

TELECOMMUNICATIONS CO OF CHILE  
Form 6-K  
August 28, 2007

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 6-K**

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

**THROUGH AUGUST 28, 2007**

**(Commission File Number: 001-10579)**

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**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)*

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

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

Form 20-F  Form 40-F

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

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

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

Yes  No

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

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

***REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS***

for the six-month periods ended

June 30, 2007 and 2006

*(CONSOLIDATED)*

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

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

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ThCh\$: Thousands of Chilean pesos.

The Unidad de Fomento, or UF, is an inflation-indexed Chilean peso-denominated monetary unit. The daily UF : 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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**Report of Independent Auditors**

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

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

We have reviewed the consolidated balance sheets of Compañía de Telecomunicaciones de Chile S.A. and Subsidiaries as of June 30, 2007 and 2006, and the related consolidated statements of income and cash flows for the six-month periods then ended. These interim financial statements and the accompanying notes are the responsibility of the management of Compañía de Telecomunicaciones de Chile S.A. The accompanying Management's Discussion and Analysis of the Consolidated Financial Statements is not an integral part of these financial statements, and therefore this report does not cover this item.

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

Based on our review of the interim consolidated financial statements as of June 30, 2007 and 2006, we are not aware of any material modifications that are required for them to be in conformity with accounting principles generally accepted in Chile.

Andrés Marchant V.

ERNST & YOUNG LTDA.

Santiago, Chile, July 23, 2007

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

## CONSOLIDATED BALANCE SHEETS

JUNE 30, 2007 AND 2006

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of June 30,2007)

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

ASSETS	Notes			LIABILITIES AND	Notes		
		2007	2006	SHAREHOLDERS		2007	2006
		ThCh\$	ThCh\$	EQUITY		ThCh\$	ThCh\$
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
				Short-term obligations with banks and financial institutions			
Cash		6,249,957	6,030,764	Public promissory notes	(15)	1,908,875	1,960,839
Time deposits	(34)	19,028,615	3,686,365	Current maturities of bonds payable	(17 a)	-	12,047,339
Marketable securities, net	(4)	14,182,208	16,857,112	Current maturities of other long-term obligations	(17 b)	1,852,600	30,725,472
Accounts receivable, net	(5)	168,521,694	159,653,089	Dividends payable		15,832	16,172
Notes receivable, net	(5)	4,726,855	4,640,565	Trade accounts payable	(35)	1,743,229	1,633,113
Other receivables	(5)	5,821,826	14,015,557	Other accounts payable	(36)	11,561,136	20,679,202
Accounts receivable from related companies	(6 a)	16,064,744	15,848,206	Accounts payable to related companies	(6 b)	34,135,480	28,613,808
Inventories, net		9,980,901	4,059,715	Accruals	(18)	4,010,273	7,380,664
Prepaid taxes		16,307,166	7,753,791	Withholdings		10,747,887	12,775,560
Prepaid expenses		3,914,392	2,498,845	Deferred Revenue		4,398,430	11,606,244
Deferred taxes	(7 b)	13,554,450	12,260,428	Other current liabilities		-	2,099,286
Other current assets	(8)	7,445,328	28,146,407				

<b>TOTAL CURRENT ASSETS</b>		<b>285,798,136</b>	<b>275,450,844</b>	<b>TOTAL CURRENT LIABILITIES</b>		<b>193,410,766</b>	<b>219,675,113</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>(10)</b>			<b>LONG-TERM LIABILITIES</b>			
<b>Land</b>		28,217,157	28,334,062	<b>Long-term debt with banks and financial institutions</b>	<b>(16)</b>	329,638,924	343,967,875
<b>Buildings and improvements</b>		808,794,856	808,260,487	<b>Bonds and promissory notes payable</b>	<b>(17 b)</b>	66,514,892	68,045,764
<b>Machinery and equipment</b>		2,847,978,061	2,806,690,777	<b>Other accounts payable</b>		37,098,489	18,189,524
<b>Other property, plant and equipment</b>		341,268,441	288,393,532	<b>Accruals</b>	<b>(18)</b>	36,262,334	35,556,687
<b>Technical revaluation</b>		9,654,342	9,644,549	<b>Deferred taxes, net</b>	<b>(7 b)</b>	51,990,787	56,536,839
<b>Accumulated depreciation</b>		(2,820,168,115)	(2,639,048,064)	<b>Other liabilities</b>		3,678,038	4,015,175
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT, NET</b>		<b>1,215,744,742</b>	<b>1,302,275,343</b>	<b>TOTAL LONG-TERM LIABILITIES</b>		<b>525,183,464</b>	<b>526,311,864</b>
				<b>MINORITY INTEREST</b>	<b>(20)</b>	<b>164,654</b>	<b>583,620</b>
<b>OTHER LONG-TERM ASSETS</b>				<b>SHAREHOLDERS' EQUITY</b>	<b>(21)</b>		
<b>Investments in related companies</b>	<b>(11)</b>	8,628,002	8,774,770	<b>Paid-in capital</b>		842,079,941	897,863,530
<b>Investments in other companies</b>		4,258	4,258	<b>Price-level restatement of paid-in capital</b>		16,341,224	9,959,237
<b>Goodwill, net</b>	<b>(12)</b>	15,390,606	17,666,208	<b>Other reserves</b>		(2,619,528)	(1,610,444)
	<b>(5)</b>	13,438,890	12,831,492	<b>Retained earnings</b>		4,843,097	7,246,126

