UF 200 | 0.75 | 10,914 |
| Total | 100.00 | 12,462 |

Controlling company

44.90

1

(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

21. Shareholders Equity, continued:

(c) Dividends:

i) Dividend policy:

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

Considering the cash situation, the levels of projected investment and the solid financial indicators for 2005 and future years, 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:

On October 27, 2005, the Board of Directors approved payment of an interim dividend (No. 170) of Ch\$11 per share, with a on 2005 net income, equivalent to ThCh\$10,528,728 (historical).

On October 26, 2006, the Board of Directors approved payment of interim dividend No. 172, in the amount of ThCh\$10,528,728 (historical), equivalent to Ch\$11 per share.

(d) Other reserves:

Other reserves include the participation of the reserve established by Telefónica Larga Distancia S.A. for the acquisition of the shares of dissident minority shareholders and the net effect of the adjustment for conversion differences as established in Technical Bulletin No. 64 of the Chilean Association of Accountants, the detail of which is as follows:

| Company | Amount | | Net | |
|--|--------------------|-------------------------|----------------|------------------------------|
| | December 31, 2006 | Price-level restatement | Movement | Balance as of March 31, 2007 |
| | ThCh\$ | ThCh\$ | ThCh\$ | ThCh\$ |
| 96,551,670-0 Telefónica Larga Distancia S.A. | (682,346) | - | 682,346 | - |
| Foreign TBS Celular Participación S.A. | (2,318,165) | (4,636) | 49,042 | (2,273,759) |
| Total | (3,000,511) | (4,636) | 731,388 | (2,273,759) |

(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

22. Other Non-Operating Income and Expenses:

(a) Other non-operating income:

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

| Other Income | 2007 ThCh\$ | 2006 ThCh\$ |
|---|------------------------|------------------------|
| Administrative services | 507,036 | - |
| Fines levied on suppliers and indemnities | 38 | 17,705 |
| Proceeds from sale of used equipment | 1,261,233 | 365,272 |
| Real estate rental | - | 71,823 |
| Other | 199,537 | 57,116 |
| Total | 1,967,844 | 511,916 |

(b) Other non-operating expenses:

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

| Other Expenses | 2007 ThCh\$ | 2006 ThCh\$ |
|---|------------------------|------------------------|
| Lawsuit and other provisions | 957,892 | 376,535 |
| Depreciation and retirement of out-of-service property, plant and equipment (1) | - | 348,213 |
| Removal of property, plant and equipment that is out of service | 457,608 | 309,199 |
| Lower market value provision | - | 14,302 |
| Restructuring costs (2) | - | 9,040,635 |
| Other | 153,788 | 300,866 |
| Total | 1,569,288 | 10,389,750 |

(1) As of March 2006, this caption is composed mainly of depreciation of telephone equipment maintained in stock for replacements.

(2) Corresponds mainly to payments made to employees on the basis of the Early Retirement Plan.

(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

23. Price-level restatement:

The detail of price-level restatement is as follows:

| Assets (Charges) Credits | Indexation | 2007 ThCh\$ | 2006 ThCh\$ |
|------------------------------------|------------|------------------|--------------------|
| Inventory | C.P.I. | 810 | (783) |
| Other current assets | C.P.I. | 9,296 | (730) |
| Other current assets | U.F. | 4,295 | 17,075 |
| Short and long-term deferred taxes | C.P.I. | 204,489 | (349,927) |
| Property, plant and equipment | C.P.I. | 2,528,713 | (4,016,764) |
| Investments in related companies | C.P.I. | 16,219 | (16,682) |
| Goodwill | C.P.I. | 33,200 | (54,456) |
| Long-term receivables | U.F. | (32,171) | 44,706 |
| Other long-term assets | C.P.I. | (30,363) | (120,334) |
| Other long-term assets | U.F. | 2,541 | (473) |
| Expense accounts | C.P.I. | (14,390) | (37,432) |
| Total Charges (Credits) | | 2,722,639 | (4,535,800) |

| Liabilities | Shareholders | Equity (Charges) Credits | Indexation | 2007 ThCh\$ | 2006 ThCh\$ |
|---|--------------|--------------------------|------------|--------------------|------------------|
| Short-term obligations | | | U.F. | (516,755) | (157,986) |
| Long-term obligations | | | C.P.I. | 5,609 | 1,610 |
| Long-term obligations | | | U.F. | (5,025,697) | 1,113,392 |
| Shareholders' equity | | | C.P.I. | (1,802,887) | 2,849,253 |
| Revenue accounts | | | C.P.I. | 20,372 | 60,449 |
| Total Credits | | | | (7,319,358) | 3,866,718 |
| Net price-level restatement loss | | | | (4,596,719) | (669,082) |

