

TELECOMMUNICATIONS CO OF CHILE  
Form 6-K  
November 14, 2003

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934  
November 14, 2003**

Commission File Number: 001-10579

**COMPANIA DE TELECOMUNICACIONES DE CHILE S.A.**

(Exact name of registrant as specified in its charter)

**TELECOMMUNICATIONS COMPANY OF CHILE**

(Translation of registrant's name into English)

**Avenida Providencia No. 111, Piso 22  
Providencia, Santiago, Chile**

(Address of principal executive offices)

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

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes

No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes

No

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

Yes

No

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

N/A

**Telecommunications Company of Chile, S.A.**

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**COMPañIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES**

**REPORT ON THE FINANCIAL STATEMENTS**

for the nine month periods ended

September 30, 2002 and 2003

(CONSOLIDATED)

(Translation of financial statements originally issued in Spanish)

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**COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES**

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ThCh\$: Thousands of Chilean pesos

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

ThUS\$: Thousands of US dollars

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Deloitte & Touche  
Sociedad de Auditores y Consultores Ltda.  
RUT: 80.276.200-3  
Av. Providencia 1760  
Pisos 6, 7, 8 y 9  
Providencia, Santiago  
Chile  
Fono: (56-2) 270 3000  
Fax: (56-2) 374 9177  
e-mail: auditoria@deloitte.cl  
www.deloitte.cl

#### **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

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

1. We have reviewed the accompanying interim consolidated balance sheets of Compañía de Telecomunicaciones de Chile S.A. and subsidiaries as of September 30, 2003 and 2002 and the related interim consolidated statements of income and cash flows for the nine-month periods then ended. These interim consolidated financial statements (including the related notes) are the responsibility of the management of the Company. The accompanying Management's Discussion and Analysis of the Consolidated Financial Statements is not an integral part of these financial statements, and, therefore, this report does not cover this item.
2. We conducted our reviews in accordance with auditing standards generally established in Chile for a review of interim financial information. A review of interim financial information consists principally of applying analytical procedures to the financial statements and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Chile, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.
3. Our report dated October 24, 2003 on the interim consolidated financial statements as of September 30, 2002, was qualified for the put and call option contract on the investment in Sonda S.A., as Compañía de Telecomunicaciones de Chile S.A. and its subsidiary were in process of evaluating whether the projected earnings of Sonda S.A. would allow the complete recovery of the goodwill which had arisen on this investment. As is discussed in Note 2 d) 7), on July 29, 2003, Inversiones Santa Isabel Limitada communicated its decision to exercise the early call option, an operation which was completed on August 26, 2003, as a result of which our present report on the accompanying 2002 interim financial statements differs from our previously issued report.
4. Based on our review of the interim consolidated financial statements at September 30, 2003 and 2002, we are not aware of any material modifications that should be made to them for them to be in conformity with accounting principles generally accepted in Chile.

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

/s/ DELOITTE & TOUCHE

October 22, 2003



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SEPTEMBER 30, 2002 AND 2003****(Restated for general price-level changes and expressed in thousands of constant Chilean Pesos as of September 30, 2003)**

<b>ASSETS</b>	<b>Notes</b>	<b>2002 ThCh\$</b>	<b>2003 ThCh\$</b>
<b>CURRENT ASSETS</b>			
Cash and bank		15,499,066	11,065,712
Time deposits			
Marketable securities (net)		52,446,233	268,863
Trade accounts receivable, net of allowance for doubtful accounts			
of ThCh\$ 72,491,954 and ThCh\$ 89,097,817, respectively	(4)	89,950,371	47,483,444
Notes receivable, net of allowance for doubtful notes	(5)	204,284,331	214,593,001
of ThCh\$ 8,341,742 and ThCh\$ 6,933,253, respectively	(5)	5,610,309	5,960,648
Miscellaneous accounts receivable	(5)	25,832,519	11,404,984
Notes and accounts receivable from related companies	(6a)	19,628,052	18,201,485
Inventories (net)		16,769,648	19,704,226
Recoverable taxes		16,668,254	21,604,519
Prepaid expenses		9,768,638	8,747,891
Deferred taxes	(7b)	26,565,304	21,155,049
Other current assets	(8)	79,539,046	35,424,445
<b>TOTAL CURRENT ASSETS</b>		<b>562,561,771</b>	<b>415,614,267</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
Land	(9)	27,539,330	27,694,719
Constructions and infrastructure works		185,582,533	186,799,365
Machinery and equipment		3,282,492,915	3,439,859,750
Other property, plant and equipment		403,388,080	381,777,356
Technical revaluation		9,242,348	9,242,473
Accumulated depreciation (less)		1,934,282,559	2,180,120,508
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT, NET</b>		<b>1,973,962,647</b>	<b>1,865,253,155</b>
<b>OTHER NON-CURRENT ASSETS</b>			
Investment in related companies	(10)	39,896,023	10,467,888
Investment in other companies		3,862	3,862
Goodwill	(11a)	185,456,179	161,320,334
Long-term debtors	(5)	52,035,175	30,572,407
Intangibles	(12)	30,878,720	36,111,578
Accumulated amortization (less)	(12)	2,278,546	4,029,581
Others	(13)	17,805,990	9,957,408
<b>TOTAL OTHER ASSETS</b>		<b>323,797,403</b>	<b>244,403,896</b>
<b>TOTAL ASSETS</b>		<b>2,860,321,821</b>	<b>2,525,271,318</b>

The accompanying notes 1 to 33 are an integral part of these consolidated financial statements





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SEPTEMBER 30, 2002 AND 2003****(Restated for general price-level changes and expressed in thousands of constant Chilean Pesos as of September 30, 2003)**

<b>LIABILITIES</b>	<b>Notes</b>	<b>2002 ThCh\$</b>	<b>2003 ThCh\$</b>
<b>CURRENT LIABILITIES</b>			
Short-term obligations with banks and financial institutions	(14)	18,361,468	19,179,704
Short-term portion of long-term obligations with banks and financial institutions	(14)	43,101,678	56,278,285
Obligations with the public (Promissory notes)	(16a)	□	9,950,159
Obligations with the public (Bonds payable)	(16b)	26,404,718	109,847,734
Long-term obligations maturing within a year		485,920	445,284
Dividends payable		200,322	167,675
Trade accounts payable	(33)	131,299,966	131,225,405
Notes payable		87,086	227,226
Other creditors		5,581,526	42,837,408
Notes and accounts payable to related companies	(6b)	11,636,420	19,698,765
Accruals	(17)	25,987,135	9,485,826
Withholdings taxes		13,200,152	9,224,829
Unearned income		2,391,052	7,705,410
Other current liabilities		1,991,074	2,791,897
<b>TOTAL CURRENT LIABILITIES</b>		<b>280,728,517</b>	<b>419,065,607</b>
<b>LONG-TERM LIABILITIES</b>			
Obligations with banks and financial institutions	(15)	616,329,289	371,255,246
Bonds payable	(16b)	565,808,796	338,429,064
Notes and accounts payable to related companies	(6b)	25,763,829	22,687,508
Miscellaneous accounts payable		5,686,346	9,021,941
Accruals	(17)	22,810,785	19,106,007
Deferred taxes	(7b)	28,831,336	46,786,562
Other liabilities		10,270,971	4,674,289
<b>TOTAL LONG-TERM LIABILITIES</b>		<b>1,275,501,352</b>	<b>811,960,617</b>
<b>MINORITY INTEREST</b>	(19)	<b>1,216,445</b>	<b>1,261,258</b>
<b>SHAREHOLDERS' EQUITY</b>			
Paid-in capital	(20)	735,741,104	850,980,476
Reserve □ equity indexation		9,564,638	10,211,766
Share premium		115,886,504	0
Other reserves		744,278	59,027
Retained earnings		440,938,983	431,732,567
Accumulated earnings		456,881,572	422,223,259
Net income for the period		(15,942,589)	9,509,308
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,302,875,507</b>	<b>1,292,983,836</b>

<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,860,321,821</b>	<b>2,525,271,318</b>
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The accompanying notes 1 to 33 are an integral part of these consolidated financial statements

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**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2002 AND 2003**  
**(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of September 30, 2003)**