<b>Other receivables</b>						
<b>Intangibles</b>	(13)	39,933,280	36,438,711	<b>Net income</b>	4,843,097	7,246,126
<b>Accumulated amortization</b>	(13)	(15,969,102)	(10,006,247)			
<b>Others</b>						
<b>non-current asset</b>	(14)	16,434,806	16,593,667			
<b>TOTAL LONG-TERM ASSETS</b>		<b>77,860,740</b>	<b>82,302,859</b>	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>860,644,734</b>	<b>913,458,449</b>
<b>TOTAL ASSETS</b>		<b>1,579,403,618</b>	<b>1,660,029,046</b>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,579,403,618</b>	<b>1,660,029,046</b>

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

		<b>2007</b>	<b>2006</b>
		<b>ThCh\$</b>	<b>ThCh\$</b>
<b>OPERATING INCOME:</b>			
Operating revenues		294,247,714	293,136,337
Operating costs		(203,688,510)	(194,658,872)
<b>Gross profit</b>		<b>90,559,204</b>	<b>98,477,465</b>
Administrative and selling expenses		(65,332,975)	(59,569,690)
<b>OPERATING INCOME</b>		<b>25,226,229</b>	<b>38,907,775</b>
<b>NON-OPERATING RESULTS:</b>			
Interest income		3,593,873	2,071,995
Equity participation in income of related companies	(11)	867,385	904,319
Other non-operating income	(22 a)	2,865,237	831,770
Equity losses in income of related companies	(11)	-	(36,648)
Amortization of goodwill	(12)	(738,438)	(1,521,919)
Interest expense		(8,254,301)	(10,671,963)
Other non-operating expenses	(22 b)	(4,492,226)	(12,148,116)
Price-level restatement, net	(23)	574,327	1,401,499
Foreign currency translation, net	(24)	(256,251)	690,610
<b>NON-OPERATING (LOSS) NET</b>		<b>(5,840,394)</b>	<b>(18,478,453)</b>
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTEREST</b>		<b>19,385,835</b>	<b>20,429,322</b>
Income taxes	(7 c)	(14,779,291)	(13,390,991)
<b>INCOME BEFORE MINORITY INTEREST</b>		<b>4,606,544</b>	<b>7,038,331</b>
Minority interest	(20)	236,553	207,795
<b>NET INCOME</b>		<b>4,843,097</b>	<b>7,246,126</b>

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





	<b>2007</b>	<b>2006</b>
	<b>ThCh\$</b>	<b>ThCh\$</b>
<b>NET CASH</b>		
<b>FROM OPERATING ACTIVITIES</b>	<b>105,828,103</b>	<b>116,159,822</b>
<b>Net income</b>	<b>4,843,097</b>	<b>7,246,126</b>
<b>Sales of assets:</b>	<b>-</b>	<b>(493,671)</b>
Net income on sale of investments	-	(578,771)
Loss on sale of investments	-	85,100
<b>Charges ( credits ) to income that do not represent cash flows:</b>	<b>114,759,275</b>	<b>118,572,786</b>
Depreciation	101,476,478	105,874,277
Amortization of intangibles	2,783,363	2,142,939
Provisions and write offs	9,466,794	11,155,376
Accrued equity participation in income of related companies	(867,385)	(904,319)
Accrued equity participation in losses of related companies	-	36,648
Amortization of goodwill	738,438	1,521,919
Price-level restatement, net	(574,327)	(1,401,499)
Foreign currency translation, net	256,251	(690,610)
Other credits to income that do not represent cash flows	(256,071)	(142,422)
Other charges to income that do not represent cash flows	1,735,734	980,477
<b>Changes in operating assets</b>		
<b>(increase) decrease:</b>	<b>1,915,715</b>	<b>(29,762,430)</b>
Trade accounts receivable	1,936,586	(18,810,450)
Inventories	(4,488,640)	(1,163,805)
Other assets	4,467,769	(9,788,175)
<b>Changes in operating liabilities</b>		
<b>increase (decrease):</b>	<b>(15,453,431)</b>	<b>20,804,806</b>
Accounts payable related to operating activities	11,201,615	12,471,008
Interest payable	(84,129)	3,417,514
Income taxes payable, net	(9,880,226)	4,734,998
Other accounts payable related to non-operating activities	(10,274,187)	1,218,310
V.A.T. and other similar taxes payable	(6,416,504)	(1,037,024)
<b>Net loss from minority interest</b>	<b>(236,553)</b>	<b>(207,795)</b>