(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

24. Foreign currency translation:

The detail of the gain on foreign currency translation is as follows:

| Assets (Charges) Credits | Currency | 2007 ThCh\$ | 2006 ThCh\$ |
|--------------------------|----------------|------------------|------------------|
| Current assets | US\$ | 680,486 | 2,320,314 |
| Current assets | EURO | (3,623) | (1,989) |
| Current assets | BRAZILIAN REAL | 81,520 | 122,906 |
| Long-term receivables | US\$ | 609,701 | 537,379 |
| Total Credits | | 1,368,084 | 2,978,610 |

| Liabilities (Charges) Credits | Currency | 2007 ThCh\$ | 2006 ThCh\$ |
|-------------------------------|----------------|--------------------|--------------------|
| Short-term obligations | US\$ | (540,564) | (820,309) |
| Short-term obligations | EURO | 900 | (214) |
| Short-term obligations | BRAZILIAN REAL | (33,550) | 28,869 |
| Long-term obligations | US\$ | (631,290) | (1,954,246) |
| Total (Charges) | | (1,204,504) | (2,745,900) |

Foreign currency translation, net **163,580** **232,710**

(Translation of a report originally issued in Spanish – see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

25. Expenses from issuance and placement of shares and debt:

The detail of this item is as follows:

| | Short-term | | Long-term | |
|------------------------|----------------|----------------|------------------|------------------|
| | 2007 ThCh\$ | 2006 ThCh\$ | 2007 ThCh\$ | 2006 ThCh\$ |
| Bond issuance expenses | 127,853 | 290,220 | 651,140 | 779,443 |
| Discount on debt | 229,872 | 240,586 | 1,065,322 | 1,295,945 |
| Total | 357,725 | 530,806 | 1,716,462 | 2,075,388 |

The corresponding items are classified as Other Current Assets and Other Long-term Assets, as applicable, and are amortized over the term of the respective obligations.

26. Cash flows:

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

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

| | |
|---|-------------------|
| Obligations with banks and financial institutions | - Notes 15 and 16 |
| Obligations with the public | - Note 17 |

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

| | Maturity | ThCh\$ |
|-----|----------|------------|
| BCD | 2007 | 14,327,069 |

c) Cash and cash equivalents:

| | 2007 ThCh\$ | 2006 ThCh\$ |
|----------------------|-------------------|-------------------|
| Cash | 9,059,296 | 7,504,915 |
| Time deposits | 65,949,738 | 28,479,757 |
| Other current assets | 3,304,217 | 52,337,022 |
| Total | 78,313,251 | 88,321,694 |

(Translation of a report originally issued in Spanish see Note 2 to the Financial Statements)
Notes to the Consolidated Financial Statements

27. Derivative Contracts:

The detail of derivative contracts is as follows:

| Type of Derivative | Type of Contract | Description of Contract | | | | | | Value of Hedged Item ThCh\$ | Asset Name |
|--------------------|------------------|-------------------------|------------------------|----------------|------------------------|----------------------------|-------------|--------------------------------|-------------------|
| | | Contract Value | Maturity or Expiration | Specific Item | Purchase Sale Position | Hedged Item or Transaction | | | |
| | | | | | | Name | Amount | | |
| S | CCPE | 150,000,000 | III Quarter 2008 | Exchange rate | C | Oblig.in US\$ | 150,000,000 | 80,881,500 | asset liabilities |
| S | CCPE | 200,000,000 | III Quarter 2009 | Exchange rate | C | Oblig.in US\$ | 200,000,000 | 107,842,000 | asset liabilities |
| S | CCPE | 150,000,000 | II Quarter 2011 | Exchange rate | C | Oblig.in US\$ | 150,000,000 | 80,881,500 | asset liabilities |
| FR | CI | 10,400,000 | II Quarter 2007 | Exchange rate& | | | | | |