		<b>2002</b>	<b>2003</b>
		<b>ThCh\$</b>	<b>ThCh\$</b>
<b>OPERATING RESULTS:</b>			
Operating revenues		655,236,368	605,313,097
Operating costs (less)		453,673,387	411,715,396
Gross profit	(21a)	201,562,981	193,597,701
Administrative and selling expenses (less)		99,460,444	105,437,172
<b>OPERATING RESULTS</b>		<b>102,102,537</b>	<b>88,160,529</b>
<b>NON-OPERATING RESULTS:</b>			
Financial income		10,661,996	5,946,609
Net income from investments in related companies	(10)	943,088	1,055,334
Other non-operating income	(21b)	12,418,413	11,368,316
Loss from investments in related companies (less)	(10)	473,957	416,366
Amortization of goodwill (less)	(11a)	21,070,577	20,228,782
Financial expenses (less)		64,022,445	49,381,590
Other non-operating expenses (less)	(21c)	30,085,010	7,114,740
Price-level restatement	(22)	(3,399,290)	(408,208)
Exchange differences	(23)	(3,725,219)	1,356,986
<b>NON-OPERATING LOSS, NET</b>		<b>(98,753,001)</b>	<b>(57,822,441)</b>
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTEREST</b>		<b>3,349,536</b>	<b>30,338,088</b>
Income taxes	(7c)	(18,544,776)	(20,725,018)
<b>CONSOLIDATED INCOME</b>		<b>(15,195,240)</b>	<b>9,613,070</b>
Minority interest	(19)	(747,349)	(103,762)
Amortization of negative goodwill	(11b)	□	□
<b>NET INCOME FOR THE PERIOD</b>		<b>(15,942,589)</b>	<b>9,509,308</b>

The accompanying notes 1 to 33 are an integral part of these consolidated financial statements

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2002 AND 2003**  
**(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of September 30, 2003)**

	2002 ThCh\$	2003 ThCh\$
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>235,881,867</b>	<b>199,754,626</b>
<b>Net income for the period</b>	<b>(15,942,589)</b>	<b>9,509,308</b>
<b>Result on sales of assets:</b>	<b>(7,658,655)</b>	<b>(3,851,627)</b>
Loss on sales of property, plant and equipment	313,857	(328,218)
Gain on sales of investments	(7,972,512)	(3,590,114)
Loss on sales of investments	□	66,705
<b>Debits (credits) to income that do not represent cash flows:</b>	<b>290,464,257</b>	<b>243,670,417</b>
Depreciation for the period	200,232,537	200,524,628
Amortization of intangibles	667,314	1,368,919
Provisions and write offs	18,247,456	24,755,771
Net income from investments in related companies	(943,088)	(1,055,334)
Loss from investments in related companies	473,957	416,366
Amortization of goodwill	21,070,577	20,228,782
Price-level restatement	3,399,290	408,208
Exchange differences	3,725,219	(1,356,986)
Other credits to income that do not represent cash flows	(18,459,853)	(6,119,090)
Other debits to income that do not represent cash flows	62,050,848	4,499,153
<b>Changes in operating assets</b>		
<b>Decrease</b>	<b>10,094,176</b>	<b>(12,417,073)</b>
Trade accounts receivable	(13,049,127)	(16,961,895)
Inventories	9,232,526	(5,124,358)
Other assets	13,910,777	9,669,180
<b>Changes in operating liabilities Increase (decrease)</b>	<b>(41,822,671)</b>	<b>(37,260,161)</b>
Accounts payable related to operating activities	(61,661,320)	(35,522,004)
Interest payable	(5,975,435)	(9,746,958)
Income taxes payable (net)	19,544,702	14,615,026
Other accounts payable related to non-operating activities	6,012,265	(3,860,557)
V.A.T. and other similar taxes payable	257,117	(2,745,668)
<b>Minority interest</b>	<b>747,349</b>	<b>103,762</b>

The accompanying notes 1 to 33 are an integral part of these consolidated financial statements

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2002 AND 2003**  
**(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of September 30, 2003)**

	2002 ThCh\$	2003 ThCh\$
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(149,067,975)</b>	<b>(159,519,635)</b>
Proceeds from loans	13,987,836	□
Obligations with the public	□	19,791,533
Other sources of financing	1,009,775	□
Dividends paid (less)	(1,279,288)	(16,761,793)
Loans paid (less)	(76,751,112)	(92,986,502)
Obligations with the public paid (less)	(75,840,669)	(69,562,873)
Payment of other loans from related companies (less)	(10,194,517)	□
<b>NET CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES</b>	<b>(85,206,602)</b>	<b>(40,305,259)</b>
Sales of property, plant and equipment	542,999	635,197
Sales of permanent investments	28,729,933	33,388,363
Sales of other investments	□	62,392,169
Other investment income	□	206
Acquisition of property, plant and equipment (less)	(50,124,948)	(100,195,617)
Payment of capitalized interest (less)	(3,731,211)	□
Permanent investments (less)	(121,386)	□
Investments in financial instruments (less)	(30,643,331)	(33,362,313)
Other investment activities (less)	(29,858,658)	(3,163,264)
<b>NET CASH FLOWS FOR THE PERIOD</b>	<b>1,607,290</b>	<b>(70,268)</b>
<b>EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS</b>	<b>(1,226,629)</b>	<b>(595,929)</b>
<b>NET INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS</b>	<b>380,661</b>	<b>(666,197)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>87,927,504</b>	<b>21,285,592</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>88,308,165</b>	<b>20,619,395</b>

The accompanying notes 1 to 33 are an integral part of these consolidated financial statements

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(Translation of financial statements originally issued in Spanish)****1. Composition of Consolidated Group and Registration in the Securities Registry:**

a) Compañía de Telecomunicaciones de Chile S.A. (Telefónica CTC Chile) is a public corporation registered in the Securities Registry under No. 009 and therefore is subject to oversight by the Chilean Superintendency of Securities and Insurance.

b) Subsidiaries registered in the Securities Registry:

As of September 30, 2003 the following subsidiaries of the consolidated group are registered with the Securities Registry:

SUBSIDIARIES	TAXPAYER NO.	Registration Number	Participation (direct & indirect) %	
			2002	2003
CTC Transmisiones Regionales S.A.(188 Mundo Telefónica)	96.551.670-0	456	99.16	99.16
Globus 120 S.A.	96.887.420-9	694	99.99	99.99

**2. Significant Accounting Principles:****(a) Accounting period:**

The interim consolidated financial statements cover the nine-month periods ended as of September 30, 2003 and 2002.

**(b) Basis of preparation:**

These interim consolidated financial statements (hereafter, the interim financial statements) have been prepared in accordance with generally accepted accounting principles in Chile and standards set forth by the Chilean Superintendency of Securities and Insurance.

In the event of discrepancies between generally accepted accounting principles issued by the Chilean Accountants Association and the standards set forth by the Chilean Superintendency of Securities and Insurance, for the Company, the standards of the Superintendency shall prevail over the former.

The interim consolidated financial statements of the Company 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 requirements. The Company has voluntarily adopted the practice of submitting the quarterly financial statements as of March and September to a review of the interim financial information in accordance with standards established for this type of review, as described in generally accepted auditing standard No. 45, Section No. 722, issued by the Chilean Accountants Association.

**(c) Basis of preparation:**

Certain reclassifications have been made to the 2002 financial statements for comparative purposes.

The interim 2002 consolidated financial statements and their notes have been restated off-the-books by 2.9% in order to allow comparison with the 2003 financial statements.

**(d) Basis of consolidation:**

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These interim consolidated financial statements include assets, liabilities, income and cash flows of the Parent Company and subsidiaries. Significant transactions involving assets, liabilities, income and cash flows between consolidated companies have been eliminated and the participation of minority interests has been reflected and is presented under Minority Interest (see Note 19).

