

TELECOMMUNICATIONS CO OF CHILE
Form 6-K
June 05, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

THROUGH JUNE 05, 2006

(Commission File Number: 001-10579)

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A.
(Exact name of Registrant as specified in its Charter)

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

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

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

Form 20-F Form 40-F

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

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

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

Yes No

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

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

for the three-month periods ended

March 31, 2006 and 2005

(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.

COMPAÑIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2006 AND 2005

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of March 31, 2006)

A S S E T S	Notes	2006	2005	L I A B I L I T I E S	Notes	2006	2005
		ThCh\$	ThCh\$			ThCh\$	ThCh\$
CURRENT ASSETS				CURRENT LIABILITIES			
Cash		7.313.876	5.144.148	Short-term obligations with banks and financial institutions			
Time deposits	(34)	27.754.792	77.968.249	Short-term portion of long-term debt	(15)	-	9.876.927
Marketable securities, net	(4)	15.876.763	32.871.072	Commercial paper	(15)	2.007.414	17.441.515
Accounts receivable, net	(5)	141.484.751	158.632.137	Current maturities of bonds payable	(17 a)	46.405.565	48.637.193
Notes receivable, net	(5)	3.570.343	3.329.090	Current maturities of other long-term obligations	(17 b)	28.173.553	99.580.381
Other receivables	(5)	12.794.027	25.863.220	Dividends payable		12.307	32.746
Due from related companies	(6 a)	16.528.590	16.826.597	Trade accounts payable		1.735.431	2.280.058
Inventories, net		3.448.979	4.297.517	Notes payable	(35)	83.714.282	86.267.625
Recoverable taxes		3.735.403	-	Other payables		264.681	-
Prepaid expenses		2.988.823	4.649.038	Due to related companies	(36)	7.123.137	27.831.944
Deferred taxes	(7 b)	12.334.810	15.416.039	Accruals		27.821.965	24.770.890
Other current assets	(8)	58.207.800	72.984.245	Withholdings	(6 b)	4.373.063	2.767.195
				Income tax		14.053.502	11.551.157
				Unearned income		-	30.587.397
				Other current liabilities		8.344.859	8.359.915
						2.379.412	1.536.742
TOTAL CURRENT ASSETS		306.038.957	417.981.352	TOTAL CURRENT LIABILITIES		226.409.171	371.521.685

PROPERTY, PLANT AND EQUIPMENT	(10)			LONG-TERM LIABILITIES			
				Long-term debt with banks and Other current liabilities		2.379.412	1.536.742
Land		27.152.139	27.207.038				
Buildings and improvements		197.290.304	196.073.603				
Machinery and equipment		3.241.169.114	3.224.401.612	Bonds payable	(17 b)	65.904.044	43.692.767
Other property, plant and equipment		269.320.422	257.738.238	Other accounts payable		22.546.423	5.179
Technical revaluation		9.714.954	9.746.443	Accruals	(18)	34.649.896	34.704.302
Less: Accumulated depreciation		2.479.890.587	2.326.654.819	Deferred taxes	(7 b)	57.061.195	59.047.816
				Other liabilities		4.294.817	8.075.208
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET		1.264.756.346	1.388.512.115	TOTAL LONG-TERM LIABILITIES		511.236.546	514.228.838
				MINORITY INTEREST	(20)	1.557.809	1.666.155
OTHER NON-CURRENT ASSETS				SHAREHOLDERS' EQUITY	(21)		
Investments in related companies	(11)	7.956.777	8.528.568	Paid-in capital		912.692.729	917.292.990
Investments in other companies		4.093	4.081	Price-level restatement of paid-in capital		(2.738.078)	(7.338.344)
Goodwill	(12)	17.285.055	19.585.489	Other reserves		(1.586.554)	(1.030.372)
Other receivables	(5)	13.436.775	22.707.059	Retained earnings		15.323.743	117.096.410
Intangibles	(13)	48.731.730	47.257.616	Retained earnings		25.107.770	372.290.453
Less: Accumulated	(13)	12.975.999	7.897.539	Net income		734.109	8.507.311

amortization Others non-current asset	(14)	17.661.632	16.758.621	Less: Interim dividend	10.518.136	263.701.354
TOTAL OTHER ASSETS		92.100.063	106.943.895	TOTAL SHAREHOLDERS' EQUITY	923.691.840	1.026.020.68
TOTAL ASSETS		1.662.895.366	1.913.437.362	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1.662.895.366	1.913.437.36

The accompanying notes 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, 2006 AND 2005**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of March 31, 2006)

	2006	2005
OPERATING INCOME:	ThCh\$	ThCh\$
Operating revenues	140.803.991	142.255.472
Less: Operating costs	89.715.889	86.740.419
Gross profit	51.088.102	55.515.053
Less: Administrative and selling expenses	31.638.204	32.907.211
 OPERATING INCOME	 19.449.898	 22.607.842
 NON-OPERATING RESULTS:		
Interest income	673.170	3.479.111
Equity in earnings of equity-method investees	(11) 459.400	408.640
Other non-operating income	(22 a) 498.885	602.234
Equity in losses of equity-method investees	(11) 37.003	7.663
Less: Amortization of goodwill	(12) 1.113.204	389.296
Less: Interest expense and other	4.942.589	8.976.972
Less: Other non-operating expenses	(22 b) 10.125.274	1.495.549
Price-level restatement, net	(23) (652.049)	(5.591.650)
Foreign exchange gain, net	(24) 226.786	2.471.244
 NON-OPERATING (LOSS) INCOME, NET	 (15.011.878)	 (9.499.901)
 INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	 4.438.020	 13.107.941
Income taxes	(7 c) (3.768.519)	(4.619.354)
 INCOME BEFORE MINORITY INTEREST	 669.501	 8.488.587
Minority interest	(20) 64.608	18.724
 NET INCOME FOR THE YEAR	 734.109	 8.507.311

The accompanying notes 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 FLOWS
FOR THE PERIOD ENDED MARCH 31, 2006 AND 2005**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of March 31, 2006)