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

	<b>2007</b>	<b>2006</b>
	<b>ThCh\$</b>	<b>ThCh\$</b>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(61,717,171)</b>	<b>(133,004,761)</b>
Bonds and promissory notes payable	-	67,683,068
Dividends paid	(12,938,017)	(13,771,850)
Capital distribution	(48,779,154)	(41,369,510)
Repayment of bonds and promissory notes payable	-	(144,851,441)
Other sources of financing	-	(695,028)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(56,683,159)</b>	<b>(48,590,158)</b>
Sales of property, plant and equipment	-	62,601
Sale of other investments	2,001,632	-
Acquisition of property, plant and equipment	(58,684,791)	(48,652,759)
<b>NET CASH FLOWS FOR THE PERIOD</b>	<b>(12,572,227)</b>	<b>(65,435,097)</b>
<b>EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS</b>	<b>(1,380,481)</b>	<b>(752,012)</b>
<b>NET DECREASE OF CASH AND CASH EQUIVALENTS</b>	<b>(13,952,708)</b>	<b>(66,187,109)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>42,132,651</b>	<b>99,110,032</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>28,179,943</b>	<b>32,922,923</b>

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

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

### **1. Composition of Consolidated Group and Registration in the Securities Registry:**

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

**b)** Subsidiary companies registered with the Securities Registry:

SUBSIDIARIES	TAXPAYER No.	Registration Number	Participation (direct & indirect)	
			2007 %	2006 %
Telefónica Larga Distancia S.A.	96,551,670-0	456	99.85	99.67
Telefónica Asistencia y Seguridad S.A.	96,971,150-8	863	99.99	99.99

### **2. Summary of Significant Accounting Policies:**

#### **(a) Accounting period:**

The consolidated financial statements correspond to the six-month periods ended June 30, 2007 and 2006.

#### **(b) Basis of preparation:**

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

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

#### **(c) Basis of presentation:**

The consolidated financial statements for 2006 and their notes have been adjusted for comparison purposes by 2.91% in order to allow for comparison with the 2007 consolidated financial statements. For comparison purposes, certain reclassifications have been made to the 2006 consolidated financial statements.

#### **(d) Basis of consolidation:**

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

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

**2. Summary of Significant Accounting Policies**, continued:

**(d) Basis of consolidation**, continued:

**Companies included in consolidation:**

As of June 30, 2007, the consolidated group (The Company) is composed of Compañía de Telecomunicaciones de Chile S.A. and the following subsidiaries:

TAXPAYER	Company Name	Ownership Percentage			2006 Total
		Direct	2007 Indirect	Total	
96,551,670-0	Telefónica Larga Distancia S.A. Telefonica Gestión de Servicios	99.85	-	99.85	99.67
96,961,230-5	Compartidos Chile S.A.	99.99	-	99.99	99.99
74,944,200-K	Fundación Telefónica Chile	50.00	-	50.00	50.00
96,971,150-8	Telefónica Asistencia y Seguridad S.A.	99.99	-	99.99	99.99
90,430,000-4	Telefónica Empresas Chile S.A.	99.99	-	99.99	99.99
78,703,410-1	Telefónica Multimedia Chile S.A. (1)	99.99	-	99.99	99.99
96,834,320-3	Telefónica Internet Empresas S.A. (2)	99.99	-	99.99	99.99
96,811,570-7	Instituto Telefónica Chile S.A. (3)	-	99.99	99.99	79.99

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

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

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

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

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

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

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

**2. Summary of Significant Accounting Policies**, continued:

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

The consolidated financial statements have been adjusted by applying price-level restatement standards, in accordance with Chilean GAAP, in order to reflect the changes in the purchasing power of the currency during both exercises. The accumulated variation in the Chilean Customer Price Index (CPI) as of June 30, 2007 and 2006, for initial balances, is 1.9% and 1.1%, respectively.