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(Translation of financial statements originally issued in Spanish)****2. Significant Accounting Principles, continued:****Companies included in consolidation:**

As of September 30, 2003 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			
		2002	2003		
		Total	Direct	Indirect	Total
79.727.230-2	CTC Isapre S.A. (6)	99.99	□	□	□
96.545.500-0	CTC Equipos y Servicios de Telecomunicaciones S.A.	99.99	99.99	□	99.99
96.551.670-0	CTC Transmisiones Regionales S.A.(188 Mundo Telefónica)	99.16	99.16	□	99.16
96.961.230-5	Telefónica Gestión de Servicios Compartidos Chile S.A.	99.99	99.90	0.09	99.99
Foreign	CTC International S.A. (1)	100.00	□	□	□
96.786.140-5	Telefónica Móvil S.A.	99.99	99.99	□	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
96.919.660-3	Telemergencia S.A.	99.99	99.67	0.32	99.99
90.430.000-4	Telefónica Empresas CTC Chile 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
90.184.000-8	Comunicaciones Mundiales S.A.	99.66	□	99.66	99.66
96.834.320-3	Infoera S.A.	99.99	□	99.99	99.99
78.703.410-1	Tecnonáutica S.A. (2)	99.99	□	99.99	99.99
96.934.950-7	Portal de Pagos e Información S.A. (3)	99.99	□	99.99	99.99
96.893.540-2	Infochile S.A.	99.99	□	99.99	99.99
96.700.900-8	Telefónica Data Chile S.A. (4)	99.99	□	□	□
96.833.930-3	Comunicaciones Empresariales S.A. (5)	99.99	□	□	□

- 1) The board of directors' meeting of CTC International S.A., held in December 2002, approved the liquidation of this company.
- 2) On May 2, 2003, Telefónica Empresas S.A. sold its holding in Tecnonáutica S.A. to Infoera S.A., which became owner of 99.99% of the shares of that company.
- 3) On May 2, 2003, Tecnonáutica S.A. sold its holding in Infochile S.A. to Portal de Pagos e Información S.A., which became owner of 99.98% of the shares of that company.
- 4) The Extraordinary Shareholders' Meeting of Telefónica Empresas CTC Chile S.A., held on January 28, 2003, approved the merger by incorporation of the subsidiary Telefónica Data Chile S.A., increasing the capital of Telefónica Empresas CTC Chile S.A. by ThCh\$ 414 equivalent to the issuance of 2,878 shares.



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- 5) The Extraordinary Shareholders Meeting of Telefónica Data Chile S.A., held in November 2002, approved the incorporation by absorption of the subsidiary Comunicaciones Empresariales S.A.
- 6) On September 1, 2003 Telefónica CTC Chile S.A., sold 100% of its participation in this subsidiary for UF 9,175, which resulted Telefónica CTC Chile to recognizing a loss on the sale of the subsidiary of ThCh 66,705.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued  
(Translation of financial statements originally issued in Spanish)****2. Significant Accounting Principles, continued:****(d) Basis of consolidation, continued**

- 7) During September 2002, Telefónica CTC Chile sold and transferred 25% ownership of Sonda S.A. to Inversiones Pacífico Limitada and Inversiones Santa Isabel Limitada, companies associated with Mr. Andrés Navarro H. Once this transaction had taken place, Telefónica CTC Chile through its subsidiary Telefónica Empresas CTC Chile S.A., continues to hold 35% ownership in that company.

Additionally on September 26, 2002, Telefónica Empresas signed an agreement with Inversiones Santa Isabel Limitada, which granted it an option to sell 35% of Sonda, which it could exercise between July 16 and 25, 2005, at the book value of the investment as of June 30, 2005, plus a premium of UF 142,021, with a minimum value of UF 2,048,885. on the other hand, in the event Telefónica Empresas does not exercise that option to sell, between July 26 and August 5, 2005 Inversiones Santa Isabel Limitada had an option to purchase the same 35% of Sonda, under the same previously described conditions. Likewise, Inversiones Santa Isabel Ltda. could exercise the option to purchase in advance between July 26 and 31, 2003 or of 2004.

On July 29, 2003, Telefónica Empresas became aware of the decision of Inversiones Santa Isabel Limitada, to exercise the option early to purchase the remaining 35 % of Sonda S.A. . This transaction involved a disbursement by the purchasing company of ThCh\$ 33,388,363 (historical) on August 26, 2003, resulting in a charge to income of ThCh\$ 6,999,276 before taxes (ThCh\$ 5,683,065 net of the tax effect).

**(e) Price-level restatement:**

The interim consolidated financial statements have been price-level restated using price-level restatement methodology in accordance with generally accepted accounting principles in Chile, in order to reflect the variation of the currency's purchasing power during both periods. The accumulated variation in the CPI as of September 30, 2003 and 2002, for beginning balances was 1.2% and 1.3%, respectively.

**(f) Basis of conversion:**

Assets and liabilities in US\$ (United States dollars), Euros, UF (Unidad de Fomento) and Pound Sterling, have been translated into Chilean pesos at the exchange rates at each period closing date:

<b>YEAR</b>	<b>US\$</b>	<b>EURO</b>	<b>UF</b>
2002	748.73	738.392	16,455.03
2003	660.97	770.811	16,946.03

The exchange differences are charged or credited to income for the period.

**(g) Time deposits:**

Time deposits are presented at the value of the invested capital plus readjustments, if applicable, and accrued interest as of period end.



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**COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued  
(Translation of financial statements originally issued in Spanish)**

**2. Significant Accounting Principles, continued:**

**(h) Marketable securities:**

Fixed income securities are carried at their price-level restated purchase price plus accrued interest as of closing date of each period, based on the real interest rate determined on the purchase date or their market value, whichever is less.

Investments in mutual funds units are carried at the value of the unit at each period's closing date. Investments in shares are presented at their price-level restated cost or market value, whichever is less.

**(i) Inventories:**

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

Inventories estimated to be used during the next twelve months are classified as current assets and their cost is price-level restated. Obsolescence provision has been determined on the basis of a study of materials with slow turnover.

**(j) Subsidies on sale of cellular telephones:**

Represents the difference between the cost at which the cellular equipment is acquired from suppliers and their resale value to customers.

The amounts for equipment with prepayment plans are charged to income at the time they are sold. Equipment with a contract has been commercialized as being on loan (commodate), a legal figure in which the equipment is given to subscribers to use free of charge. The purchase cost of this equipment is capitalized as property, plant and equipment (subscriber equipment), and is depreciated over a 24 month period from the date of the contract.

As of June 1, 2002, a customer loyalty policy was implemented and which consists of replacing equipment related to contracts that are more than 18 months old. Based on the above, depreciation provisions have been established for probable early write-off of equipment.

**(k) Allowance for doubtful accounts:**

Differentiated percentages are applied when calculating the allowance for doubtful accounts, taking into account age factors and eventual collection management until 100% is reached for debts over 120 days and 180 days for large customers (corporations).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued  
(Translation of financial statements originally issued in Spanish)**

**2. Significant Accounting Principles, continued:**

**(l) Property, plant and equipment:**

Property, plant and equipment is presented at price-level restated purchase and/or construction cost.

Property, plant and equipment purchased until December 31, 1979 are presented at appraisal value, as stipulated in Article 140 of D.F.L. No. 4, and those acquired after that date are carried at purchase value, except for those assets that are presented at their appraisal value recorded as of June 30, 1986, in accordance with Circular No. 550 issued by the Chilean Superintendency of Securities and Insurance. All these values have been price-level restated.

Until December 31, 2002, works in progress included the real financial cost of the loans relating to their financing, originated during the construction stage and which could have been avoided had these disbursements not been made. Based on the above, financial cost has been capitalized for ThCh \$ 6,818,537 in 2002.

As described in Note 3a, starting January 1, 2003 the Company decided not to capitalize the real financial cost of loans in the cost of construction and/or acquisition of property, plant and equipment.

**(m) Depreciation:**

Depreciation has been calculated and recorded based on the values stated above, by applying set factors determined on the basis of the estimated useful lives of the assets. The average annual financial depreciation rate of the Company is approximately 8.24%.

**(n) Leased assets:**

**Leased assets with a purchase option**

Leased assets with a purchase option, whose contracts have the characteristics of a financial lease, are carried in a manner similar to the purchase of property, plant and equipment, recording the full obligation and interest on an accrual basis. The Company does not legally own those assets and as long as it does not exercise the purchase option, it cannot freely dispose of them.

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**COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued  
(Translation of financial statements originally issued in Spanish)**

**2. Significant Accounting Principles, continued:**

**(ñ) Intangibles**

**i) Underwater cable rights:**

Underwater cable rights are rights acquired by the Company for the use of the underwater cable's transmission capacity. These are amortized over the respective contract term, with a maximum of 25 years.

**ii) Licenses (software):**

Software licenses are carried at price-level restated purchase cost. Amortization is calculated using the straight-line method considering the periods in which the license will provide benefits, which does not exceed 4 years.

**iii) License for the use of radioelectric space:**

Corresponds to the cost incurred in obtaining licenses for the use of wireless. They are shown at price-level restated value and are amortized over the concession period (30 years from publication in the [Diario Oficial]) of the decrees covering the respective licenses.

**(o) Investments in related companies:**

These investments are carried under the equity method, recognizing their income on an accrual basis. Foreign investments have been valued following Technical Bulletin No. 64. Those investments are controlled in dollars, since they are in countries considered unstable under said Bulletin, and their activities are not an extension of the operations of the Parent Company.