	2006	2005
	ThCh\$	ThCh\$
NET CASH FROM OPERATING ACTIVITIES	48.206.938	74.903.462
Net income for the year	734.109	8.507.311
Sales of assets:	38.788	(1.235)
Utility on sales of property, plant and equipment	-	(1.235)
Loss on sales of investments	38.788	-
Debits (credits) to income that do not represent cash flows:	60.747.896	61.883.312
Depreciation in operating income for the period	49.787.946	51.047.083
Amortization of intangibles	1.165.897	853.890
Provisions and write offs	8.123.726	6.227.868
Equity participation in income of equity method investees (less)	(459.400)	(408.640)
Equity participation in losses of equity method investees	37.003	7.663
Amortization of goodwill	1.113.204	389.296
Price-level restatement	652.049	5.591.650
Foreign currency translation	(226.786)	(2.471.244)
Other credits to income that do not represent cash flows (less)	(55.662)	(6.979)
Other debits to income that do not represent cash flows	609.919	652.725
Changes in operating assets (Increase) decrease:	(9.085.935)	5.690.812
Trade accounts receivable	(11.257.144)	(7.401.294)
Inventories	(1.196.049)	1.684.178
Other assets	3.367.258	11.407.928
Changes in operating liabilities Increase (decrease):	(4.163.312)	(1.158.014)
Accounts payable related to		

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operating activities	(2.930.897)	6.522.454
Interest payable	222.908	(2.786.528)
Income taxes payable (net)	83.650	445.031
Other accounts payable related to non-operating activities	(1.121.914)	(827.463)
V.A.T. and other similar taxes payable	(417.059)	(4.511.508)
Minority interest	(64.608)	(18.724)

The accompanying notes 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 FLOWS
FOR THE PERIOD ENDED MARCH 31, 2006 AND 2005**

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of March 31, 2006)

	2006	2005
	ThCh\$	ThCh\$
NET CASH USED IN FINANCING ACTIVITIES	(38.462.627)	(69.788.588)
Obligations with the public	64.812.589	12.108.021
Loans repaid (less)	-	(10.236.275)
Repayment of obligations with the public (less)	(103.275.216)	(71.660.334)
NET CASH USED IN INVESTING ACTIVITIES	(18.927.737)	(25.928.621)
Sales of property, plant and equipment	60.357	154.451
Acquisition of property, plant and equipment (less)	(18.988.094)	(14.011.101)
Investments in financial instruments (less)	-	(4.308.159)
Other investing activities (less)	-	(7.763.812)
NET CASH FLOWS FOR THE PERIOD	(9.183.426)	(20.813.747)
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS	281.076	1.357.885
NET INCREASE OF CASH AND CASH EQUIVALENTS	(8.902.350)	(19.455.862)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	94.975.775	162.310.735
CASH AND CASH EQUIVALENTS AT END OF PERIOD	86.073.425	142.854.873

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

COMPAÑÍA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

(Translation of financial statements originally issued in Spanish See Note 2)
Notes to the Consolidated Financial Statements

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

a) The Company is a publicly-held corporation that is registered in the Securities Registry under No. 009 and is therefore subject to supervision by the Chilean Superintendency of Securities and Insurance (SVS).

b) Subsidiary companies registered with the Securities Registry:

Subsidiaries	TAXPAYER No.	Registration Number	Participation (direct & indirect)	
			2006 %	2005 %
Telefónica Mundo S.A.	96,551,670-0	456	99.16	99.16
Globus 120 S.A.	96,887,420-9	694	99.99	99.99
Telefónica Asistencia y Seguridad S.A.	96,971,150-8	863	99.99	99.99

2. Summary of Significant Accounting Policies:**(a) Accounting period:**

The interim consolidated financial statements correspond to the three-month periods ended March 31, 2006 and 2005.

(b) Basis of preparation:

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

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

(c) Basis of presentation:

The interim consolidated financial statements for 2005 and their notes have been adjusted for comparison purposes by 4.1% in order to allow comparison with the 2006 interim financial statements. For comparison purposes, certain

reclassifications have been made to the 2005 financial statements.

(d) Basis of consolidation:

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

2. Summary of Significant Accounting Policies, continued:**(d) Basis of consolidation**, continued:**Companies included in consolidation:**

As of March 31, 2006, the consolidated group (The Company) is composed of Compañía de Telecomunicaciones de Chile S.A. and the following subsidiaries:

TAXPAYER No.	Company Name	Economic Participation Percentage			2005 Total
		Direct	2006 Indirect	Total	
96,551,670-0	Telefónica Mundo S.A. Telefonica Gestión de Servicios	99.16	-	99.16	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
96,887,420-9	Globus 120 S.A.	99.99	-	99.99	99.99
96,971,150-8	Telefónica Asistencia y Seguridad S.A.	99.99	-	99.99	99.99
90,430,000-4	Telefónica Empresas CTC Chile S.A.	99.99	-	99.99	99.99
78,703,410-1	Tecnonáutica 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	Administradora de Telepeajes de Chile S.A.	-	79.99	79.99	79.99
96,545,500-0	CTC Equipos y Servicios de Telecomunicaciones S.A. (3)	-	-	-	99.99

1) On January 26, 2006, Telefónica Internet S.A. sold 449,081 shares to Telefónica CTC Chile for ThCh\$1,624,273 corresponding to its participation in that company. On that same date, CTC Equipos y Servicios S.A. sold 1 share to Telefónica CTC Chile S.A. for ThCh\$4 corresponding to its participation in that company.

2) On January 27, 2006, Telefónica Empresas CTC Chile sold 215,099 shares to Telefónica CTC Chile for ThCh \$1,468,683 corresponding to its participation in that company.
On January 26, CTC Equipos y Servicios S.A. sold 16 shares to Telefónica CTC Chile for ThCh \$132 corresponding to its participation in that company.