**(f) Basis of conversion:**

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

YEAR	US\$	EURO	BRAZILIAN REAL	UF
2007	526.86	713.03	273.25	18,624.17
2006	539.44	689.91	249.39	18,151.40

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

**(g) Time deposits:**

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

**(h) Marketable securities:**

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

**(i) Inventory:**

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

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

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

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



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

**2. Summary of Significant Accounting Policies**, continued:

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

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

Property, plant and equipment acquired up through December 31, 1979 are carried at their appraisal value, as stipulated in Article 140 of D.F.L. No. 4. Some assets subsequently acquired were subject to a technical revaluation of their appraisal value recorded as of September 30, 1986, as authorized in SVS Circular No. 550. All these values have been price-level restated.

**(l) Depreciation of property, plant and equipment:**

Depreciation has been calculated and recorded on a straight-line basis over the estimated useful lives of the assets. The average annual financial depreciation rate of the Company is approximately 8.29% .

The estimated useful lives are summarized as follows:

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

**(m) Leased assets:**

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

**(n) Intangibles:**

**i) Rights to underwater cable:**

Rights to underwater cable correspond to the rights acquired by the Company for the use of an underwater cable to transmit voice and data. These rights are amortized over the term of the respective contracts, with a maximum of 25 years.

**ii) Software licenses:**

Software licenses are valued at their price-level restated acquisition cost. Amortization is calculated using the straight-line method over their estimated useful life, which does not exceed 3 years.

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

**2. Summary of Significant Accounting Policies, continued:**

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

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

**(o) Goodwill:**

This account corresponds to the differences originating from adopting the equity method and adjusting the cost of investments, or from the realization of new acquisitions. Goodwill and negative goodwill amortization periods have been determined taking into consideration aspects such as the nature and characteristics of the business and the estimated period of return on the investment (Note 12).

**(p) Transactions with repurchase agreements:**

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

**(q) Bonds and promissory notes payable:**

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

Promissory notes are recorded under liabilities at placement value plus accrued interest (Note 17a).

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

**(r) Current and deferred income taxes:**

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

**(s) Staff severance indemnities:**

For employees who qualify for this benefit, the Company's staff severance indemnities obligation is provided for by applying the present value method to the projected benefit obligation using an annual discount rate of 6%, taking into consideration assumptions concerning the future service period of the employees, mortality rate of employees and salary increases used as the basis of actuarial calculations.

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

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

**2. Summary of Significant Accounting Policies, continued:**

**(t) Revenue recognition:**

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

**(u) Foreign currency forwards:**

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

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

The rights and obligations acquired are detailed in Note 27, being reflected in the balance sheet as only the net right or obligation at period end and classified according to the maturity of each contract under Other Current Assets or Other Payables, as applicable.

**(v) Interest rate coverage:**

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

**(w) Computer software:**

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

**(x) Cumulative translation adjustment:**

The Company recognizes in this equity reserve account, the difference between the exchange rate variation and the consumer price index (C.P.I.) originating from the restatement of its investment abroad and its goodwill, which is controlled in United States dollars. The balance of this account is recognized as income in the same period in which the net income or loss is recognized on the total or partial disposal of these investments.

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

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

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

**2. Summary of Significant Accounting Policies, continued:**

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

**(z) Correspondents:**

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

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

**3. Accounting Changes:**

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

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

**4. Marketable Securities:**

The balance of marketable securities is as follows:

Description	2007 ThCh\$	2006 ThCh\$
Publicly offered promissory notes	14,182,208	16,857,112
<b>Total</b>	<b>14,182,208</b>	<b>16,857,112</b>

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

Instrument	Date		Par Value ThCh\$	Book Value		Market Value ThCh\$	Provision ThCh\$
	Purchase	Maturity		Amount ThCh\$	Rate %		
BCD0500907	06-Dec-04	01-Sep-07	2,634,307	2,675,894	5%	2,675,894	(6,966)
BCD0500907	09-Aug-05	01-Sep-07	1,844,010	1,873,121	5%	1,873,121	(2,925)
BCD0500907	01-Sep-05	01-Sep-07	2,107,440	2,140,710	5%	2,140,710	(4,765)
BCD0500907	06-Sep-05	01-Sep-07	2,634,300	2,675,887	5%	2,675,887	(5,914)
BCD0500907	07-Sep-05	01-Sep-07	2,634,300	2,675,887	5%	2,675,887	(5,712)
BCD0500907	08-Sep-05	01-Sep-07	526,860	535,177	5%	535,177	(1,143)
BCD0500907	08-Sep-05	01-Sep-07	526,860	535,177	5%	535,177	(1,107)
BCD0500907	14-Sep-05	01-Sep-07	1,053,720	1,070,355	5%	1,070,355	(2,196)
		<b>Total</b>	<b>13,961,797</b>	<b>14,182,208</b>		<b>14,182,208</b>	<b>(30,728)</b>

(1) The book value is presented net of the provision.



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**5. Current and long-term receivables:**

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

Description	Current							Total Current (net)	
	Up to 90 days		Over 90 up to 1 year		Subtotal				
	2007 ThCh\$	2006 ThCh\$	2007 ThCh\$	2006 ThCh\$	2007 ThCh\$	2007 ThCh\$	%	2006 ThCh\$	
<b>Accounts receivable</b>	<b>229,289,322</b>	<b>218,648,660</b>	<b>5,266,427</b>	<b>5,041,917</b>	<b>234,555,749</b>	<b>168,521,694</b>	<b>100.00</b>	<b>159,653,089</b>	<b>100.00</b>
Fixed telephone service	182,259,485	174,116,159	2,374,905	2,368,717	184,634,390	128,738,621	76.39	121,883,655	76.39
Long distance	22,269,255	24,776,875	-	-	22,269,255	16,176,273	9.60	18,103,855	9.60
Communications corporate	18,315,494	17,788,910	2,393,037	2,673,200	20,708,531	18,927,115	11.23	18,831,500	11.23
Other	6,445,088	1,966,716	498,485	-	6,943,573	4,679,685	2.78	834,079	2.78
Allowance for doubtful accounts	(66,034,055)	(62,853,129)	-	(1,184,359)	(66,034,055)	-	-	-	-
<b>Notes receivable</b>	<b>7,317,742</b>	<b>9,602,883</b>	<b>903,052</b>	<b>14,929</b>	<b>8,220,794</b>	<b>4,726,855</b>		<b>4,640,565</b>	
Allowance for doubtful notes	(3,493,939)	(4,977,247)	-	-	(3,493,939)	-	-	-	-
<b>Miscellaneous accounts receivable</b>	<b>3,983,023</b>	<b>11,566,391</b>	<b>1,838,803</b>	<b>2,449,166</b>	<b>5,821,826</b>	<b>5,821,826</b>		<b>14,015,557</b>	
Allowance for doubtful accounts	-	-	-	-	-	-	-	-	-
									<b>Long-term receivables</b>

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

**6. Balances and transactions with related entities:**

**a) Receivables from related parties are as follows:**

Company	Short term		Long term	
	2007 ThCh\$	2006 ThCh\$	2007 ThCh\$	2006 ThCh\$
87,845,500-2 Telefónica Móviles Chile S.A.	561,041	-	-	-
96,672,150-2 Telefónica Móviles Chile Inversiones S.A. Telefónica Móviles Chile Larga Distancia	98,307	-	-	-
96,672,160-k S.A.	545,182	1,081,177	-	-
96,834,230-4 Terra Networks Chile S.A.	741,668	2,203,386	-	-
96,895,220-k Atento Chile S.A.	644,217	394,452	-	-
96,910,730-9 Telefónica International Wholesale Services Chile S.A.	922,186	485,942	-	-
96,786,140-5 Telefónica Móvil de Chile S.A.	7,536,121	7,023,116	-	-
59,083,900-0 Telefónica Ingeniería de Seguridad S.A.	7,685	3,178	-	-
96,990,810-7 Telefónica Móviles Soluciones y Aplicaciones S.A.	162,849	48,328	-	-
96,942,730-3 Telefónica Móviles Soluciones Chile S.A.	-	126,259	-	-
96,527,390-5 Telefónica Internacional Chile S.A.	823	-	-	-
Foreign Telefónica Móviles España	1,267,600	567,296	-	-
Foreign Telefónica LD Puerto Rico	212,382	-	-	-
Foreign Telefónica Data Usa Inc.	17,395	53,870	-	-
Foreign Telefónica Data España	67,790	244,670	-	-
Foreign Telefónica Argentina	662,054			