**(p) Goodwill and negative goodwill:**

Goodwill and negative goodwill are differences arising upon adjustment of the investment cost, at the time of adopting the equity method or when making a new purchase. The goodwill and negative goodwill amortization period has been determined taking into consideration aspects such as the nature and characteristics of the business and the estimated period for return of the investment. Goodwill arising on foreign investments is controlled in US dollars (the same currency in which the investment is controlled), as per Technical Bulletin No. 64 of the Chilean Accountants Association (see Note 11).

**(q) Transactions with resale or repurchase agreements:**

Purchases of financial instruments with resale agreements are recorded as a fixed rate placement and classified in Other Current Assets.

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**COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued**  
**(Translation of financial statements originally issued in Spanish)**

**2. Significant Accounting Principles, continued:**

**(r) Obligations with the public:**

- Obligations from bond issuance are presented in liabilities at the par value of the subscribed bonds. The difference between par value and placement value, determined on the basis of real interest originated in the transaction, is deferred and amortized during the term of the respective bond (see Note 16).
- Obligations from issuance of promissory notes: Are presented in liabilities at their placement value, plus accrued interest (see note 16a).

Direct costs related to bond placement are capitalized and amortized using the straight-line method over the term of the respective bond.

**(s) Income tax and deferred income tax:**

Income tax is calculated on the basis of taxable net income. Deferred taxes arising from all temporary differences, tax benefits for tax losses, and other events that create differences between the tax base of assets and liabilities and their accounting basis are recorded in accordance with Technical Bulletins Nos. 60, 68, 69 and 73 issued by the Chilean Accountants Association and in accordance with Circular 1,466 dated January 27, 2000 issued by the Superintendency of Securities and Insurance.

On September 28, 2001 Law No. 19753 was published, increasing the corporate income tax rate to 16% in 2002, 16.5% in 2003 and 17% in 2004 and thereafter. As of September 30 of each year, the accumulated balances of temporary differences reflect the increase in the income tax rate. Deferred income taxes arising due to the increase in the income tax rate are recorded in accordance with Technical Bulletin No. 71 issued by the Chilean Accountants Association. (see Note 7).

**(t) Staff severance indemnities:**

The Company's staff severance indemnities obligation is accrued applying the net present value method to accrued benefit using an annual discount rate of 7%, considering a future permanence until the retirement date of each employee (see Note 18).

Expenses for past services rendered by employees resulting from changes in the actuarial base, are capitalized and amortized over the average length of future permanence of the employees.

**(u) Operating revenues:**

The Company's revenues are recorded on the accrual basis in accordance with generally accepted accounting principles in Chile. Since invoices are issued on dates other than accounting cut-off dates, as of the date of preparation of these financial statements, services rendered and not invoiced have been accrued, and determined on the basis of the contracts and traffic at the current period's prices and conditions. Amounts for this concept are shown in Trade Accounts Receivable.

Revenues from information services are recorded under the following conditions: sale of hardware and licenses is recorded when the equipment and/or software is delivered, and in the case of revenues from projects, these are recorded according to the progress payments reports approved by the customers and which consider the degree of completion of the respective projects.





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**COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued  
(Translation of financial statements originally issued in Spanish)**

**2. Significant Accounting Principles, continued:**

**(v) Foreign currency futures contracts:**

The Company has entered into foreign currency futures contracts, representing a hedge against changes in the exchange rate of its obligations in foreign currency.

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

The rights acquired and obligations incurred are detailed in Note 26. The balance sheet only reflects the net right or obligation as of period-end, classified according to the maturity date of each of the contracts, in Other Current Assets or Other Creditors, as applicable. The contract's implicit insurance premium is deferred and amortized using the straight-line method over the term of the contract.

**(w) Interest rate coverage:**

Loan interest covered by interest rate swaps is recorded recognizing the effect of the contracts on the interest rate established in the loans. Rights and obligations for this concept are shown in Other Current Assets or in Other Creditors, as applicable (see Note 26).

**(x) Computer software:**

Software purchase cost is deferred and amortized using the straight-line method over a four-year period.

**(y) Research and development expenses:**

Research and development expenses are charged to income in the period in which they are incurred. Such expenses have not been significant in recent periods.

**(z) Accumulated deficit in development period of subsidiaries:**

In accordance with Circular No. 981 of the Superintendency of Securities and Insurance, the Company has included all disbursements or obligations arising during the development and start up stage of its subsidiaries and which are not assignable to the cost of tangible or nominal assets. This deficit has been absorbed by net income earned by the Company during operations.

**(aa) Accumulated adjustment for conversion differences:**

The Company recognizes the difference between the variation in the exchange rate and the consumer price index arising on the price-level restatement of its investments abroad, controlled in US dollars, as well as adjustments for translation differences arising from subsidiaries and related companies that have been recognized for their foreign investments. The balance in this account is credited (charged) to income in the same period in which the gain or loss on the complete or partial disposal of these investments is recognized.

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**COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued  
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**2. Significant Accounting Principles, continued:**

**(ab) Statement of cash flows:**

For the purposes of preparing the Statement of Cash Flows in accordance with Technical Bulletin No. 50 issued by the Chilean Accountants Association and with Circular No. 1,312 issued by the Chilean Superintendency of Securities and Insurance, the Company considers mutual funds, resale agreements and time deposits maturing in less than 90 days as cash and cash equivalents.

Cash flows related to the Company's line of business and those not defined as from investment or financing activities are included in "Net Cash Flows from Operating Activities".

**(ac) Correspondents:**

The Company has current agreements with foreign correspondents, in which the conditions that regulate international traffic are set, charged or paid according to net traffic exchanges (imbalance) and to the rates set in each agreement.

This exchange is accounted for on an accrual basis, recognizing the costs and income in the period in which they are produced, recording the net balances receivable or payable of each correspondent in "Trade Accounts Receivable" or "Accounts Payable" as applicable.

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(Translation of financial statements originally issued in Spanish)****3. Accounting Changes:****a) Property, plant and equipment financing cost:**

Starting January 2003, the Company changed the criteria for capitalizing the real financing costs of the loans related to financing the property, plant and equipment works in progress. This change has meant recognizing a higher charge to income for the period, of approximately ThCh\$ 2,200,000, in comparison to 2002.

**b) Change in the reporting entity:**

- i) Since the Company no longer owns part of Sonda S.A., the financial statements of Telefónica CTC Chile as of September 30, 2003, have only recognized their 35% equity in the net income of Sonda S.A. earned until June 30, 2003, maintaining the consolidation with that company until August 31, 2002.

For a comparative analysis of the figures, a consolidated statement of income is presented, assuming that for the eight month period ended August 31, 2002, the investment in Sonda S.A. was recorded using only the equity method.

	Jan-Sep 2003 ThCh\$	Jan-Sep 2002 ThCh\$	Variation	
			ThCh\$	%
<b>Operating revenues</b>	<b>605,313,097</b>	<b>594,686,447</b>	<b>10,626,650</b>	<b>1.8</b>
<b>Operating costs</b>	<b>517,152,568</b>	<b>494,797,982</b>	<b>22,354,586</b>	<b>4.5</b>
Salaries and employee benefits	42,117,931	48,788,997	(6,671,066)	(13.7)
Depreciation	198,249,390	192,870,602	5,378,788	2.8
Goods and services	171,348,075	160,698,315	10,649,760	6.6
Administrative and selling expenses	105,437,172	92,440,068	12,997,104	14.1
<b>Operating Income</b>	<b>88,160,529</b>	<b>99,888,465</b>	<b>(11,727,936)</b>	<b>(11.7)</b>
Financial income	5,946,609	9,354,629	(3,408,020)	(36.4)
Income from investments in related companies	638,968	1,023,677	(384,709)	(37.6)
Amortization of goodwill	20,228,782	20,515,972	(287,190)	(1.4)
Financial expenses	49,381,590	63,257,360	(13,875,770)	(21.9)
Other income and expenses	(4,253,576)	19,889,720	(24,143,296)	C.S.
Price-level restatement	948,778	(4,914,228)	5,863,006	C.S.
<b>Non-operating income (loss)</b>	<b>(57,822,441)</b>	<b>(98,198,974)</b>	<b>40,376,533</b>	<b>(41.1)</b>
<b>Income before taxes and minority interest</b>	<b>30,338,088</b>	<b>1,689,491</b>	<b>28,648,597</b>	<b>N.A.</b>
Income tax	(20,725,018)	(17,510,014)	(3,215,004)	18.4
Minority interest	(103,762)	(122,066)	18,304	(15.0)
<b>Net income (loss) for the period</b>	<b>9,509,308</b>	<b>(15,942,589)</b>	<b>25,451,897</b>	<b>C.S.</b>

- ii) The sale of the subsidiary Compañía de Teléfonos Isapre S.A. was completed on September 2; its net effect meant a loss of ThCh\$ 66,705 with regard to the book value of that investment.