3) On March 1, 2006, Telefónica CTC Chile absorbed subsidiary CTC Equipos y Servicios de Telecomunicaciones S.A. after purchasing 1 share of that company from third parties for ThCh\$11 on February 28, 2006.

2. Summary of Significant Accounting Policies, continued:**(e) Price-level restatement:**

The interim consolidated financial statements have been adjusted by applying price-level restatement standards, in accordance with Chilean GAAP, in order to reflect the changes in the purchasing power of the currency during both periods. The accumulated variation in the CPI as of March 31, 2006 and 2005, for initial balances, is -0.3% and -0.8%, respectively.

(f) Basis of conversion:

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

YEAR	US\$	EURO	BRAZILIAN REAL	UF
2006	526.18	637.56	243.26	17,915.66
2005	585.93	759.57	219.82	17,198.78

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 adjustments, where applicable, and accrued interest up to period end.

(h) Marketable securities:

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

(i) Inventories:

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

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

2. Summary of Significant Accounting Policies, continued:

(j) Allowance for doubtful accounts:

Different percentages are applied when calculating the allowance for doubtful accounts, taking into consideration the aging of such accounts. The allowance for debts exceeding 120 days, or 180 days in the case of large customers (corporations), is for 100% of the amount receivable.

(k) Property, plant and equipment:

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

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

(l) Depreciation of property, plant and equipment:

Depreciation has been calculated and recorded on a straight-line basis over the estimated useful lives of the assets. The average annual financial depreciation rate of the Company is approximately 7.82% .

(m) Leased assets:

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

(n) Intangibles:

i) Rights to underwater cable:

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

ii) Software licenses:

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

(ñ) Investments in related companies:

These investments are accounted for under the equity method, which recognizes the investor's share of income on an accrual basis. For investments abroad, the valuation methodology applied is that defined in Technical Bulletin No. 64. These investments are controlled in dollars, since they are in countries deemed to be unstable and their activities are not an extension of the operations of the Parent Company.

2. Summary of Significant Accounting Policies, continued:

(o) Goodwill:

Corresponds to the valuation differences that are created when adjusting the cost of the investments, adopting the equity method or making a new purchase. Goodwill and negative goodwill amortization periods have been determined considering aspects such as the nature and characteristics of the business and the estimated period of return of the investment. Goodwill arising on the acquisition of investments abroad is controlled in United States dollars (same currency in which the investment is controlled) as per Technical Bulletin No. 64 of the Chilean Accountants Association. (See Note 12).

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

(p) Transactions with repurchase agreements:

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

(q) Obligations with the public:

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

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

(r) Income tax and deferred income taxes:

Income tax is recorded on the basis of taxable net income. Deferred taxes on all temporary differences, usable tax loss carry forwards, and other events that create differences between the tax and accounting values are recognized in accordance with, Technical Bulletins No. 60 and its modifications issued by the Chilean Accountants Association and as established by 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 of the obligation using an annual discount rate of 6%, considering estimates such as the future service period of the employee, mortality rate of employees and salary increases determined on the basis of actuarial calculations (see Note 19).

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

(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 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.

2. Summary of Significant Accounting Policies, continued:

(u) Foreign currency forwards:

The Company has entered into future foreign currency contracts, which represent a hedge against the variation in the exchange rate of its obligations in foreign currency.

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

The rights and obligations acquired are detailed in Note 27, reflecting in the balance sheet only the net right or obligation at period end, classified according to the maturity of each contract under Other Current Assets or Other Payables, as applicable. The contract's implicit premium is deferred and amortized using the straight-line method over the term of the contract.

(v) Interest rate coverage:

Interest on loans for which associated interest rate swaps have been entered into 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 Creditors or under Other Current Assets, as applicable (See Note 27).

(w) Computer software:

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

(x) Research and development expenses:

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

(y) Accumulated adjustment for conversion differences:

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

(z) Statement of cash flows:

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

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

2. Summary of Significant Accounting Policies, continued:

(aa) Correspondents:

The Company currently has agreements with foreign correspondents, which set the conditions that regulate international traffic. The correspondents are charged or paid, according to net traffic receivable/payable and the rates set in each agreement.

This receivable/payable is recorded on an accrual basis; the costs and income for the period are recognized on an accrual basis, and the net balances receivable and payable of each correspondent are recorded under Trade 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.

b) Change in estimate

i) Change in the estimations of staff severance indemnities

Changes in actuarial hypotheses

As established in Technical Bulletin No. 8 issued by the Chilean Association of Accountants and in light of the new contractual conditions derived from the organizational restructuring undergone by the Company, a series of studies were undertaken to modify the calculation base for the staff severance indemnities provision. Initially, in December 2004, this meant recognizing deferred assets of ThCh\$4,872,939 (historical). After these studies were concluded during 2005, the Company decided to also include other actuarial estimates in the calculation methodology used for this provision. The additional variables modified were: personnel turnover index, mortality rate and future salary increases. As a result of these modifications, the Company recorded deferred assets of ThCh\$3,648,704 in the year 2005. Both effects will be amortized over the future service period of the employees with this benefit (see portion to be amortized in the short-term in Note 8 (3) and in the long-term in Note 14 (2)).

Change in the discount rate

During the first quarter of 2006 an evaluation was performed of the market interest rate used to calculate the current value of staff severance indemnities. After completing this analysis the Company decided to reduce the discount rate from 7% to 6%. As a result of these modifications, the Company recorded deferred tax assets of ThCh\$ 2,797,402 in 2006 which will be amortized over the future years of service of the employees that qualify for this benefit.

4. Marketable Securities:

The balance of marketable securities is as follows:

DESCRIPTION	2006 ThCh\$	2005 ThCh\$
Shares	-	442,929
Publicly offered promissory notes	15,876,763	32,428,143
Total	15,876,763	32,871,072

Publicly offered promissory notes (Fixed Income)

Instrument	Date		Par	Book Value		Market Value	Provision
	Purchase	Maturity	Value ThCh\$	Amount ThCh\$	Rate %	ThCh\$	ThCh\$
BCD0500907	Dec-04	Sep-07	2,630,900	2,636,312	5%	2,636,312	(43,641)
BCD0500907	Ago-05	Sep-07	1,841,630	1,845,419	5%	1,845,419	(14,494)
BCD0500907	Sep-05	Sep-07	2,104,720	2,109,050	5%	2,109,050	(28,263)
BCD0500907	Sep-05	Sep-07	2,630,900	2,636,312	5%	2,636,312	(34,981)
BCD0500907	Sep-05	Sep-07	2,630,900	2,636,312	5%	2,636,312	(33,324)
BCD0500907	Sep-05	Sep-07	526,180	527,263	5%	527,263	(6,673)
BCD0500907	Sep-05	Sep-07	526,180	527,263	5%	527,263	(6,370)
BCD0500907	Sep-05	Sep-07	1,052,360	1,054,525	5%	1,054,525	(12,603)
	Sub-Total		13,943,770	13,972,456		13,972,456	(180,349)
BCU500909	Nov-05	Sep-09	1,791,566	1,904,307	5%	1,932,684	-
	Sub-Total		1,791,566	1,904,307		1,932,684	-
	Total		15,735,336	15,876,763		15,905,140	(180,349)

5. Current and long-term receivables:

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

Description	Current						Total Current 2006 ThCh\$	%
	Up to 90 days		Over 90 up to 1 year		Subtotal			
	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$	2006 ThCh\$			
Trade accounts receivable	188,685,057	242,447,362	14,953,038	4,737,133	203,638,095	141,484,751	100.0	
Fixed telephony service	160,960,079	168,793,596	1,115,650	1,779,547	162,075,729	108,758,074	76.87	
Long distance	10,071,688	48,200,946	11,799,880		21,871,568	15,874,836	11.22	
Communications companies	16,261,122	21,329,008	1,688,267	2,789,283	17,949,389	16,480,499	11.65	
Other	1,392,168	4,123,812	349,241	168,303	1,741,409	371,342	0.26	
Allowance for doubtful accounts	(56,104,730)	(87,521,874)	(6,048,614)	(1,030,484)	(62,153,344)	-	-	
Notes receivable	8,075,933	11,796,235	162,841	265,049	8,238,774	3,570,343		
Allowance for doubtful notes	(4,668,431)	(8,732,194)	-	-	(4,668,431)	-	-	
Miscellaneous accounts receivable	10,200,812	6,934,177	2,593,215	18,929,043	12,794,027	12,794,027		
Allowance for doubtful accounts	-	-	-	-	-	-	-	

Long-term receivables

6. Balances and transactions with related entities:**a) Receivables from related parties are as follows:**

Taxpayer No.	Company	Short-term		Long-term	
		2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
96,990,810-7	Telefónica Móviles Chile Distribución S.A.	49,744	-	-	-
Foreign	Telefónica España	218,610	41,649	-	-
93,541,000-2	Impresora y Comercial Publicguías S.A.	3,335,215	4,687,400	-	-
Foreign	Emergia USA	-	45,817	-	-
96,834,230-4	Terra Networks Chile S.A.	1,285,464	1,204,879	-	-
96,895,220-K	Atento Chile S.A.	529,693	353,324	-	-
96,910,730-9	TIWS Chile S.A.	176,160	133,722	-	-
Foreign	Telefónica LD Puerto Rico	-	3,339	-	-
Foreign	Telefonica Data EEUU	39,532	52,169	-	-
Foreign	Telefónica Data España	409,752	174,535	-	-
Foreign	Telefónica Argentina	1,313,093	837,495	-	-
Foreign	Telefónica Gestión de Servicios Compartidos España	11,202	-	-	-
96,786,140-5	Telefónica Móvil de Chile S.A.	6,304,010	7,453,325	-	-
Foreign	Telefónica Procesos Tec. de Información	1,338,177	1,453,262	-	-
59,083,900-0	Telefónica Ingeniería de Seguridad S.A.	4,159	2,444	-	-
Foreign	TIWS América S.A.	512,061	257,803	-	-
96,672,160-K	Telefónica Móviles Chile S.A.	874,979	-	-	-
Foreign	Telefónica Perú	1,934	-	-	-
96,942,730-3	Telefónica Mobile Solutions Chile S.A.	124,805	125,434	-	-
	Total	16,528,590	16,826,597	-	-

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	
		2006 ThCh\$	2005 ThCh\$	2006 ThCh\$	2005 ThCh\$
Foreign	Telefónica España	-	36,025	-	-
96,527,390-5	Telefónica Internacional Chile S.A.	419,226	139,680	-	-
93,541,000-2	Impresora y Comercial Publicguías S.A.	855,870	1,437,337	-	-
Foreign	Telefónica Perú	-	54,665	-	-

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96,834,230-4	Terra Networks Chile S.A.	4,793,546	4,255,423	-	-
96,895,220-K	Atento Chile S.A.	1,273,075	3,316,264	-	-
96,910,730-9	TIWS Chile S.A.	1,149,484	108,807	-	-
59,083,900-0	Telefónica Ingeniería de Seguridad S.A.	2,181	-	-	-
Foreign	Telefónica Guatemala	67,760	5,866	-	-
Foreign	Telefónica El Salvador	17,425	162,527	-	-
96,786,140-5	Telefónica Móvil de Chile S.A.	14,090,992	12,331,437	-	-
Foreign	Telefónica Argentina	-	586,326	-	-
Foreign	TIWS América S.A.	721,741	1,352,369	-	-
Foreign	Telefónica LD Puerto Rico	13,820	-	-	-
Foreign	Telefónica Sao Paulo	29,534	-	-	-
96,672,160-K	Telefónica Móviles Chile S.A.	3,816,367	-	-	-
Foreign	Telefonica Investigacion y Desarrollo	511,567	980,358	-	-
96,942,730-3	Telefónica Mobile Solutions Chile S.A.	-	3,806	-	-
Foreign	Atento Servicios Técnicos Y Consultoría	59,377	-	-	-
	Total	27,821,965	24,770,890	-	-

As per Article No. 89 of the Corporations Law, all these transactions are carried out under conditions similar to those that normally prevail in the market.