**c) Change in estimate:**

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As of September 30, 2003, the Company accelerated the amortization of goodwill in the subsidiaries Tecnonáutica S.A. and Infoera S.A. recognizing a higher charge to income for the period of ThCh \$ 92,982, reducing the remaining amortization period for such goodwill from 17 to 8 years.

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(Translation of financial statements originally issued in Spanish)****4. Marketable Securities:**

The balance of marketable securities is as follows:

	<b>2002</b>	<b>2003</b>
	<b>ThCh\$</b>	<b>ThCh\$</b>
Shares	9,955,727	451,869
Publicly offered promissory notes	74,534,419	46,942,157
Mutual fund units	5,449,582	80,590
Others	10,643	8,828
<b>Total Marketable Securities</b>	<b>89,950,371</b>	<b>47,483,444</b>

**Shares**

<b>Taxpayer No.</b>	<b>Company Name</b>	<b>Number of Shares</b>	<b>Interest %</b>	<b>Market Quote per share ThCh\$</b>	<b>Market Value ThCh\$</b>	<b>Restated Cost ThCh\$</b>
Foreign	New Skies Satellites	5.198	0.057%	4.2699	22,195	252.853
Foreign	Intelsat	288.065	0.057%	□	□	429.674
<b>Value of investment portfolios</b>					<b>22,195</b>	<b>682,527</b>
<b>Adjustment to market value provision</b>					<b>□</b>	<b>(230,658)</b>
<b>Book value of investment portfolio</b>					<b>□</b>	<b>451,869</b>

- a) The Board Meeting held on July 10, 2003, approved the sale of the 2,984,986 shares of Terra Networks S.A., that the Company had through the OPA launched by Telefónica S.A. The price of the OPA was 5.25 Euros per share, which at the exchange rate as of the date in which the sale materialized, resulted in a total selling price of ThCh\$ 12,643,411.

**Publicly offered promissory notes (Fixed Income)**

<b>Instrument</b>	<b>Date</b>		<b>Par Value ThCh\$</b>	<b>Book Value</b>		<b>Market Value ThCh\$</b>	<b>Provision ThCh\$</b>
	<b>Purchase</b>	<b>Maturity</b>		<b>Amount ThCh\$</b>	<b>Rate</b>		
Zero	Dec-2002	Jul-2004	5,922,291	6,750,512	5.40	6,750,512	□
Zero	Dec-2002	Dic-2005	13,217,688	15,161,750	5.85	15,161,750	□

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Zero	Dec-2002	Nov-2005	1,682,700	1,929,509	5.85	1,929,509	□
Zero	Dec-2002	Oct-2005	3,526,840	3,971,996	5.07	3,971,996	□
<b>Sub-Total</b>			<b>24,349,519</b>	<b>27,813,767</b>		<b>27,813,767</b>	□
PRD	Sep-2003	Jul-2004	3,965,820	4,236,287	6.00	4,236,287	□
BCD	Sep-2003	Sep-2004	14,541,340	14,892,103	5.00	14,892,103	□
<b>Total</b>			<b>42,856,679</b>	<b>46,942,157</b>		<b>46,942,157</b>	□

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(Translation of financial statements originally issued in Spanish)****5. Current and long-term receivables:**

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

	<b>Current</b>									
	<b>Up to 90 days</b>		<b>Over 90 up to 1 year</b>		<b>Subtotal</b>	<b>Total Current (net)</b>				<b>Long-term</b>
	<b>2002 ThCh\$</b>	<b>2003 ThCh\$</b>	<b>2002 ThCh\$</b>	<b>2003 ThCh\$</b>	<b>2003 ThCh\$</b>	<b>2002 ThCh\$</b>	<b>%</b>	<b>2003 ThCh\$</b>	<b>%</b>	<b>2002 ThCh\$</b>
<b>Accounts receivable</b>	<b>269,640,120</b>	<b>288,316,147</b>	<b>11,365,667</b>	<b>10,909,527</b>	<b>299,225,674</b>	<b>204,284,331</b>	<b>100,0</b>	<b>214.593.001</b>	<b>100,0</b>	<b>6.434.140</b>
Service contracts	155,140,229	180,019,056	8,967,864	9,167,691	189,186,747	110,160,199	53,93	114.100.404	53,17	6.434.140
Other receivables	47,180,698	49,104,593	□	□	49,104,593	42,186,985	20,65	45.268.385	21,09	□
Prepaid expenses	44,667,572	33,750,701	□	□	33,750,701	28,822,479	14,11	32.140.044	14,98	□
Other receivables	20,895,176	19,644,744	2,397,803	1,741,836	21,386,580	21,539,534	10,54	18.072.270	8,42	□
Other receivables	1,756,445	5,797,053	□	□	5,797,053	1,575,134	0,77	5.011.898	2,34	□
<b>Other receivables</b>	<b>(72,230,641)</b>	<b>(80,048,828)</b>	<b>(4,490,814)</b>	<b>(4,583,845)</b>	<b>(84,632,673)</b>	□		□		□
<b>Other receivables</b>	<b>13,437,515</b>	<b>14,036,895</b>	<b>748,157</b>	<b>331,037</b>	<b>14,367,932</b>	<b>5,610,309</b>		<b>5.960.648</b>		□
Other receivables	(8,575,363)	(8,407,284)	□	□	(8,407,284)	□		□		□
<b>Other receivables</b>	<b>16,771,318</b>	<b>8,001,101</b>	<b>9,061,201</b>	<b>3,403,883</b>	<b>11,404,984</b>	<b>25,832,519</b>		<b>11.404.984</b>		<b>45.601.035</b>
Other receivables	□	□	□	□	□	□		□		□
<b>Total long-term receivables</b>										<b>52,035,175</b>

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(Translation of financial statements originally issued in Spanish)****6. Balances and transactions with related companies:****a) Notes and Accounts Receivable**

Tax No.	Company	Short-term		Long-term	
		2002 ThCh\$	2003 ThCh\$	2002 ThCh\$	2003 ThCh\$
96.942.730-3	Telefónica Mobile Solutions Chile S.A.	2,103	17,043	□	□
Foreign	Telefónica España	809,981	1,039,789	□	□
96.527.390-5	Telefónica Internacional Chile S.A.	□	6,647	□	□
93.541.000-2	Impresora y Comercial Publiguías S.A.	1,278,101	3,470,135	□	□
83.628.100-4	Sonda S.A.	1,805,616	□	□	□
96.834.230-4	Terra Networks Chile S.A.	1,011,874	1,002,256	□	□
96.895.220-k	Atento Chile S.A	417,012	299,990	□	□
96.545.480-2	CTC Marketing e Inform S.A. (Nexcom S.A.)	368,044	291,819	□	□
96.910.730-9	Emergia Chile S.A.	909,793	6,438	□	□
Foreign	Telefónica Data España	386,563	282,105	□	□
Foreign	Telefónica Data EEUU	□	675,008	□	□
Foreign	Terra Networks España	7,604	□	□	□
78.868.230-1	Atento Educación Ltda.	2,514	□	□	□
Foreign	Telefónica procesos Tec. de Información	12,628,847	10,834,576	□	□
59.083.900-0	Telefónica Ingeniería Seguridad	□	4,407	□	□
Foreign	Telefonica Whole Sale International Services	□	271,272	□	□
<b>TOTAL</b>		<b>19,628,052</b>	<b>18,201,485</b>	□	□

There have been charges and credits to current accounts with these companies due to billing for sales of material, equipment and services.