6. Balances and transactions with related companies, continued:**c) Transactions:**

Company	Tax No.	Nature of Relationship	Description of transaction	2005 ThCh\$		2004 ThCh\$	
				Amount	Effect on income	Amount	Effect on income
Telefónica España	Foreign	Parent Co.	Sales Purchases	113.797 (76.959)	113.797 (76.959)	165.719 (49.587)	165.719 (49.587)
Telefonica Data EEUU	Foreign	Associate	Sales	10.803	10.803	-	-
Telefónica Internacional Chile S.A.	96,527,390-5	Parent Co.	Purchases	(139.787)	(139.787)	(139.706)	(139.706)
Impresora y Comercial Publiguías S.A.	93,541,000-2	Associate	Sales Purchases	915.901 (1.491.875)	915.901 (1.491.875)	1.036.345 (927.079)	1.036.345 (927.079)
Terra Networks Chile S.A.	96,834,230-4	Associate	Sales Purchases	1.397.240 (168.689)	1.397.240 (168.689)	1.361.442 (139.429)	1.361.442 (139.429)
Atento Chile S.A.	96,895,220-K	Associate	Sales Purchases	207.223 (3.904.742)	207.223 (3.904.742)	455.463 (3.794.965)	455.463 (3.794.965)
Telefónica Argentina	Foreign	Associate	Sales Purchases	502.779 (262.821)	502.779 (262.821)	171.843 (141.353)	171.843 (141.353)
Telefonica WholeSale International Services	Foreign	Associate	Sales Purchases	- -	- -	50.160 (685.544)	50.160 (685.544)
Telefónica Sao Paulo	Foreign	Associate	Sales Purchases	51.474 (54.232)	51.474 (54.232)	25.714 (29.904)	25.714 (29.904)
Telefónica Guatemala	Foreign	Associate	Sales Purchases	1.912 (17.929)	1.912 (17.929)	1.304 (3.395)	1.304 (3.395)
Telefónica Perú	Foreign	Associate	Sales Purchases	161.708 (224.223)	161.708 (224.223)	89.349 (98.152)	89.349 (98.152)
Telefónica LD Puerto Rico	Foreign	Associate	Sales Purchases	1.569 (4.557)	1.569 (4.557)	2.264 (1.906)	2.264 (1.906)
Telefónica El Salvador	Foreign	Associate	Sales Purchases	1.279 (10.272)	1.279 (10.272)	757 (3.749)	757 (3.749)
Telefónica Móvil de Chile S.A.	96,786,140-5	Associate	Sales Purchases	3.046.300 (10.833.228)	3.046.300 (10.833.228)	3.657.818 (12.667.378)	3.657.818 (12.667.378)
Telefónica Móviles Chile Larga Distancia S.A.	96,672,160-K	Associate	Sales Purchases	- -	- -	410.673 (3.315.817)	410.673 (3.315.817)

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Telefónica Móviles Chile Inversiones S.A.	87,845,500-2	Associate	Sales Purchases	249.207 (2.409.774)	249.207 (2.409.774)	- -	- -
Telefonica WholeSale International Services Uruguay	Foreign	Associate	Purchases	(274.137)	(274.137)	-	-
TIWS Chile S.A.	96,910,730-9	Associate	Sales Purchases	249.133 (1.124.106)	249.133 (1.124.106)	288.126 (432.097)	288.126 (432.097)

The conditions of the agreement related to intercompany transactions between the Company and its equity-method investees and its mercantile current account are short and long-term, respectively, in the case of Telefónica Internacional Chile S.A., It is denominated in US dollars, accruing interest at a variable rate adjusted to market rates (US\$ + Market Spread)

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

7. Current and deferred income taxes:**a) General information:**

As of March 31, 2006 and 2005, the Parent Company has established a first category income tax provision, as it has taxable net income of ThCh\$27,209,135 and ThCh\$25,507,788, respectively.

In addition, as of March 31, 2006 and 2005, a provision for first category income tax in subsidiaries was recorded in the amounts of ThCh\$8,396,847 and ThCh\$6,881,371, respectively.

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

Subsidiaries	Retained Taxable Earnings w/15% credit ThCh\$	Retained Taxable Earnings w/16% credit ThCh\$	Retained Taxable Earnings w/16.5% credit ThCh\$	Retained Taxable Earnings w/17% credit ThCh\$	Retained Taxable Earnings w/o credit ThCh\$	Amount of credit ThCh\$
Telefónica Gestión Servicios Compartidos de Chile S.A.	-	-	-	455,346	93,394	93,264
Telefónica Mundo S.A.	-	66,169	4,418,074	33,216,402	3,574,555	7,688,984
Globus 120 S.A.	2,179,207	825,635	591,061	2,265,630	359,555	1,122,670
Tecnonáutica S.A.	-	-	-	26,883	33,755	5,506
Telefónica Empresas CTC Chile S.A.	-	-	1,685,904	26,747,844	2,456,845	5,811,609
Compañía de Telecomunicaciones de Chile S.A.	-	-	-	20,379,836	12,485,570	4,174,183
Total	2,179,207	891,804	6,695,039	83,091,941	19,003,674	18,896,216

7. Current taxes , and deferred income continued: b) Deferred taxes:

As of March 31, 2006 and 2005 the accumulated balances of temporary differences that originated net deferred tax liabilities in the amount of ThCh\$44,726,385 and ThCh\$43,631,777, are as follows:

Description	2006					
	Deferred tax assets		Deferred tax liabilities		Deferred tax a	
	Short-term ThCh\$	Long-term ThCh\$	Short-term ThCh\$	Long-term ThCh\$	Short-term ThCh\$	Lo T
Allowance for doubtful accounts	10,500,214	-	-	-	14,598,602	
Vacation provision	399,520	-	-	-	335,335	
Tax benefits for tax losses	103,556	1,041,551	-	-	-	1,
Staff severance indemnities	-	17,017	-	5,186,043	-	
Leased assets and liabilities	-	57,939	-	77,666	-	
Property, plant and equipment	-	4,166,389	-	161,041,385	9,056	4,
Termination provision	121,973	-	-	-	-	
Difference in amount of capitalized staff severance	-	485,546	-	-	-	
Software	-	-	-	1,705,989	-	
Deferred charge on sale of assets	-	-	-	839,607	-	
Collective negotiation bonus	-	-	-	143,064	-	
Other	1,268,129	271,417	58,582	4,066,661	479,234	
Sub-Total	12,393,392	6,039,859	58,582	173,060,415	15,422,227	6,
Complementary accounts net of accumulated amortization	-	(3,540,741)	-	(113,500,102)	-	(3,
Sub-Total	12,393,392	2,499,118	58,582	59,560,313	15,422,227	2,
Tax reclassification	(58,582)	(2,499,118)	(58,582)	(2,499,118)	(6,188)	(2,
Total	12,334,810	-	-	57,061,195	15,416,039	

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

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

Description	2006 ThCh\$	2005 ThCh\$
Common tax expense before tax credit (income tax 17%)	6,053,017	5,506,157
Current tax expense (article 21 single tax at 35%)	7,619	6,406
Income tax subtotal	6,060,636	5,512,563
- Current period deferred taxes	(5,664,818)	(4,269,678)
- Tax benefits from tax loss carry forwards	-	(15,788)
- Effect of amortization of complementary accounts for deferred assets and liabilities	3,372,701	3,392,257
Deferred tax subtotal	(2,292,117)	(893,209)
Total expense tax	3,768,519	4,619,354

8. Other Current Assets:

The detail of other current assets is as follows:

Description	2006 ThCh\$	2005 ThCh\$
Fixed income securities purchased with resale agreement (note 9)	51,004,757	59,742,476
Deferred union contract bonus (1)	790,346	2,316,770
Deferred exchange insurance premiums	38,618	768,676
Telephone directories for connection program	1,728,065	3,332,307
Deferred higher bond discount rate (note 25)	234,462	59,037
Deferred disbursements for placement of bonds (note 25)	282,832	423,521
Commercial paper issuance costs (note 25)	-	176,703
Deferred disbursements for foreign financing proceeds (2)	852,966	567,168
Exchange difference insurance receivable (net of partial liquidations)	1,102,964	3,159,401
Deferred staff severance indemnities charges (3)	1,216,284	715,237
Dispensable property	117,748	117,137
Others	838,758	1,605,812
Total	58,207,800	72,984,245

(1) Between November and December 2003, the Company negotiated a 32-month and 36-month union contract with a number of its employees, granting them, among other benefits, a signing bonus. That bonus was paid in November and December 2003. The total benefit of ThCh\$3,425,245 (historical) was deferred using the straight-line method over the term of the union agreement.

The long-term portion is shown under Other (Other long Term 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.

(3) Corresponds to the short-term portion to be amortized due to changes in the actuarial hypotheses and in the discount rate, as described in Note 3, and for the concept of loans to employees as indicated in Note 14 (3).

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

Code	Dates		Counterparty	Original currency	Subscription value ThCh\$	Rate	Final Value ThCh\$	Instrument Identification	Book Value ThCh\$
	Inception	End							
CRV	Mar 28,2006	Apr 04,2006	BANCO DEL ESTADO DE CHILE	\$	106.345	0,36%	106.434	BCP-0800708	106.383
CRV	Mar 28,2006	Apr 04,2006	BANCO DEL ESTADO DE CHILE	\$	1.553.497	0,36%	1.554.802	BCP-0800614	1.554.056
CRV	Mar 29,2006	Apr 05,2006	BANCO DE CREDITO E INVERSIONES	\$	2.000.000	0,39%	2.001.820	BCP-0800407	2.000.520
CRV	Mar 27,2006	Apr 06,2006	BANCO DE CREDITO E INVERSIONES	\$	1.300.000	0,39%	1.301.690	BCP-800708	1.300.676
CRV	Mar 30,2006	Apr 06,2006	BANCO DEL ESTADO DE CHILE	\$	2.080.318	0,36%	2.082.065	BCP0800907	2.080.568
CRV	Mar 30,2006	Apr 06,2006	CITIBANK	\$	972.295	0,38%	973.157	BCP-0800709	972.418
CRV	Mar 30,2006	Apr 06,2006	CITIBANK	\$	25.969	0,38%	25.992	BCP-0800907	25.972
CRV	Mar 31,2006	Apr 10,2006	BBVA	\$	1.000.000	0,32%	1.001.067	PCBC09506	1.000.000
CRV	Mar 28,2006	Apr 12,2006	BANCO DE CREDITO E INVERSIONES	\$	3.000.000	0,39%	3.005.850	BCP-800708	3.001.170
CRV	Mar 28,2006	Apr 12,2006	BANCO DE CREDITO E INVERSIONES	\$	200.000	0,39%	200.390	BCP-800708	200.078
CRV	Mar 30,2006	Apr 12,2006	HSBC BANK	\$	1.064.348	0,36%	1.066.008	BCP-0800708	1.064.476
CRV	Mar 30,2006	Apr 12,2006	HSBC BANK	\$	4.435.652	0,36%	4.442.572	BCP-0800614	4.436.184
CRV	Mar 31,2006	Apr 19,2006	BANCO DEL ESTADO DE CHILE	\$	8.764.220	0,37%	8.784.757	BCP-0800708	8.764.220
CRV	Mar 31,2006	Apr 19,2006	BANCO DEL ESTADO DE CHILE	\$	720.972	0,37%	722.661	BCP-0800709	720.972
CRV	Mar 31,2006	Apr 19,2006	BANCO SANTADER SANTIAGO	\$	4.953.590	0,38%	4.965.512	PDBC200606	4.953.590
CRV	Mar 31,2006	Apr 19,2006	BANCO SANTADER SANTIAGO	\$	346.410	0,38%	347.244	BCD0500108	346.410
CRV				\$	3.500.000	0,40%	3.512.133	BCP-0800708	3.500.000