**b) Notes and Accounts Payable**

Tax No.	Company	Short-term		Long-term	
		2002 ThCh\$	2003 ThCh\$	2002 ThCh\$	2003 ThCh\$
96.942.730-3	Telefónica Mobile Solutions Chile S.A.	□	2,234,802	□	□
96.527.390-5	Telefónica Internacional Chile S.A.	132,069	396,537	25,763,829	22,687,508
93.541.000-2	Impresora y Comercial Publiguías S.A.	1,707,804	360,013	□	□
96.834.230-4	Terra Networks Chile S.A.	2,182,964	3,670,133	□	□
96.895.220-k	Atento Chile S.A	5,809,139	5,369,001	□	□



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96.910.730-9	Emergia Chile S.A.	844,008	260,967	□	□
83.628.100-4	Sonda S.A.	928,122	□	□	□
Foreign	Telefónica procesos Tec. de Información	□	7,076,254	□	□
Foreign	Telefonica Whole Sale International Services	□	271,668	□	□
78.868.200-k	Atento Recursos Ltda.	32,314	59,390	□	□
	<b>TOTAL</b>	<b>11,636,420</b>	<b>19,698,765</b>	<b>25,763,829</b>	<b>22,687,508</b>

In accordance with Article 89 of the Chilean Companies Act, all these transactions have been carried out under conditions similar to those prevailing in the market.

The balance in long-term accounts with related entities corresponds to a mercantile current account that Telefónica CTC Chile has signed with Telefónica Internacional Chile S.A.

This mercantile current account is included in a contract denominated in US dollars with undefined maturity dates and which accrues interest at a fixed annual rate of 2.07%.

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(Translation of financial statements originally issued in Spanish)****6. Balances and transactions with related companies:****c) Transactions**

Company	Tax No.	Nature of Relationship	Description of transaction	2002		2003	
				Amount	Effect on income	Amount	Effect on income
Telefónica España	Foreign	Parent Co.	Sales and Services	15,007	15,007	□	□
Telefónica Internacional Chile S.A.	96.527.390-5	Parent Co.	Purchases and Services Rendered	264,361	264,361	398,130	398,130
			Financial Expenses	474,502	474,502	435,083	435,083
Impresora y Comercial Publiguías S.A.	93.541.000-2	Associate	Sales and Services	3,934,656	3,934,656	4,269,213	4,269,213
			Purchases and Services Rendered	3,854,155	3,854,155	4,288,469	4,288,469
			Financial Income	□	□	344,237	344,237
			Other Non-operating Income	□	□	1,569,287	1,569,287
Terra Networks Chile S.A.	96.834.230-4	Associate	Sales and Services	2,355,190	2,355,190	3,194,870	3,194,870
			Purchases and Services Rendered	143,043	143,043	420,972	420,972
Atento Chile S.A	96.895.220-k	Associate	Sales and Services	1,074,888	1,074,888	614,494	□
			Purchases and Services Rendered	10,020,750	10,020,750	8,974,736	8,974,736
			Other Non-operating Income	20,729	20,729	12,587	12,587
Emergia Chile S.A.	96.910.730-9	Associate	Sales and Services	914,083	914,083	291,543	291,543
			Purchases and Services Rendered	35,009	35,009	30,296	30,296
			Other Non-operating Income	12,500	12,500	12,043	12,043
Telefonica Whole Sale International Services	Foreign	Associate	Sales and Services	□	□	229,570	229,570
			Purchases and Services Rendered	□	□	1,103,625	1,103,625

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Atento Recursos Ltda. Telefonica. Procesos y Tecnología de Información S.A.	78.868.200-k	Associate	Sales and Services	354,359	354,359	13,274	13,274
	Foreign	Associate	Sales and Services	417,789	417,789	□	□

The conditions of the Mandate and 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 which adjusts to market conditions (US\$ + Market Spread).

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

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(Translation of financial statements originally issued in Spanish)****7. Income tax and deferred taxes:****a) General information:**

As of September 30, 2003 the Parent Company recorded a first category tax provision based on current legal regulations since it has positive taxable income of ThCh\$ 13,811,623. As of September 30, 2002 it did not record a first category income tax provision since it had accumulated tax losses amounting to approximately ThCh\$ 140,000,000. Likewise as of September 30, 2003 and 2002 certain subsidiaries have accumulated tax losses of ThCh\$ 272,840,212 and ThCh\$ 118,904,847, respectively.

As of September 30, 2003 and 2002, the first category income tax provision in subsidiaries with positive taxable income is ThCh\$ 30,391,506 and ThCh\$ 15,418,219, respectively.

As of September 30, 2003 the subsidiaries with a positive balance in Taxed Retained Earnings and the related credits are detailed in the following table:

Subsidiaries	Taxed Retained Earnings w/15% credit ThCh\$	Taxed Retained Earnings w/16% credit ThCh\$	Taxed Retained Earnings w/16.5% credit ThCh\$	Taxed Retained Earnings W/o credit ThCh\$	Amount of credit ThCh\$
CTC Equipos y Servicios de Telecomunicaciones S.A.	18	2,801,638	9,358,101	1,865,307	2,077,746
CTC Transmisiones Regionales S.A.	□	15,383,464	2,184,140	486,861	3,290,625
Globus 120 S.A.	2,092,814	792,904	606,672	240,983	620,452
Telefónica Empresas CTC Chile S.A.	605,733	7,080,202	183,573	8,080	1,485,820
Comunicaciones Mundiales S.A.	245,885	66,921	47,128	22,048	63,915
<b>Total</b>	<b>2,944,450</b>	<b>26,125,129</b>	<b>12,379,614</b>	<b>2,623,279</b>	<b>7,538,558</b>

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**(Translation of financial statements originally issued in Spanish)****7. Income tax and deferred taxes, continued:****b) Deferred taxes:**

As of September 30, 2002 and 2003, net deferred tax assets (liabilities) arising on temporary differences of ThCh\$ (2,266,033) and ThCh\$ (25,632,513), respectively are analyzed as follows:

Description	2002				2003			
	Deferred tax assets		Deferred tax liabilities		Deferred tax assets		Deferred tax liabilities	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
<b>Temporary differences</b>								
Allowance for doubtful accounts	18,414,767				18,268,900			
Vacation provision	789,369				670,517			
Tax benefits for tax losses	1,799,375	45,529,359			164,941	20,048,883		
Staff severance indemnities		1,346,858		8,226,021		922,783		6,551,640
Leased assets and liabilities		685,449		11,920	67,692	70,380		126,109
Property, plant and equipment		4,635,345		212,235,133	100,648	5,292,474		200,483,830
Software				6,612,396				561,946
Deferred charge on sale of assets				3,963,998				2,727,210
Unearned income		188,457			487,115			
Tax value difference for temporary investments (Terra)	3,461,110							
Other events	2,800,766	528,512	10,313	839,221	1,404,491	106,112	9,255	1,338,052
<b>Subtotal</b>	<b>27,265,387</b>	<b>52,913,980</b>	<b>10,313</b>	<b>231,888,689</b>	<b>21,164,304</b>	<b>26,440,632</b>	<b>9,255</b>	<b>211,788,787</b>
Complementary accounts net of accumulated amortization	(689,769)	(15,300,623)		(165,443,996)		(10,077,857)		(148,639,450)
<b>Subtotal</b>	<b>26,575,618</b>	<b>37,613,357</b>	<b>10,313</b>	<b>66,444,693</b>	<b>21,164,304</b>	<b>16,362,775</b>	<b>9,255</b>	<b>63,149,337</b>
Tax reclassification	(10,314)	(37,613,357)	(10,313)	(37,613,357)	(9,255)	(16,362,775)	(9,255)	(16,362,775)
<b>Total</b>	<b>26,565,304</b>			<b>28,831,336</b>	<b>21,155,049</b>			<b>46,786,562</b>



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(Translation of financial statements originally issued in Spanish)****7. Income taxes and deferred income taxes, continued:****c) Breakdown of income taxes:**

The current tax expense presented in the following table is based on the determination of taxable income, net of credits for donations, training expenses and other credits.

Description	2002 ThCh\$	2003 ThCh\$
Tax expense before tax benefits (income tax)	4,862,641	18,769,680
Current tax expense (Flat Article No. 21 <input type="checkbox"/> 35%)	216,452	70,611
Adjustment of tax expense (prior year)	<input type="checkbox"/>	(96,268)
<b>Income tax subtotal</b>	<b>5,079,093</b>	<b>18,744,023</b>
<input type="checkbox"/> Effect of deferred tax assets or liabilities for the period	2,681,596	9,017,052
<input type="checkbox"/> Tax benefit for tax losses (1)	<input type="checkbox"/>	(13,946,756)
<input type="checkbox"/> Effect of amortization of deferred tax assets and liabilities complementary accounts	10,784,087	6,910,699
<b>Deferred tax subtotal</b>	<b>13,465,683</b>	<b>1,980,995</b>
<b>Total income tax expense</b>	<b>18,544,776</b>	<b>20,725,018</b>

(1) Income tax for the 2003 period amounts to ThCh\$ 4,797,267 after applying the tax benefit for tax losses.

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**(Translation of financial statements originally issued in Spanish)****8. Other Current Assets:**

The detail of other current assets is as follows:

	<b>2002</b>	<b>2003</b>
	<b>ThCh\$</b>	<b>ThCh\$</b>
Fixed income securities purchased with resale agreement	8,027,355	9,204,230
Collective negotiation bonus to be amortized (a)	1,003,872	1,076,681
Adjustment to market value for cellular equipment to be commercialized (c)	4,114,086	3,122,435
Exchange insurance premiums to be amortized	2,844,853	981,024
Telephone directories for connection program	8,044,328	6,002,894
Higher discount rate of bonds to be amortized (note 24)	882,450	502,461
Disbursements for placement of bonds to be amortized (note 24)	1,904,454	1,549,543
Disbursement of negotiable instruments (note 24)	□	25,782
Disbursements for foreign financing proceeds to be amortized (b)	832,449	659,270
Exchange difference insurance debtors (net of partial liquidations)	50,580,817	10,915,357
Deferred charges for modification of staff severance indemnities discount rate (net)	114,419	126,687
Others	1,189,963	1,258,081
<b>Total</b>	<b>79,539,046</b>	<b>35,424,445</b>

- (a) In June 2002, the Company signed a 2-year collective contract with a part of its employees (3 years for Telefónica Móvil employees) granting them, among other benefits, a special negotiation bonus. This bonus was paid between June and July of 2002 (for Telefónica Móvil employees, a second installment of ThCh\$ 440,000 (historical) will be paid in May 2004). The total benefit which amounts to Ch\$ 2,494,544 (historical), is being deferred using the straight-line method during the term of the respective collective contracts. The long-term portion is shown under "Other" long-term (see note 13).
- (b) This amount corresponds to the cost (net of amortization) of the reserve paid to the Banco Central de Chile and disbursements incurred for foreign loans obtained by the Company to finance its investment plan.
- (c) Corresponds to adjustment to market value for cellular equipment held in inventory at period-end, which is charged to results in accordance with the method of negotiation, contract or prepayment.



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**(Translation of financial statements originally issued in Spanish)****9. Property, plant and equipment:**

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

Description	2002		2003	
	Accumulated depreciation ThCh\$	Gross prop., plant and equipment ThCh\$	Accumulated depreciation ThCh\$	Gross prop., plant and equipment ThCh\$
<b>Land</b>		27,539,330		27,694,719
<b>Construction and Infrastructure Works</b>	70,083,287	185,582,533	72,932,710	186,799,365
<b>Machinery and equipment</b>	1,728,233,694	3,282,492,915	1,902,916,784	3,439,859,750
Central office telephone equipment	882,811,084	1,519,731,145	974,175,624	1,620,012,394
External plant	599,432,273	1,372,741,058	644,884,222	1,391,928,430
Subscribers' equipment	211,743,956	353,940,970	252,796,652	392,340,708
General equipment	34,246,381	36,079,742	31,060,286	35,578,218
<b>Other Property, Plant and Equipment</b>	125,506,768	403,388,080	193,839,920	381,777,356
Office furniture and equipment	76,807,387	141,177,924	91,807,638	132,959,817
Projects, work in progress and their materials		141,173,719		112,082,247
Leased assets (1)	4,102,614	11,383,817	4,198,958	10,707,695
Property, plant and equipment temporarily out of service	7,783,831	15,504,168	13,705,305	20,665,161
Software and others	36,812,936	94,148,452	84,128,019	105,362,436
Technical revaluation-Circular 550	10,458,810	9,242,348	10,431,094	9,242,473
<b>Total</b>	<b>1,934,282,559</b>	<b>3,908,245,206</b>	<b>2,180,120,508</b>	<b>4,045,373,663</b>

(1) As of September 2003 this caption mainly considers: ThCh\$ 5,524,373 gross value for purchase of administrative offices with accumulated depreciation of ThCh\$ 626,135 with contract terms of 15 years from 1996, ThCh\$ 3,245,316 gross value for electronic and computer equipment with accumulated depreciation of ThCh\$ 2,980,657 with 12-year contract terms from 1994. In addition there is ThCh\$ 984,277 gross value of long distance transmission equipment with accumulated depreciation of ThCh\$ 215,311 with 18-year contract terms from 1996.

The balance of gross property, plant and equipment includes capitalized interest until December 2002, of ThCh\$ 210,521,236 and ThCh\$ 211,261,397 in 2002 and 2003, respectively. Accumulated depreciation of this interest amounts to ThCh\$ 77,678,175 and ThCh\$ 97,150,381 in 2002 and 2003, respectively.

Depreciation for the periods was charged to operating costs for ThCh\$ 199,048,570 and ThCh\$ 198,249,390, for 2002 and 2003, respectively. Property, plant and equipment temporarily out of service, made up mainly of the cable TV networks of La Serena not transferred in the sale of assets to Cordillera Comunicaciones, resulted in a depreciation charge of ThCh\$ 1,183,967 in 2002 and ThCh\$ 2,498,506 in 2003, which is classified in Other Non-operating Expenses.

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

Description	Property, plant and equipment 2002 ThCh\$	Net Balance ThCh\$	Accumulated Depreciation ThCh\$	Property, plant and equipment 2003 ThCh\$
Land	(476,687)	(478,317)	□	(478,317)
Construction and infrastructure works	(4,588,149)	(1,005,994)	(3,580,524)	(4,586,518)
Machinery and equipment	14,307,184	295,690	14,011,618	14,307,308
<b>Total</b>	<b>9,242,348</b>	<b>(1,188,621)</b>	<b>10,431,094</b>	<b>9,242,473</b>

Depreciation of the technical revaluation surplus for the period amounts to ThCh\$ (24,245) in 2002 and ThCh\$ (21,945) in 2003.

Gross property, plant and equipment includes assets that have been totally depreciated amounting to ThCh\$ 512,029,604 in 2002 and ThCh\$ 661,289,617 in 2003, which include ThCh\$ 12,113,554 and ThCh\$ 12,015,474, respectively, for technical revaluation.

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**(Translation of financial statements originally issued in Spanish)****10. Investments in Related Companies:**

The breakdown of investments in related companies is as follows:

Country	Currency controlling the investment	No. of shares	Holding percentage		Shareholders' equity of the companies		Income for the year		Accrued income		Equity Value		Unearned Income
			2002 %	2003 %	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$	2003 ThCh\$	
Brazil	Dólar	400,999,739	2.61	2.61	146,360,958	182,477,471	3,704,215	2,194,998	96,680	57,289	3,820,021	4,762,662	□
Chile	Pesos	45,648	9.00	9.00	26,135,744	31,530,056	7,801,622	9,759,690	702,146	878,372	2,352,217	2,837,705	□
Chile	Pesos	271,615	20.00	20.00	602,535	456,195	(534,005)	(133,083)	(106,801)	(26,617)	120,507	91,239	□
Chile	Pesos	3,209,374	28.84	28.84	9,244,380	9,626,501	71,608	414,956	20,651	119,673	2,666,079	2,776,282	□
Chile	Pesos		□35.00	□	87,040,726		□(1,043,143)		□(365,100)	□(389,749)	30,464,254		□
Chile	Pesos		□19.00	□	2,088,263		□	□	□	□	396,770		□
Chile	Pesos		□10.25	□	743,171		□	□	□	□	76,175		□
Chile	Pesos		□3.33	□			□ 220,902		□ 95,717				□
Chile	Pesos		□3.33	□			□ 83,690		□ 27,894				□
Chile	Pesos		□6.66	□			□ (30,871)		□ (2,056)				□
											<b>39,896,023</b>	<b>10,467,888</b>	

(1) Recognition of income for this company is that accrued for August 2002 and 2003.

(2) □As indicated in Note 2d, as of September 2002 the Company no longer has a majority or controlling interest in Sonda S.A. It now recognizes 35% equity in the Company.□

During September 2002, Telefónica Empresas sold and transferred 25% ownership in Sonda S.A., to Inversiones Pacifico Limitada and Inversiones Santa Isabel Limitada, companies linked to Mr. Andrés Navarro. This operation meant disbursements on the part of the purchasing companies amounting to ThCh\$ 27,920,701 (historical), implying for Telefónica Empresas a net effect on income (loss), amounting to ThCh\$ 1,889,316, product of proportional extraordinary amortization of goodwill in relation to the percentage sold and to the difference between the book value of the investment and the amount received. Once this transaction was carried out, Telefónica Empresas had a 35% holding in that company.

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

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

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

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

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**(Translation of financial statements originally issued in Spanish)****11. Goodwill and negative goodwill:****(a) Goodwill:**

The detail of goodwill is as follows:

Taxpayer No.	Company	Year	2002		2003	
			Amount amortized in the period ThCh\$	Balance of Goodwill ThCh\$	Amount amortized in the period ThCh\$	Balance of Goodwill ThCh\$
Foreign	Consorcio Telefónica do Brasil	2001	131,657	2,918,645	131,657	2,742,620
90.430.000-4	CTC Globus S.A.	1998	812,279	17,436,883	812,279	16,350,868
78.703.410-1	Tecnonáutica S.A.	1999	49,809	1,166,663	107,747	1,043,309
96.786.140-5	Telefónica Móvil	1997	7,391,414	150,373,307	7,391,414	140,491,013
96.834.320-3	Infoera	1999	31,359	720,808	66,403	643,838
96.811.570-7	Telepeajes S.A.	2001	35,901	80,413	29,084	48,686
83.628.100-4	Sonda S.A. (a)	1999	11,752,768	12,547,989	11,690,198	□
Foreign	Sonda Uruguay	1999	97,101	□	□	□
Foreign	Setco S.A. (Uruguay)	1999	95,318	□	□	□
Foreign	Sonda del Ecuador	1997	26,659	□	□	□
96.571.690-4	Servibanca	2000	24,840	□	□	□
96.768.410-4	Payroll	1999	1,261	□	□	□
96.894.490-8	Puerto Norte	2000	881	□	□	□
96.895.220-K	Atento Chile S.A.	2001	269,188	86,771	□	□
Foreign	Sonda Bancos	2001	6,684	□	□	□
Foreign	Sonda Perú	2001	3,409	□	□	□
Foreign	Bismark (México)	2001	3,292	□	□	□
Foreign	Tecnoglobal S.A.	2001	36,783	□	□	□
Foreign	Bac Financiero	2001	62,022	□	□	□
96.833.930-3	Telef. Comun. Empresariales	2001	41,597	124,700	□	□
96.590.960-5	Tecnópolis	2001	1,367	□	□	□
Foreign	Track S.A.	2002	1,613	□	□	□
Foreign	Sonda Do Brasil	2002	193,375	□	□	□
<b>Total</b>			<b>21,070,577</b>	<b>185,456,179</b>	<b>20,228,782</b>	<b>161,320,334</b>

The goodwill amortization period has been determined considering aspects such as; nature and characteristics of the business and estimated period of return of the investment.

- a) For 2002, amortization of goodwill includes ThCh\$ 9,141,600, as extraordinary amortization of the sale of 25% of the holdings of Telefónica Empresas in Sonda S.A. Product of the sale of the 35% holding had in this company in July 2003, the balance of goodwill maintained as of that date, in the amount of ThCh\$ 9,808,257 was amortized.



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(Translation of financial statements originally issued in Spanish)****12. Intangibles:**

	<b>2002</b>	<b>2003</b>
	<b>ThCh\$</b>	<b>ThCh\$</b>
Underwater cable rights (gross)	19,155,852	24,134,071
Accumulated amortization previous period	(584,774)	(2,370,053)
Amortization for the period	(1,562,341)	(664,450)
Licenses (Software) (gross)	2,355,838	2,355,838
Accumulated amortization previous period	□	(263,907)
Amortization for the period	(131,431)	(463,902)
Licenses for use of wireless (gross)	9,367,030	9,621,669
Accumulated amortization previous period	□	(26,702)
Amortization for the period	□	(240,567)
<b>Total Net Intangibles</b>	<b>28,600,174</b>	<b>32,081,997</b>

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The detail of Others is as follows:

	<b>2002</b>	<b>2003</b>
	<b>ThCh\$</b>	<b>ThCh\$</b>
Disbursements for obtaining external financing to be amortized (see note 8b)	2,293,560	1,401,281
Collective negotiation bonus (see note 8a)	1,353,751	422,249
Bond issue expenses to be amortized (see note 24)	4,930,834	2,654,504
Leased vehicles	405,279	246,784
Higher discount rate of bonds to be amortized (see note 24)	5,113,150	3,553,587
Deferred charge for modification of staff severance indemnities discount rate (net)	566,926	□
Deferred exchange insurance premiums to be amortized	594,452	141,334
Rental of telephone posts paid in advance	1,672,613	478,089
Guarantee deposits	258,746	297,305
Others	616,679	762,275
<b>Total</b>	<b>17,805,990</b>	<b>9,957,408</b>



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(Translation of financial statements originally issued in Spanish)****14 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.		\$		TOTAL	
		2002 ThCh\$	2003 ThCh\$	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$	2003 ThCh\$
97.015.000-5	BANCO SANTANDER SANTIAGO	□	□	□	□	□	9,876,369	□	9,876,369
97.030.000-7	BANCO ESTADO	□	□	9,378,507	□	□	9,303,335	9,378,507	9,303,335
97.008.000-7	BANCO CITIBANK	□	□	8,952,091	□	□	□	8,952,091	□
97.004.000-5	BANCO DE CHILE	□	□	30,870	□	□	□	30,870	□
	<b>Total</b>	□	□	<b>18,361,468</b>	□	□	<b>19,179,704</b>	<b>18,361,468</b>	<b>19,179,704</b>
	Capital owed	□	□	<b>17,896,447</b>	□	□	<b>19,099,879</b>	<b>17,896,447</b>	<b>19,099,879</b>
	Average annual interest rate	□	□	1.37%	□	□	3.89%	1.37%	3.89%
	<b>Short-term portion of long-term</b>								
Foreign	ABN AMRO BANK	1,988,995	1,067,095	□	□	□	□	1,988,995	1,067,095
Foreign	BANCO BILBAO VIZCAYA ARGENTARIA	19,344,704	17,274,736	□	□	□	□	19,344,704	17,274,736
97.008.000-7	BANCO CITIBANK	9,585,030	7,150,504	□	□	□	□	9,585,030	7,150,504
97.015.000-5	BANCO SANTANDER SANTIAGO	□	□	10,342,453	30,785,950	□	□	10,342,453	30,785,950
79.561.240-8	CHASE MANHATTAN BANK	459,022	□	□	□	□	□	459,022	□
97.006.000-6	BANCO CREDITO INVERSIONES	□	□	1,381,474	□	□	□	1,381,474	□
	<b>Total</b>	<b>31,377,751</b>	<b>25,492,335</b>	<b>11,723,927</b>	<b>30,785,950</b>	□	□	<b>43,101,678</b>	<b>56,278,285</b>
	Capital owed	<b>27,535,540</b>	<b>23,623,368</b>	<b>11,195,862</b>	<b>30,121,568</b>	□	□	<b>38,731,402</b>	<b>53,744,936</b>
		2.50%	1.69%	2.59%	5.09%	□	□	2.52%	3.55%

Average annual interest rate

Percentage of obligations in foreign currency:	51.05%	for 2002 and	33.78%	for 2003
Percentage of obligations in national currency:	48.95%	for 2002 and	66.22%	for 2003

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(Translation of financial statements originally issued in Spanish)****15 Long-term obligations with banks and financial institutions:**

Long-term obligations with banks and financial institutions:

No.	Bank or Financial Institution	Currency or Index	Years to maturity for long-term portion			Long-term portion  as of 30-09-2003 ThCh\$	Total amount of principal  owed 30-09-2003 ThCh\$	Long-term portion  as of 31-03-2003 ThCh\$	
			1 to 2 ThCh\$	2 to 3 ThCh\$	3 to 5 ThCh\$				
<b>LOANS IN DOLLARS</b>									
m	ABN AMRO BANK (2)	US\$		□ 69,401,850	128,889,150	198,291,000	Libor + 1,063%	198,291,000	269,650,71
m	BANCO BILBAO VIZCAYA ARGENTARIA	US\$	132,194,000		□	132,194,000	Libor + 1,056%	132,194,000	
3.000-7	BANCO CITIBANK	US\$	7,099,118	3,549,560	□	10,648,678	Libor + 0,57%	10,648,678	194,033,82
1.240-8	CHASE MANHATTAN BANK (1)	US\$		□	□	□	□	□	92,451,67
	<b>SUBTOTAL</b>		<b>139,293,118</b>	<b>72,951,410</b>	<b>128,889,150</b>	<b>341,133,678</b>	<b>2.29%</b>	<b>341,133,678</b>	<b>556,136,20</b>