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	Mar 31,2006	Apr 26,2006	BANCO DE CREDITO E INVERSIONES						
CRV	Mar 31,2006	Apr 26,2006	HSBC BANK	\$	737.991	0,36%	740.294	BCP0800614	737.991
CRV	Mar 31,2006	Apr 26,2006	HSBC BANK	\$	962.009	0,36%	965.010	BCP0800907	962.009
CRV	Mar 28,2006	Apr 04,2006	BANCO DEL ESTADO DE CHILE	UF	40.157	0,36%	40.191	CERO-010212	40.171
CRV	Mar 29,2006	Apr 05,2006	BANCO DEL ESTADO DE CHILE	UF	1.005.473	0,36%	1.006.318	PRC-5D0999	1.005.714
CRV	Mar 29,2006	Apr 05,2006	BANCO DEL ESTADO DE CHILE	UF	453.395	0,36%	453.776	PRC-15D0597	453.504
CRV	Mar 29,2006	Apr 05,2006	BANCO DEL ESTADO DE CHILE	UF	41.133	0,36%	41.168	CERO-011213	41.143
CRV	Mar 29,2006	Apr 05,2006	DEUTSCHE BANK	UF	698.596	0,38%	699.215	PRC-5D0201	698.773
CRV	Mar 29,2006	Apr 05,2006	DEUTSCHE BANK	UF	395.291	0,38%	395.641	PRC-1D1197	395.391
CRV	Mar 29,2006	Apr 05,2006	DEUTSCHE BANK	UF	6.114	0,38%	6.119	PRC-1B0598	6.116
CRV	Mar 30,2006	Apr 06,2006	BANCO DEL ESTADO DE CHILE	UF	6.695	0,36%	6.701	CERO-016613	6.696
CRV	Mar 30,2006	Apr 06,2006	BANCO DEL ESTADO DE CHILE	UF	212.986	0,36%	213.165	PRC-7D0502	213.012
CRV	Mar 30,2006	Apr 06,2006	CITIBANK	UF	1.735	0,38%	1.737	CERO-010506	1.735
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	12.303	0,36%	12.313	CERO-010108	12.303
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	26.238	0,36%	26.260	CERO-010208	26.238
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	77.280	0,36%	77.345	CERO-010308	77.280
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	196.410	0,36%	196.575	CERO-010606	196.410
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	26.740	0,36%	26.762	CERO-010706	26.740
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	151.413	0,36%	151.540	CERO-010706	151.413
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	445.332	0,36%	445.706	CERO-010706	445.332
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	344.526	0,36%	344.815	CERO-011107	344.526
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	2.566	0,36%	2.568	PRC-1A0197	2.566

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CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	151.366	0,36%	151.493	PRC-0D0597	151.366
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	61.175	0,36%	61.226	PRC-01D0898	61.175
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	285.600	0,36%	285.840	PRC-4D0800	285.600
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	98.790	0,36%	98.873	PRC-4D0801	98.790
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	109.004	0,36%	109.096	PRC-5D0896	109.004
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	54.324	0,36%	54.370	PRC-5D0996	54.324
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	1.132.905	0,36%	1.133.857	PRC-6D0294	1.132.905
CRV	Mar 31,2006	Apr 07,2006	BANCO BICE	UF	324.027	0,36%	324.299	PRC-6D0394	324.027
CRV	Mar 31,2006	Apr 10,2006	DEUTSCHE BANK	UF	246.920	0,36%	247.216	PRC-1D0896	246.920
CRV	Mar 31,2006	Apr 10,2006	DEUTSCHE BANK	UF	1.875.045	0,36%	1.877.295	PRC-4D0402	1.875.045
CRV	Mar 31,2006	Apr 10,2006	DEUTSCHE BANK	UF	336.350	0,36%	336.754	PRC-7B0993	336.350
CRV	Mar 31,2006	Apr 10,2006	DEUTSCHE BANK	UF	212.563	0,36%	212.818	PRC-4D0900	212.563
CRV	Mar 31,2006	Apr 10,2006	DEUTSCHE BANK	UF	560.447	0,36%	561.120	PRC-7D0993	560.447
CRV	Mar 31,2006	Apr 10,2006	DEUTSCHE BANK	UF	255.038	0,36%	255.344	PRC-4D1100	255.038
CRV	Mar 31,2006	Apr 10,2006	DEUTSCHE BANK	UF	222.872	0,36%	223.139	PRC-4D1201	222.872
CRV	Mar 31,2006	Apr 10,2006	DEUTSCHE BANK	UF	472.725	0,36%	473.292	PRC-1D0200	472.725
CRV	Mar 31,2006	Apr 10,2006	DEUTSCHE BANK	UF	294.774	0,36%	295.128	PRC-4D0601	294.774
CRV	Mar 31,2006	Apr 10,2006	DEUTSCHE BANK	UF	423.268	0,36%	423.776	PRC-4D0101	423.268
CRV	Mar 31,2006	Apr 19,2006	BANCO DEL ESTADO DE CHILE	UF	13.946	0,37%	13.979	CERO-010109	13.946
CRV	Mar 31,2006	Apr 19,2006	BANCO DEL ESTADO DE CHILE	UF	862	0,37%	864	CERO-011107	862
CRV	Mar 31,2006	Apr 19,2006	CITIBANK	UF	14.799	0,38%	14.835	PRC-1B1097	14.799
CRV	Mar 31,2006	Apr 19,2006	CITIBANK	UF	14.864	0,38%	14.900	PRC-1B1097	14.864
CRV	Mar 31,2006	Apr 19,2006	CITIBANK	UF	130.921	0,38%	131.236	PRC-4D0899	130.921
CRV	Mar 31,2006	Apr 19,2006	CITIBANK	UF	355.448	0,38%	356.303	PRC-4D0800	355.448
CRV			CITIBANK	UF	426.186	0,38%	427.212	PRC-4D1000	426.186

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	Mar 31,2006	Apr 19,2006							
CRV	Mar 31,2006	Apr 19,2006	CITIBANK	UF	216.997	0,38%	217.519	PRC-5C0796	216.997
CRV	Mar 31,2006	Apr 19,2006	CITIBANK	UF	233.734	0,38%	234.297	PRC-5D1294	233.734
CRV	Mar 31,2006	Apr 19,2006	CITIBANK	UF	544.681	0,38%	545.992	PRC-5D0596	544.681
CRV	Mar 31,2006	Apr 19,2006	CITIBANK	UF	62.370	0,38%	62.520	PRC-450798	62.370
Total					51.000.000		51.091.966		51.004.757

10. Property, plant and equipment:

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

Description	2006		2005	
	Accumulated depreciation ThCh\$	Gross prop., plant and equipment ThCh\$	Accumulated depreciation ThCh\$	Gross prop., plant and equipment ThCh\$
Land	-	27,152,139	-	27,207,038
Building and improvements	86,260,802	197,290,304	82,666,970	196,073,603
Machinery and equipment	2,226,959,891	3,241,169,114	2,085,602,340	3,224,401,612
Central office telephone equipment	1,047,328,353	1,271,801,541	988,438,797	1,263,552,045
External plant	825,211,563	1,495,855,968	769,203,576	1,490,433,976
Subscribers equipment	318,140,674	436,384,202	291,919,011	432,765,568
General equipment	36,279,301	37,127,403	36,040,956	37,650,023
Other Property, Plant and Equipment	155,772,204	269,320,422	147,425,599	257,738,238
Office furniture and equipment	82,606,213	105,896,501	79,020,672	106,086,721
Projects, work in progress and their materials (2)	-	71,928,517	-	64,683,867
Leased assets (1)	57,079	491,202	52,901	503,675
Property, plant and equipment temporarily out of service	5,712,803	6,521,310	12,502,618	15,210,844
Software	66,457,072	83,336,836	55,002,585	70,227,241
Other	939,037	1,146,056	846,823	1,025,890
Technical revaluation Circular 550	10,897,690	9,714,954	10,959,910	9,746,443
Total	2,479,890,587	3,744,646,933	2,326,654,819	3,715,166,934

(1) Leased assets consider a gross value of ThCh \$491,202 for the concept of buildings for 2006 and 2005 with accumulated depreciation of ThCh\$57,079 and ThCh\$48,924 for 2006 and 2005 respectively.

(2) Up to December 31, 2002, works in progress included capitalization of the related borrowing costs, as per Technical Bulletin No. 31 of the Chilean Association of Accountants, and therefore, the gross property, plant and equipment balance includes interest in the amount of ThCh\$192,834,509. Accumulated depreciation for this interest amounts to ThCh\$126,952,451 and ThCh\$114,465,719 for 2006 and 2005, respectively. The depreciation charge of the period amounted to ThCh\$3,108,572 in 2006 and ThCh\$3,131,660 in 2005.

A depreciation charge for the period amounting to ThCh\$47,498,409 and ThCh\$47,660,142 for 2006 and 2005, respectively, was recorded as operating cost, and a depreciation charge of ThCh\$1,950,188 for 2006 and ThCh\$2,544,118 for 2005 as administrative and selling cost. Depreciation of property, plant and equipment that is temporarily out of service is made up mainly of telephone equipment under repair and incurred depreciation amounting to ThCh\$339,349 and ThCh\$842,823 in 2006 and 2005, which is classified under Other Non-operating

Expenses (note 22b).

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

Description	Net Balance	Accumulated Depreciation	Gross property, plant and equipment 2006	Gross property, plant and equipment 2005
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Land	(505,034)	-	(505,034)	(505,034)
Building and improvements	(844,281)	(4,001,676)	(4,845,957)	(4,846,216)
Machinery and equipment	166,579	14,899,366	15,065,945	15,097,693
Total	(1,182,736)	10,897,690	9,714,954	9,746,443

Depreciation of the technical reappraisal surplus for the period of ThCh\$(14,434) and ThCh\$(4,974) for 2006 and 2005, respectively.

Gross property, plant and equipment includes assets that have been totally depreciated in the amount of ThCh\$1,124,057,629 in 2006 and ThCh\$949,782,394 in 2005, which include ThCh\$12,930,673 and ThCh\$12,123,622, respectively, from the reappraisals mentioned in Circular No. 550.

11. Investments in Related Companies:

The detail of investments in related companies is as follows:

Taxp. No.	Company	Currency		Number of shares	Percentage participation		Equity of the companies		Net income (loss) of the companies	
		Country of origin	controlling investment		2006	2005	2006	2005	2006	2005
					%	%	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Foreign	TBS Celular Participación S.A. (1) (3) (4)	Brazil	Dollar	48.950.000	2,61	2,61	149.306.146	168.934.493	(1.417.723)	176.650
96,895,220-K	Atento Chile S.A. (4)	Chile	Pesos	3.049.998	28,84	28,84	14.077.278	14.283.560	1.592.925	1.400.933
96,922,950-1	Empresa de Tarjetas Inteligentes S.A. (2)	Chile	Pesos	-	-	20,00	-	(106.066)	-	(38.318)

Total

- (1) The Company records its investment in TBS Celular using the equity method since it exercises significant influence through the business group to which it belongs, as established in paragraph 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 CTC Chile only has a 2.61% direct participation in TBS Celular, its Parent Company, Telefónica España directly and indirectly has a percentage exceeding 20% ownership of the capital stock of that company.
- (2) The Extraordinary Shareholders Meeting agreed to the dissolution of Empresa de Tarjetas Inteligentes S.A. During September 2005 the Chilean Internal Revenue Service authorized the closing of this company.
- (3) 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.
- (4) The proportional equity value as of May 31, 2005 and 2006 was recognized on the basis of financial statements that were not subject to a limited review.

12. Goodwill:

The detail of goodwill is as follows: