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TELECOMMUNICATIONS CO OF CHILE

Form 6-K

August 29, 2003

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FORM 6-K  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16  
OF THE SECURITIES EXCHANGE ACT OF 1934  
August 29, 2003

Commission File Number: 001-10579

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    
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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    
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No    
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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    
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No    
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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    
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No    
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If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

N/A

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Telecommunications Company of Chile, S.A.

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1. Report on the Financial Statements for the six-month periods ended June 30, 2002 and 2003

Item 1.

COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

REPORT ON THE FINANCIAL STATEMENTS  
for the six month periods ended  
June 30, 2002 and 2003  
(CONSOLIDATED)

(Translation of financial statements originally issued in Spanish)

COMPANIA 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

[DELOITTE & TOUCHE LOGO]

Independent Accountants' Review Report

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

We have reviewed the accompanying interim consolidated balance sheet of Compania de Telecomunicaciones de Chile S.A. and subsidiaries as of June 30, 2003, and the related interim consolidated statements of income and cash flows for the six-month period then ended. These interim financial statements (including the related notes) are the responsibility of the management of the Company. The interim consolidated financial statements for the six-month period ended June 30, 2002 were reviewed by other auditors whose report, dated July 21, 2002, stated they were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in Chile. 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 review in accordance with auditing standards established in Chile for a review of interim financial information. A review of interim

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financial information consists principally of applying analytical procedures to financial data 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 financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the 2003 interim consolidated financial statements referred to above 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  
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July 24, 2003

COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES  
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### CONSOLIDATED BALANCE SHEETS JUNE 30, 2002 AND 2003

(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of June 30, 2003)

A S S E T S	Notes	2
		Th
<b>CURRENT ASSETS</b>		
Cash and bank		14,32
Time deposits		
Marketable securities (net)		13,70
Trade accounts receivable, net of allowance for doubtful accounts of ThCh\$ 72,491,954 and ThCh\$ 89,097,817, respectively	(4)	73,41
Notes receivable, net of allowance for doubtful notes of ThCh\$ 8,341,742 and ThCh\$ 6,933,253, respectively	(5)	247,72
Miscellaneous accounts receivable	(5)	8,02
Notes and accounts receivable from related companies	(5)	30,47
Inventories (net)	(6a)	19,82
Recoverable taxes		25,40
Prepaid expenses		17,76
Deferred taxes	(7b)	10,00
Other current assets	(8)	53,22
		140,39
<b>TOTAL CURRENT ASSETS</b>		654,27

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PROPERTY, PLANT AND EQUIPMENT		
Land	(9)	29,80
Constructions and infrastructure works		199,96
Machinery and equipment		3,289,00
Other property, plant and equipment		441,96
Technical revaluation		9,23
Accumulated depreciation (less)		1,915,89

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TOTAL PROPERTY, PLANT AND EQUIPMENT, NET 2,054,08

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OTHER NON-CURRENT ASSETS		
Investment in related companies	(10)	14,18
Investment in other companies		1
Goodwill	(11a)	203,73
Negative goodwill	(11b)	7
Long-term debtors	(5)	44,59
Intangibles	(12)	22,06
Accumulated amortization (less)	(12)	1,94
Others	(13)	22,77

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TOTAL OTHER ASSETS 305,33

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TOTAL ASSETS 3,013,68

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L I A B I L I T I E S Notes 200

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CURRENT LIABILITIES		
Short-term obligations with banks and financial institutions	(14)	35,449
Short-term portion of long-term obligations with banks and financial institutions	(14)	174,023
Obligations with the public (Promissory notes)	(16a)	
Obligations with the public (Bonds payable)	(16b)	42,659
Long-term obligations maturing within a year		526
Dividends payable		211
Trade accounts payable	(33)	163,088
Notes payable		946
Other creditors		12,818
Notes and accounts payable to related companies	(6b)	17,056
Accruals	(17)	10,580
Withholdings taxes		12,831
Unearned income		3,437

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Other current liabilities		15,055
		-----
TOTAL CURRENT LIABILITIES		488,684
		-----
LONG-TERM LIABILITIES		
Obligations with banks and financial institutions	(15)	471,338
Bonds payable	(16b)	581,719
Notes and accounts payable to related companies	(6b)	23,635
Miscellaneous accounts payable		6,244
Accruals	(17)	22,503
Deferred taxes	(7b)	50,430
Other liabilities		11,433
		-----
TOTAL LONG-TERM LIABILITIES		1,167,305
		-----
MINORITY INTEREST	(19)	37,914
		-----
SHAREHOLDERS' EQUITY	(20)	
Paid-in capital		740,128
Reserve - equity indexation		4,440
Share premium		115,771
Other reserves		1,624
Retained earnings		457,817
Accumulated earnings		456,435
Net income for the period		1,382
		-----
TOTAL SHAREHOLDERS' EQUITY		1,319,783
		-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,013,688
		=====

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

COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

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OPERATING RESULTS:

Operating revenues  
Operating costs (less)

Gross profit (21a)

Administrative and selling expenses (less)

OPERATING RESULTS

NON-OPERATING RESULTS:

Financial income  
Net income from investments in related companies (10)  
Other non-operating income (21b)  
Loss from investments in related companies (less) (10)  
Amortization of goodwill (less) (11a)  
Financial expenses (less)  
Other non-operating expenses (less) (21c)  
Price-level restatement (22)  
Exchange differences (23)

NON-OPERATING LOSS, NET

INCOME BEFORE INCOME TAXES AND MINORITY INTEREST

Income taxes (7c)

CONSOLIDATED INCOME

Minority interest (19)

NET INCOME FOR THE PERIOD

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

COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2002 AND 2003  
(Restated for general price-level changes and expressed in thousands of

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constant Chilean pesos as of June 30, 2003)

	2002	
	ThCh\$	
NET CASH FLOWS		
FROM OPERATING ACTIVITIES	123,754,508	15
Net income for the period	1,382,035	
Result on sales of assets :	(2,069,334)	
Loss on sales of property, plant and equipment	321,226	
Gain on sales of investments	(1,804,959)	
Loss on sales of investments	(585,601)	
Debits ( credits ) to income that do not represent cash flows :	166,159,963	15
Depreciation for the period	133,504,719	13
Amortization of intangibles	349,317	
Provisions and write offs	10,812,812	1
Net income from investments in related companies	(117,025)	
Loss from investments in related companies	407,242	
Amortization of goodwill	7,939,279	
Price-level restatement	3,686,508	
Exchange differences	2,029,441	
Other credits to income that do not represent cash flows	(18,743,403)	(
Other debits to income that do not represent cash flows	26,291,073	
Changes in operating assets		
Decrease	7,540,358	
Trade accounts receivable	3,872,317	(1
Inventories	7,824,601	(
Other assets	(4,156,560)	2
Changes in operating liabilities		
Increase (decrease)	(49,876,988)	(1
Accounts payable related to operating activities	(67,459,759)	(1
Interest payable	1,626,055	
Income taxes payable (net)	24,298,662	
Other accounts payable related to non-operating activities	(9,412,446)	(
V.A.T. and other similar taxes payable	1,070,500	
Minority interest	618,474	

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



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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

	2002 ThCh\$	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(69,635,030)	(1)
Proceeds from loans	16,049,034	
Obligations with the public	--	
Dividends paid ( less )	(1,277,971)	
Loans paid ( less )	(50,502,150)	(
Obligations with the public paid ( less )	(22,699,108)	(
Payment of other loans from related companies ( less )	(10,184,021)	
Other financing disbursements ( less )	(1,020,814)	
NET CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES	(25,783,515)	(
Sales of property, plant and equipment	547,336	
Sales of permanent investments	27,155	
Sales of other investments	10,822,938	
Other investment income	4,704,591	
Acquisition of property, plant and equipment ( less )	(34,710,937)	(
Payment of capitalized interest ( less )	(3,437,501)	
Permanent investments ( less )	(1,872,423)	
Investments in financial instruments ( less )	(647,402)	(
Other investment activities ( less )	(1,217,272)	
NET CASH FLOWS FOR THE PERIOD	28,335,963	
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS	(642,245)	
NET INCREASE ( DECREASE ) OF CASH AND CASH EQUIVALENTS	27,693,718	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	87,840,620	

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CASH AND CASH EQUIVALENTS AT	-----
END OF PERIOD	115,534,338
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The accompanying notes 1 to 33 are an integral part of these consolidated financial statements

COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

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1. Composition of Consolidated Group and Registration in the Securities Registry:
  - a) Compania de Telecomunicaciones de Chile S.A. (Telefonica 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 June 30, 2003 the following subsidiaries of the consolidated group are registered with the Securities Registry:

SUBSIDIARIES	TAXPAYER No.	Registration Number
CTC Transmisiones Regionales S.A. (188 Mundo Telefonica)	96.551.670-0	456
Globus 120 S.A.	96.887.420-9	694

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2. Significant Accounting Principles:
  - (a) Accounting period: The interim consolidated financial statements cover the SIX-month periods ended as of June 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 case 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

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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 3.5% in order to allow comparison with the 2003 financial statements.

(d) Basis of consolidation:

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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COMPANIA 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)

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2. Significant Accounting Principles, continued:

Companies included in consolidation:

As of June 30, 2003 the consolidated group (The Company) is composed of Compania de Telecomunicaciones de Chile S.A. and the following subsidiaries:

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TAXPAYER NO.	Company Name	Participations	
		2002 Total	Direction
79.727.230-2	CTC Isapre S.A.	99.99	99.99

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96.545.500-0	CTC Equipos y Servicios de Telecomunicaciones S.A.	99.99	99.
96.551.670-0	CTC Transmisiones Regionales S.A.(188 Mundo Telefonica)	99.16	99.
96.961.230-5	Telefonica Gestion de Servicios Compartidos Chile S.A.	99.99	99.
Foreign	CTC International S.A. (3)	100.00	-
96.786.140-5	Telefonica Movil S.A.	99.99	99.
74.944.200-k	Fundacion Telefonica Chile	50.00	50.
96.887.420-9	Globus 120 S.A.	99.99	99.
96.919.660-3	Teleemergencia S.A.	99.99	99.
90.430.000-4	Telefonica Empresas CTC Chile S.A.	99.99	99.
96.811.570-7	Administradora de Telepeajes de Chile S.A.	79.99	-
90.184.000-8	Comunicaciones Mundiales S.A.	99.66	-
96.834.320-3	Infoera S.A.	99.99	-
78.703.410-1	Tecnonautica S.A. (5)	99.99	-
96.934.950-7	Portal de Pagos e Informacion S.A. (6)	99.99	-
96.893.540-2	Infochile S.A.	99.99	-
96.700.900-8	Telefonica Data Chile S.A.(4)	99.99	-
96.833.930-3	Comunicaciones Empresariales S.A. (2)	99.99	-
83.628.100-4	Sociedad Nacional de Procesamiento de Datos S.A. (Sonda S.A.) (1)	59.99	-
95.191.000-7	Logica S.A.	52.78	-
78.072.130-8	Servicios Educacionales Sonda Ltda.	40.03	-
96.590.960-5	Tecnopolis S.A.	59.99	-
78.214.420-0	Sonda Integracion Ltda.	59.99	-
78.249.750-2	Sonda Sistemas Gestion Ltda.	59.98	-
78.534.270-4	Sonda Bancos S.A.	52.79	-
96.803.810-9	Factoring General S.A.	58.23	-
96.527.020-5	Infopyme S.A.	59.39	-
78.472.500-6	Soporte Tecnico Ltda.	52.78	-
96.667.990-5	Inversiones y Asesorias Integral S.A.	52.74	-
96.572.460-5	Asicom Internacional S.A.	30.73	-
96.858.720-k	Administradora de Activos Financieros S.A.	48.00	-
Foreign	Setco S.A. (Uruguay)	29.99	-
Foreign	Sonda del Peru. S.A.	59.99	-
Foreign	Sonda Guatemala S.A.	30.59	-
Foreign	Sonda Venezuela.	59.99	-
Foreign	Westham S.A. de C.V. (Mexico)	59.99	-
Foreign	Microcomputacion S.A.	59.99	-

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COMPANIA 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)

Significant Accounting Principles, continued:

(d) Basis of consolidation, continued:

Companies included in consolidation, continued:

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RUT	Company Name	Participati	
		2002 Total	Direct
Foreign	Sonda Colombia	59.99	-
Foreign	Sonda Computacion S.A. (Argentina)	59.99	-
Foreign	Westham Trade Corp.	59.99	-
Foreign	Sonda Uruguay S.A.	59.99	-
Foreign	Sonda del Ecuador Ecuasonda S.A.	59.99	-
79.900.420-8	BAC Servicios Computacionales Ltda.	30.05	-
78.707.040-k	BAC Consultores Ltda.	30.05	-
Foreign	BAC Ecuador	44.58	-
Foreign	BAC Peru	47.33	-
Foreign	BAC Paraguay	25.55	-
Foreign	BAC Uruguay	30.05	-
Foreign	BAC Bolivia	27.05	-
Foreign	BAC financiero S.A.	29.40	-
Foreign	Sonda Do Brasil Ltda. (ex Condec)	50.99	-
Foreign	Softtek Tec Aplicaciones Integrales	29.99	-
Foreign	Integracion Global de Procesos S.A. (Peru)	52.78	-
98.001.500-9	Inversiones Columba	41.96	-

- 1) As of June 30, 2003, since Telefonica CTC Chile no longer had a majority participation or control over the administration of Sonda, only 35% of Sonda's net income has been recognized as equity value in its financial statements. Consolidation with that Company was performed until August 31, 2002.
- 2) The Extraordinary Shareholders' Meeting of Telefonica Data Chile S.A., held in November 2002, approved the incorporation by absorption of the subsidiary Comunicaciones Empresariales S.A.
- 3) The board of directors' meeting of CTC International S.A., held in December 2002, approved the liquidation of this company.
- 4) The Extraordinary Shareholders' Meeting of Telefonica Empresas CTC Chile S.A., held on January 28, 2003, approved the merger by incorporation of the subsidiary Telefonica Data Chile S.A., increasing the capital of Telefonica Empresas CTC Chile S.A. by ThCh\$ 414 equivalent to the issuance of 2,878 shares.
- 5) On May 2, 2003, Telefonica Empresas S.A. sold its holding in Tecnonautica S.A. to Infoera S.A., which became owner of 99.99% of the shares of that company.
- 6) On May 2, 2003, Tecnonautica S.A. sold its holding in Infochile S.A. to Portal de Pagos e Informacion S.A., which became owner of 99.98% of the shares of that company.

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:

During September 2002, Telefonica CTC Chile sold and transferred 25% ownership of Sonda S.A. to Inversiones Pacifico Limitada and Inversiones Santa Isabel Limitada, companies associated with Mr. Andres Navarro H. This transaction caused the purchasing companies to disburse ThCh\$ 27,920,701 (historical), generating a net loss, of ThCh\$ 1,136,160 (HISTORICAL), due to extraordinary proportional amortization of goodwill in relation to the percentage sold and to the difference between the book value of the investment and the amount received. After completing this operation, Telefonica CTC Chile through its subsidiary Telefonica Empresas CTC Chile S.A., holds 35% ownership of that company.

Additionally, on September 26, 2002, Telefonica Empresas signed an agreement with Inversiones Santa Isabel Limitada, which grants it a sales option for 35% of Sonda, which it can exercise between July 16 and 25 2005, at investment book value as of June 30, 2005, plus a premium of UF 142,021, with a minimum value of UF 2,048,885. This minimum value has been guaranteed by Inversiones Santa Isabel Limitada to Telefonica Empresas through issuance of performance bonds (see Note 28b).

Should Telefonica Empresas decide not to exercise the sales option between July 26 and August 5, 2005 Inversiones Santa Isabel Limitada has a purchase option for the same 35% of Sonda, under the same conditions mentioned above.

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

Telefonica CTC Chile will continue to amortize goodwill for its remaining 35% holding in Sonda. Goodwill to be amortized is ThCh\$ 9,808,256 (see Note 11a) as of June 30, 2003. It is being amortized discounting the premium of UF 142,021, over a period of 34 months starting as of September 2002.

Given the conditions contemplated in the contract, recovery of the equity value of this investment is completely assured, while recovery of goodwill will depend on the future net income of Sonda S.A. The Company has made no provision to cover the eventual loss in the recovery of goodwill, since it is estimated that the future net income of Sonda S.A. will be sufficient to cover amortization of the mentioned goodwill.

Those subsidiaries in which there was indirect participation of less than 50% as of June 30, 2002, were consolidated by their Parent Company, Sonda S.A., in which the Company participated with a percentage exceeding 50%.

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

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

## 2. Significant Accounting Principles, continued:

## (e) Time deposits:

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

## (f) 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 June 30, 2003 and 2002, for beginning balances was 1.1% and 0.6%, respectively.

## (g) Basis of conversion:

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

YEAR	US\$	EURO	UF
2002	688.05	681.912	16,355.20
2003	699.12	803.860	16,959.67

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

## (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 periods closing date. Investments in shares are presented at their price-level restated cost or market value, whichever is less.

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(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.

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COMPANIA 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)

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2. Significant Accounting Principles, continued:

(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 period of 24 month 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 factors until 100% is reached for debts over 120 days and 180 days for large customers (corporations).

(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



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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 \$ 5,867,238 in 2002.

As described in Note 3a, as of 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 8.05%.

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COMPANIA 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)

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2. Significant Accounting Principles, continued:

(n) Leased assets:

i) 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.

(n) 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:

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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 of the decrees covering the respective licenses in the "Diario Oficial").

- (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.

Financial instrument sales with repurchase agreements are recorded in a manner similar to that when obtaining a loan with investments as guarantees and are shown in Other Current Liabilities.

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COMPANIA 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)

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### 2. Significant Accounting Principles, continued:

- (r) Obligations with the public:
  - o 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).
  - o Obligations from issuance of promissory notes: Are presented in liabilities at their placement value, plus accrued interest (see note 16a).

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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 June 30 of each year, the accumulated balances of temporary differences include 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 by the customers and which consider the degree of completion of the respective projects.

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

COMPANIA 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)

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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.

COMPANIA 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)

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3. Accounting Changes:

- a) Property, plant and equipment financing cost: As of 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

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higher charge to income for the period, of approximately ThCh\$ 2,200,000, in comparison to 2002.

- b) Change in the reporting entity: At June 30, 2003, since Telefonica CTC Chile does not have a majority holding in Sonda S.A., it has recorded its 35% interest in Sonda under the equity method. Sonda's financial statements were consolidated until August 31, 2002.

As of June 30, 2002 this investment was shown consolidated line by line, with the balance sheet of Sonda S.A. at that time was as follows:

Assets	2002 ThCh\$	Liabilities
Current Assets	57,817,088	Current Liabilities
Property, Plant and Equipment	35,695,206	Long-term Liabilities
Other Assets	19,530,918	Shareholders' Equity
<b>Total Assets</b>	<b>113,043,212</b>	<b>Total Liabilities &amp; Sharehold</b>

For a comparative analysis of the figures, a consolidated statement of income is presented, assuming that for the six month period ended June 30, 2002, the investment in Sonda S.A. was recorded using only the equity method.

	Jan-Jun 2003 ThCh\$	Jan-Jun 2002 ThCh\$	ThCh\$
Operating revenues	400,309,311	390,785,313	9,523
Operating costs	(339,982,420)	(325,655,461)	(14,326)
Salaries and employee benefits	(29,611,435)	(33,655,680)	4,04
Depreciation	(131,022,817)	(128,163,513)	(2,859)
Goods and services	(115,573,456)	(103,441,324)	(12,132)
Administrative and selling expenses	(63,774,712)	(60,394,944)	(3,379)
Operating Income	60,326,891	65,129,852	(4,802)
Operating Income	15.1%	16.5%	
	47.8%	49.2%	
EBITDA	191,349,708	193,293,365	(1,943)
Financial income	4,587,108	5,907,686	(1,320)
Income from investments in related companies	210,831	95,499	115
Amortization of goodwill	(7,537,560)	(7,501,122)	(36)
Financial expenses	(34,601,554)	(38,568,422)	3,96
Other income and expenses	2,259,400	(8,338,128)	10,59
Price-level restatement	(315,959)	(4,079,121)	3,76
Non-operating income (loss)	(35,397,734)	(52,483,608)	17,085
Net income before taxes and minority interest	24,929,157	12,646,244	12,282

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Income tax	(16,699,964)	(11,220,408)	(5,479,311)
Minority interest	(12,499)	(43,801)	31
Net income (loss) for the period	8,216,694	1,382,035	6,834,659

c) Change in estimate:

As of June 30, 2003, the Company accelerated the amortization of goodwill in the subsidiaries Tecnonautica S.A. and Infoera S.A. recognizing a higher charge to income for the period of ThCh \$ 61,686, reducing the remaining amortization period for such goodwill from 17 to 8 years.

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued  
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4. Marketable Securities:

The balance of marketable securities is as follows:

	2002 ThCh\$
Shares	12,827,384
Publicly offered promissory notes	57,952,566
Mutual fund units	2,543,542
Others	86,695
Total Marketable Securities	73,410,187

Shares

Taxpayer No.	Company Name	Number of Shares	Interest %	Market Quote per share ThCh\$	Market Value ThCh\$
Foreign	Terra Networks S.A.	2,984,986	1.1 %	4,2364	12,645,469
Foreign	New Skies Satellites	5,198	0.057%	6,8165	35,432
Foreign	Intelsat	288,065	0.057%	-	-

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Value of investment portfolios	12,680,901
Adjustment to market value provision	
Book value of investment portfolio	

Publicly offered promissory notes (Fixed Income)

Instrument	Purchase	Date Maturity	Par	Book Value		Market Value ThCh\$
			Value ThCh\$	Amount ThCh\$	Rate	
Zero	26-Dec-2002	01-Jul-2004	6,911,910	7,102,708	5.40	7,102,708
Zero	26-Dec-2002	01-Oct-2005	4,042,340	4,167,562	5.07	4,167,562
Zero	26-Dec-2002	01-Nov-2005	1,935,629	2,024,160	5.85	2,024,160
Zero	26-Dec-2002	01-Dec-2005	15,204,025	15,903,417	5.85	15,903,417
Total			28,093,904	29,197,847	-	29,197,847

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued  
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5. Current and long-term receivables:

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

Description	Current				
	Up to 90 days		Over 90 up to 1 year		Subtotal
	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$	2003 ThCh\$	2003 ThCh\$
Trade accounts receivable	307,158,826	291,725,075	16,156,616	9,246,520	300,971,500
Standard telephony service	147,790,596	175,893,354	8,302,306	8,596,677	184,490,000
Long distance	76,429,944	45,108,129	-	-	45,108,129
Mobile	49,593,064	43,481,701	-	-	43,481,000
Communications companies	20,687,438	23,330,986	4,990,886	649,843	23,980,800



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Information service	1,888,058	-	281,950	-	-
Others	10,769,726	3,910,905	2,581,474	-	3,910,905
Allowance for doubtful accounts	(72,390,674)	(91,193,943)	(3,204,091)	(4,298,339)	(95,492,207)
Notes receivable	15,865,950	12,812,673	857,748	367,180	13,179,851
Allowance for doubtful notes	(8,315,220)	(7,995,974)	(381,661)	-	(7,995,974)
Miscellaneous accounts receivable	20,239,888	8,180,597	10,231,141	4,036,507	12,217,104
Allowance for doubtful accounts	-	-	-	-	-

Description	Current				Long-term	
	Total Current (net)					
	2002		2003		2002	2003
	ThCh\$	%	ThCh\$	%	ThCh\$	ThCh\$
Trade accounts receivable	247,720,677	100.0	205,479,313	100.0	5,919,191	4,054,500
Standard telephony service	107,131,924	43.25	111,973,274	54.49	5,919,191	4,054,500
Long distance	70,384,801	28.41	41,655,711	20.27	-	-
Mobile	31,633,306	12.77	27,834,053	13.55	-	-
Communications companies	24,106,479	9.73	20,254,018	9.86	-	-
Information service	2,116,707	0.85	-	0.00	-	-
Others	12,347,460	4.99	3,762,257	1.83	-	-
Allowance for doubtful accounts	-		-		-	-
Notes receivable	8,026,817		5,183,879		-	-
Allowance for doubtful notes	-		-		-	-
Miscellaneous accounts receivable	30,471,029		12,217,104		38,672,723	36,621,900
Allowance for doubtful accounts	-		-		-	-
	Total long-term receivables				44,591,914	40,676,500

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued  
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6. Balances and transactions with related companies:

a) Notes and Accounts Receivable VOLVER

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Tax No.	Company	Short-term	
		2002 ThCh\$	2003 ThCh\$
Foreign	Telefonica Mobile Solutions Chile S.A.	5,111	8,732
83.628.100-4	Telefonica Espana	745,822	1,006,139
Foreign	Telefonica Internacional de Espana S.A.	6,881	6,648
93.541.000-2	Impresora y Comercial Publiguias S.A.	1,601,450	2,150,668
Foreign	Terra Networks Chile S.A.	2,659,351	1,047,822
96.895.220-k	Atento Chile S.A.	852,986	571,142
96.910.730-9	Emergia Chile S.A.	971,177	35,363
96.894.490-8	Puerto Norte	15,527	-
Foreign	SBS Ltda.	539,817	-
Foreign	Sonda Mexico	22,166	-
Foreign	Sonda Beanscope Chile S.A.	790	-
Foreign	Datadec	52,068	-
94.071.000-6	Orden S.A.	78,106	-
Foreign	Telefonica Data Espana	255,384	191,927
Foreign	Servibanca	7,114	-
Foreign	Unisel Argentina	1,424	-
79.688.080-5	Unisel Chile	49,688	-
Foreign	Westham Trade Co Ltda.	32,683	-
96.539.380-3	Ediciones Financieras	3,519	-
77.077.040-8	Inversiones Nicocam Ltda.	4,416	-
78.707.040-k	Bac Servicios Computacionales Ltda.	6,467	-
96.703.200-k	Orden Gestion	79,972	-
78.214.420-0	Orden Integracion	4,897	-
Foreign	Telefonica procesos Tec. de Informacion	11,674,562	11,459,928
91.408.000-2	Telefonica Ing. Seguridad	-	3,603
Foreign	Telefonica WholeSale International Services	-	179,064
Foreign	Bismark Telecomunicaciones	108,021	-
96.967.100-k	Novis S.A.	46,161	-
78.868.200-k	Atento Recursos Ltda.	712	-
83.628.100-4	Sonda S.A.	-	1,990,360
TOTAL		19,826,272	18,651,396

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	
		2002 ThCh\$	2003 ThCh\$
59.083.900-0	Telefonica Mobile Solutions Chile S.A.	-	1,481,840
96.527.390-5	Telefonica Internacional Chile S.A.	264,101	264,571

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93.541.000-2	Impresora y Comercial Publiguias S.A.	9,024,618	3,375,992
96.834.230-4	Terra Networks Chile S.A.	1,851,076	2,638,622
96.895.220-k	Atento Chile S.A	5,007,455	5,066,616
96.910.730-9	Emergia Chile S.A.	-	25,400
94.071.000-6	Orden S.A.	2,381	-
96.768.410-4	Payroll	3,792	-
Foreign	Unisel Argentina	47,452	-
79.688.080-5	Unisel Chile	344,394	-
Foreign	Westham Trade Co Ltda.	342,639	-
96.539.380-3	Ediciones Financieras	507	-
Foreign	Telefonica procesos Tec. de Informacion	-	7,076,254
96.539.380-3	Telefonica Ing. Seguridad	-	6,555
Foreign	Telefonica WholeSale International Services	-	909,951
78.868.200-k	Atento Recursos Ltda.	92,086	39,615
78.214.420-0	Orden Integracion	19,458	-
96.725.400-2	Solex	56,770	-
83.628.100-4	Sonda S.A.	-	1,096,026
TOTAL		17,056,729	21,981,442

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 Telefonica CTC Chile has signed with Telefonica 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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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued  
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6. Balances and transactions with related companies:

c) Transactions:

Company	Tax No.	Nature of Relationship
Telefonica Espana	Foreign	Parent Co.

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Telefonica Internacional Chile S.A.	96.527.390-5	Parent Co. Associate
Impresora y Comercial Publiguias S.A.	93.541.000-2	Associate Associate Associate
Terra Networks Chile S.A.	96.834.230-4	Associate Associate
Atento Chile S.A	96.895.220-k	Associate Associate Associate
Emergia Chile S.A.	96.910.730-9	Associate Associate
Orden S.A.	94.071.000-6	Associate
Terra Networks Espana	Foreign	Associate
Unisel Argentina	Foreign	Associate
Unisel Chile	79.688.080-5	Associate
Ediciones Financieras	96.539.380-3	Associate
Orden Salud	96.703.020-1	Associate
Atento Recursos Ltda.	78.868.200-k	Associate
Telefonica. Procesos y Tecnologia de Informacion S.A.	Foreign	Parent Co.
Orden Gestion	96.703.200-k	Associate
Orden Integracion	78.214.420-0	Associate
Solex	96.725.400-2	Associate
SBS Ltda.	Foreign	Associate
Sonda Mexico	Foreign	Associate
Telefonica Data Espana	Foreign	Associate

Company	2002 ThCh\$	
	Amount	Effect on income
Telefonica Espana	5,369	5,369
Telefonica Internacional Chile S.A.	262,761	262,761

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	474,010	474,010
Impresora y Comercial Publiguias S.A.	1,116,933	1,116,933
	1,421,047	1,421,047
	-	-
	-	-
Terra Networks Chile S.A.	378,386	378,386
	-	-
Atento Chile S.A	-	-
	7,927,101	7,927,101
	-	-
Emergia Chile S.A.	-	-
	340,328	340,328
Orden S.A.	1,690	1,690
Terra Networks Espana	33,007	33,007
Unisel Argentina	4,073	4,073
Unisel Chile	6,190	6,190
Ediciones Financieras	4,451	4,451
Orden Salud	7,598	7,598
Atento Recursos Ltda.	138,374	138,374
Telefonica. Procesos y Tecnologia de Informacion S.A.	417,379	417,379
Orden Gestion	2,749	2,749
Orden Integracion	26,400	26,400
Solex	134	134
SBS Ltda.	539,817	539,817
Sonda Mexico	22,166	22,166
Telefonica Data Espana	255,384	255,384
	-	-

The conditions of the Mandate and Mercantile Current Account are short and long-term respectively. In the case of Telefonica 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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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

7. Income tax and deferred taxes:

a) General information:

As of June 30, 2002 and 2003 the Parent Company has not made a provision for first category income as it has accumulated tax losses of ThCh\$ 196,496,063 and ThCh\$ 28,486,551 respectively. Likewise, as of June 30, 2002 and 2003 certain subsidiaries have accumulated tax losses of ThCh \$ 127,192,962 and ThCh\$ 131,710,102, respectively.

As of June 30, 2002 and 2003, a first category income tax provision was established at subsidiaries with positive taxable income of ThCh\$ 36,260,969 and ThCh\$ 26,104,585, respectively.

As of June 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 Retain Earnings w/16.5% c ThCh\$
CTC Equipos y Servicios de Telecomunicaciones S.A.	-	1,179,040	6,329,
CTC Transmisiones Regionales S.A.	-	15,779,713	12,095,
Globus 120 S.A.	2,092,814	792,904	451,
Telefonica Empresas CTC Chile S.A.	605,733	7,080,202	6,820,
Comunicaciones Mundiales S.A.	245,642	66,855	75,
Total	2,944,189	24,898,714	25,772,

COMPANIA 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)

7. Income tax and deferred taxes, continued:

b) Deferred taxes:

As of June 30, 2002 and 2003, net deferred tax assets (liabilities) arising on temporary differences of ThCh\$ (2,795,570) and ThCh\$ (21,885,276), respectively are analyzed as follows:

Description	2002			
	Deferred tax assets		Deferred tax liabilities	
	Short-term	Long-term	Short-term	Long-term
Temporary differences				
Allowance for doubtful accounts	12,621,415	-	-	-
Vacation provision	633,637	-	-	-
Tax benefits for tax losses	37,362,991	14,427,253	-	-
Staff severance indemnities	-	1,298,999	-	-
Leased assets and liabilities	-	205,328	-	-
Depreciation of property, plant and equipment	-	4,971,649	-	2,795,570
Deferred charge on sale of assets	-	-	-	-
Software	-	-	-	-
Deferred charges for capitalized disbursements	-	-	-	-
Tax value difference for temporary investments (Terra)	2,641,344	-	-	-
Other events	729,807	530,703	5,641	-
Subtotal	53,989,194	21,433,932	5,641	2,795,570
Complementary accounts net of accumulated amortization	(757,096)	(4,889,298)	-	(1,885,276)
Subtotal	53,232,098	16,544,634	5,641	-
Tax reclassification	(5,641)	(16,544,634)	(5,641)	-
Total	53,226,457	-	-	-

Description	2003			
	Deferred tax assets		Deferred tax liabilities	
	Short-term	Long-term	Short-term	Long-term

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Temporary differences				
Allowance for doubtful accounts	18,587,305	-	-	-
Vacation provision	538,136	-	-	-
Tax benefits for tax losses	4,908,991	21,523,456	-	-
Staff severance indemnities	-	970,807	-	-
Leased assets and liabilities	-	73,587	-	-
Depreciation of property, plant and equipment	55,277	4,039,669	-	-
Deferred charge on sale of assets	-	-	-	-
Software	-	-	-	-
Deferred charges for capitalized disbursements	-	-	-	-
Tax value difference for temporary investments (Terra)	2,604,286	-	-	-
Other events	1,929,853	1,207,815	14,607	-
	Subtotal	28,623,848	27,815,334	14,607
Complementary accounts net of accumulated amortization	(41,923)	(11,618,325)	-	-
	Subtotal	28,581,925	16,197,009	14,607
Tax reclassification	(14,607)	(16,197,009)	(14,607)	-
	Total	28,567,318	-	-

As stated in Note 2d, as of June 30, 2002 included are balances of deferred tax assets and liabilities for ThCh\$ 313,478 arising in Sonda S.A. (former subsidiary of Telefonica Empresas CTC de Chile S.A.) which was consolidated line by line in the statement of income until August 31, 2002.

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued  
(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



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	ThCh\$
Current tax expense (income tax)	(5,801,755)
Current tax expense (Single Article No. 21 - 35%)	(47,857)
Adjustment of tax expense (prior year)	89,996
Income tax subtotal	(5,759,616)
- Effect of deferred tax assets or liabilities for the period	(2,830,358)
- Effect of amortization of deferred tax assets and liabilities complementary accounts	(2,660,800)
Deferred tax subtotal	(5,491,158)
Total income tax expense	(11,250,774)

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

8. Other Current Assets:

The detail of other current assets is as follows:

	2002 ThCh\$
Fixed income securities purchased with resale agreement	84,972,362
Fixed income securities sold with repurchase agreements	9,970,993
Collective negotiation bonus to be amortized (a)	-
Adjustment to market value for cellular equipment to be commercialized (c)	3,263,333
Exchange insurance premiums to be amortized	4,260,922
Telephone directories for connection program	8,206,764
Higher discount rate of bonds to be amortized (note 24)	1,217,626
Disbursements for placement of bonds to be amortized (note 24)	1,875,982
Disbursement of negotiable instruments (note 24)	-
Disbursements for foreign financing proceeds to be amortized (b)	1,656,187
Exchange difference insurance debtors (net of partial liquidations)	15,635,558

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Deferred charges for modification of staff severance indemnities discount rate (net)	114,306
Others	9,216,839
Total	140,390,872

(a) During June 2002, the Company signed a 2-year collective contract with a part of its employees (3 years for Telefonica Movil employees) granting them, among other benefits, a special negotiation bonus. This bonus was paid between June and July of 2002 (for Telefonica Movil 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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COMPANIA 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)

9. Property, plant and equipment:

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

Description	2002		
	Accumulated depreciation ThCh\$	Gross prop., plant and equipment ThCh\$	Accumulated depreciation ThCh\$
Land	-	29,808,243	-
Construction and Infrastructure Works	72,885,107	199,963,526	72,392,554

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Machinery and equipment	1,691,084,021	3,289,001,067	1,849,589,750
Central office telephone equipment	731,496,546	1,462,959,661	941,743,424
External plant	586,300,232	1,370,886,421	631,291,636
Subscribers' equipment	206,064,719	350,481,453	243,690,801
General equipment	167,222,524	104,673,532	32,863,889
Other Property, Plant and Equipment	141,918,240	441,968,496	180,117,140
Office furniture and equipment	101,513,760	125,417,498	85,715,792
Projects, work in progress and their materials	-	186,782,347	-
Leased assets (1)	4,096,587	12,056,628	4,612,555
Property, plant and equipment temporarily out of service	-	15,039,544	13,411,298
Software and others	36,307,893	102,672,479	76,377,495
Technical revaluation-Circular 550	10,004,489	9,230,699	10,425,577
Total	1,915,891,857	3,969,972,031	2,112,525,021

(1) As of June 2003 this caption mainly considers: ThCh\$ 5,518,866 gross value for purchase of administrative offices with accumulated depreciation of ThCh\$ 598,515 with contract terms of 15 years from 1996, ThCh\$ 3,242,129 gross value for electronic and computer equipment with accumulated depreciation of ThCh\$ 2,896,475 with 12-year contract terms from 1994. In addition there is ThCh\$ 983,305 gross value of long distance transmission equipment with accumulated depreciation of ThCh\$ 208,952 with 18-year contract terms from 1996.

The balance of gross property, plant and equipment includes capitalized interest of ThCh\$ 209,268,747 and ThCh\$ 211,261,434 in 2002 and 2003, respectively. Accumulated depreciation of this interest amounts to ThCh\$ 72,995,897 and ThCh\$ 92,158,887 in 2002 and 2003, respectively.

Depreciation for the periods was charged to operating costs for ThCh\$ 132,791,579 and ThCh\$ 131,022,817, for 2002 and 2003, respectively and to administration and selling expense for ThCh\$ 291,376 for 2003. Property, plant and equipment temporarily out of service, made up mainly of the cable TV networks of La Serena and Concepcion not transferred in the sale of assets to Cordillera Comunicaciones, resulted in a depreciation charge of ThCh\$ 713,140 in 2002 and ThCh\$ 1,476,669 in 2003, which is classified in Other Non-operating Expenses.

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

Description	Net Balance ThCh\$	Accumulated depreciation ThCh\$	Property, plant and equipment 2002 ThCh\$
Land	(454,707)	-	(477,844)
Construction and infrastructure works	(994,531)	(3,553,441)	(4,584,504)
Machinery and equipment	254,510	13,979,018	14,293,047

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Total (1,194,728) 10,425,577 9,230,699

Depreciation for higher value of technical revaluation for the period amounts to ThCh\$ (16,340) in 2002 and ThCh\$ (26,826) in 2003. Gross property, plant and equipment includes assets that have been totally depreciated amounting to ThCh\$ 467,929,189 in 2002 and ThCh\$ 609,567,645 in 2003, which include ThCh\$ 12,042,022 and ThCh\$ 12,002,421, respectively, for technical revaluation.

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

10. Investments in Related Companies:

The breakdown of investments in related companies is as follows:

Taxp. No.	Company	Country of origin	Currency controlling the investment
Foreign	TBS Celular participacion S.A. (1)	Brasil	Dolar
93.541.000-2	Impresora y Comercial Publiciguas S.A. (1)	Chile	Pesos
96.922.950-1	Empresa de Tarjetas Inteligentes S.A. (1)	Chile	Pesos
96.895.220-K	Atento Chile S.A. (1)	Chile	Pesos
96.725.400-2	Sonda S.A. (1) (2)	Chile	Pesos
In development	Bolsa de Oportunidades de Negocios S.A.	Chile	Pesos
In development	Time Interating	Chile	Pesos
96.725.400-2	Solexe S.A.	Chile	Pesos
96.571.690-4	Servibanca S.A.	Chile	Pesos
96.768.410-4	Payroll S.A.	Chile	Pesos
96.539.380-3	Ediciones Financieras S.A.	Chile	Pesos
96.831.860-8	Inversiones Valparaiso S.A.	Chile	Pesos
94.071.000-6	Orden S.A.	Chile	Pesos
Foreign	SBS Ltda.	Guatemala	Dolar
Foreign	AGROSYS	Guatemala	Dolar
Foreign	Sonda El Salvador	El Salvador	Dolar
Foreign	Chiptech	Guatemala	Dolar
96.894.490-8	Puerto Norte S.A.	Chile	Pesos
Foreign	Bac Servicio	Ecuador	Dolar

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Foreign	Bismark Telecomunicaciones	Mexico	Pesos
Foreign	Westham Trade Co. Ltda.	Usa	Dolar
Foreign	Data Dec S.A.	Costa Rica	Dolar

Taxp. No.	Company	Holding percentage	
		2002	2003
		%	%
Foreign	TBS Celular participacion S.A. (1)	2.61	2.61
93.541.000-2	Impresora y Comercial Publiguias S.A. (1)	9.00	9.00
96.922.950-1	Empresa de Tarjetas Inteligentes S.A. (1)	20.00	20.00
96.895.220-K	Atento Chile S.A. (1)	28.84	28.84
96.725.400-2	Sonda S.A. (1) (2)	-	35.00
In development	Bolsa de Oportunidades de Negocios S.A.	19.00	-
In development	Time Interating	10.25	-
96.725.400-2	Solexe S.A.	40.00	-
96.571.690-4	Servibanca S.A.	43.33	-
96.768.410-4	Payroll S.A.	41.56	-
96.539.380-3	Ediciones Financieras S.A.	7.18	-
96.831.860-8	Inversiones Valparaiso S.A.	33.33	-
94.071.000-6	Orden S.A.	33.33	-
Foreign	SBS Ltda.	49.00	-
Foreign	AGROSYS	50.00	-
Foreign	Sonda El Salvador	49.00	-
Foreign	Chiptech	50.00	-
96.894.490-8	Puerto Norte S.A.	50.00	-
Foreign	Bac Servicio	49.00	-
Foreign	Bismark Telecomunicaciones	49.90	-
Foreign	Westham Trade Co. Ltda.	20.00	-
Foreign	Data Dec S.A.	40.00	-

Total

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Taxp. No.	Company	Income for the year		Acc
		2002	2003	2002
		ThCh\$	ThCh\$	ThCh\$
Foreign	TBS Celular participacion S.A. (1)	1,307,088	1,960,638	34,115
93.541.000-2	Impresora y Comercial Publiguias S.A. (1)	-3,777,100	-2,941,206	-339,939
96.922.950-1	Empresa de Tarjetas Inteligentes S.A. (1)	-326,210	-44,629	-65,242
96.895.220-K	Atento Chile S.A. (1)	24,140	162,085	6,962
96.725.400-2	Sonda S.A. (1)	-	1,104,413	-

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In development	Bolsa de Oportunidades de Negocios S.A.	-	-	-
In development	Time Interating	-	-	-
96.725.400-2	Solexe S.A.	-	-	-
96.571.690-4	Servibanca S.A.	140,632	-	60,936
96.768.410-4	Payroll S.A.	36,121	-	15,012
96.539.380-3	Ediciones Financieras S.A.	-28,705	-	-2,061
96.831.860-8	Inversiones Valparaiso S.A.	-	-	-
94.071.000-6	Orden S.A.	-	-	-
Foreign	SBS Ltda.	-	-	-
Foreign	AGROSYS	-	-	-
Foreign	Sonda El Salvador	-	-	-
Foreign	Chiptech	-	-	-
96.894.490-8	Puerto Norte S.A.	-	-	-
Foreign	Bac Servicio	-	-	-
Foreign	Bismark Telecomunicaciones	-	-	-
Foreign	Westham Trade Co. Ltda.	-	-	-
Foreign	Data Dec S.A.	-	-	-

Total

Taxp. No.	Company	Unearned Income		Investment book value
		2002	2003	2002
		ThCh\$	ThCh\$	ThCh\$
Foreign	TBS Celular participacion S.A. (1)	-	-	4,165,526
93.541.000-2	Impresora y Comercial Publiguías S.A. (1)	-	-	1,308,500
96.922.950-1	Empresa de Tarjetas Inteligentes S.A. (1)	-	-	162,407
96.895.220-K	Atento Chile S.A. (1)	-	-	2,649,776
96.725.400-2	Sonda S.A. (1)	-	-	-
In development	Bolsa de Oportunidades de Negocios S.A.	-	-	396,378
In development	Time Interating	-	-	76,101
96.725.400-2	Solexe S.A.	-	-	40,398
96.571.690-4	Servibanca S.A.	-	-	2,059,060
96.768.410-4	Payroll S.A.	-	-	152,470
96.539.380-3	Ediciones Financieras S.A.	-	-	9,159
96.831.860-8	Inversiones Valparaiso S.A.	-	-	1,758,354
94.071.000-6	Orden S.A.	-	-	708,884
Foreign	SBS Ltda.	-	-	81,193
Foreign	AGROSYS	-	-	3,561
Foreign	Sonda El Salvador	-	-	14,956
Foreign	Chiptech	-	-	7,835
96.894.490-8	Puerto Norte S.A.	-	-	84,294
Foreign	Bac Servicio	-	-	1,746
Foreign	Bismark Telecomunicaciones	-	-	50,089
Foreign	Westham Trade Co. Ltda.	-	-	97,573
Foreign	Data Dec S.A.	-	-	351,834
Total				14,180,094

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(1) Recognition of income for this company is that accrued for May 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."

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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COMPANIA 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)

11. Goodwill and negative goodwill:  
(a) Goodwill:

The detail of goodwill is as follows:

Taxpayer No.	Company	Year	Amount amortized in the period ThCh\$	2002 Balance of Goodwill ThCh\$	Am amor in the Th
Foreign	Consortio Telefonica do Brasil	2001	87,203	2,960,085	87
90.430.000-4	CTC Globus S.A.	1998	538,012	17,693,117	538
78.703.410-1	Tecnonautica S.A.	1999	32,991	1,182,279	71
96.786.140-5	Telefonica Movil	1997	4,895,692	152,713,134	4,895
83.628.100-4	Sonda S.A.	1999	1,721,224	22,594,643	1,881
96.834.320-3	Infoera	1999	20,771	730,653	43
96.811.570-7	Telepeajes S.A.	2001	9,745	85,627	19
Foreign	Sonda Uruguay	1999	78,119	945,499	-
Foreign	Setco S.A. (Uruguay)	1999	76,816	927,681	-
Foreign	Sonda del Ecuador	1997	19,483	204,562	-
96.571.690-4	Servibanca	2000	18,685	283,392	-
96.768.410-4	Payroll	1999	948	12,544	-
96.894.490-8	Puerto Norte	2000	662	10,384	-
Foreign	Bac Ecuador	2001	-	103,023	-

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Foreign	Bac Peru	2001	-	15,020	-
96.895.220-K	Atento Chile S.A.	2001	178,296	176,230	-
Foreign	Sonda Bancos	2001	5,029	93,027	-
Foreign	Sonda Peru	2001	2,492	47,330	-
Foreign	Bismark (Mexico)	2001	2,406	44,496	-
Foreign	Tecnoglobal S.A.	2001	27,670	525,716	-
Foreign	Bac Financiero	2001	46,655	754,258	-
96.833.930-3	Telef. Comun. Empresariales	2001	17,188	130,723	-
96.590.960-5	Tecnopolis	2001	1,008	19,122	-
Foreign	Track S.A.	2002	1,214	23,060	-
Foreign	Condec Brasil	1998	141,302	1,460,118	-
Foreign	Data Dec	1995	15,668	-	-
Total			7,939,279	203,735,723	7,537

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.

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

11. Goodwill and negative goodwill, continued:  
(b) Negative goodwill:

The detail of negative goodwill is as follows:

Taxpayer No.	Company	Year	2002	2003	
			Amount amortized in the period ThCh\$	Balance of Negative Goodwill ThCh\$	Amount amortized in the period ThCh\$
Foreign	Sonda Inveriones S.A.	2002	-	72,893	-
Total			-	72,893	-

12. Intangibles:



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	2002 ThCh\$
Underwater cable rights (gross)	19,271,074
Accumulated amortization previous period	(1,596,099)
Amortization for the period	(349,317)
Licenses (Software) (gross)	2,100,732
Accumulated amortization previous period	-
Amortization for the period	-
Licenses for use of wireless (gross)	-
Accumulated amortization previous period	-
Amortization for the period	0
Trade marks and key money	692,012
<b>Total Net Intangibles</b>	<b>20,118,402</b>

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

13. Others (from Other Assets):

The detail of Others is as follows:

	2002 ThCh\$	2001 ThCh\$
Disbursements for obtaining external financing to be amortized (see note 8b)	745,903	1,000,000
Collective negotiation bonus (see note 8a)	-	-
Bond issue expenses to be amortized (see note 24)	5,480,883	3,000,000
Leased vehicles	421,210	-
Higher discount rate of bonds to be amortized ( see note 24)	6,855,059	3,000,000
Deferred charge for modification of staff severance indemnities discount rate (net)	745,202	-
Commercial projects in development (Lottery, Investment Fund)	3,604,660	-
Deferred exchange insurance premiums to be amortized	809,766	-
Rental of telephone posts paid in advance	1,979,514	-

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Guarantee deposits		255,596	
Others		1,874,228	1,
Total		22,772,021	11,

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued  
(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	U.S.\$	
		2002	2003
	Short-term	ThCh\$	ThCh\$
97.015.000-5	BANCO SANTANDER SANTIAGO	1,481,935	-
97.004.000-5	BANCO DE CHILE	833,975	-
97.030.000-7	BANCO ESTADO	-	-
59.004.250-1	BANCO SUDAMERIS	400,976	-
97.008.000-7	BANCO CITIBANK	-	-
97.036.000-K	BANCO SANTIAGO	-	-
97.023.000-9	BANCO CORPBANCA	-	-
Foreign	BRADESCO	55,553	-
97.080.000-K	BANCO BICE	-	-
	Total	2,772,439	-
	Capital owed	2,732,250	-
	Average annual interest rate	3.93%	-

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Bank or financial institution		\$	
Taxp. No.	Short-term	2002	2003
		ThCh\$	ThCh\$
97.015.000-5	BANCO SANTANDER SANTIAGO	-	-
97.004.000-5	BANCO DE CHILE	6,940,123	-
97.030.000-7	BANCO ESTADO	-	-
59.004.250-1	BANCO SUDAMERIS	-	-
97.008.000-7	BANCO CITIBANK	-	-
97.036.000-K	BANCO SANTIAGO	7,435,316	-
97.023.000-9	BANCO CORPBANCA	36,968	-
Foreign	BRDESCO	-	-
97.080.000-K	BANCO BICE	111,165	-
	Total	14,523,572	-
	Capital owed	14,515,997	-
	Average annual interest rate	4.80%	-

Short-term portion of long-term				
79.561.240-8	CHASE MANHATTAN BANK	426,212	-	
Foreign	BANCO CREDITO INVERSIONES	-	-	6,
Foreign	BANCO CITIBANK	9,083,857	7,688,140	
97.015.000-5	BANCO SANTANDER SANTIAGO	-	-	
97.036.000-K	BANCO SANTIAGO	-	-	9,
Foreign	ABN AMRO BANK	1,068,321	1,175,250	
Foreign	BANCO EXTERIOR DE ESPANA	17,977,568	-	
Foreign	J.P. MORGAN	128,835,473	-	
Foreign	BBVA BHIF	-	18,344,326	
	Total	157,391,431	27,207,716	16,
	Capital owed	153,653,334	24,986,866	16,
	Average annual interest rate	3.14 %	1.93%	6

Short-term portion of long-term			
79.561.240-8	CHASE MANHATTAN BANK	-	-

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Foreign	BANCO CREDITO INVERSIONES	-	-
Foreign	BANCO CITIBANK	-	-
97.015.000-5	BANCO SANTANDER SANTIAGO	-	9,834,890
97.036.000-K	BANCO SANTIAGO	-	-
Foreign	ABN AMRO BANK	-	-
Foreign	BANCO EXTERIOR DE ESPANA	-	-
Foreign	J.P. MORGAN	-	-
Foreign	BBVA BHIF	-	-
Total		-	9,834,890
Capital owed		-	-
Average annual interest rate		-	3.54%
Percentage of obligations in foreign currency:		76.46% for 2002 and 48.14% for 2001	
Percentage of obligations in national currency:		23.54% for 2002 and 51.86% for 2001	

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued  
(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:

Taxp. No.	Bank or Financial Institution	Currency or Indexation Index	Years to Maturity
ThCh\$			
LOANS IN DOLLARS			

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79.561.240-8	CHASE MANHATTAN (1)	US\$	-
97.008.000-7	BANCO CITIBANK	US\$	7,508,867
Foreign	ABN AMRO BANK (2)	US\$	-
Foreign	BBVA BHIF	US\$	69,912,000
		SUBTOTAL	77,420,867
	LOANS IN UNIDADES DE FOMENTO		
97.015.000-5	BANCO SANTANDER SANTIAGO	UF	30,145,813
		SUBTOTAL	30,145,813
	LOANS IN OTHER CURRENCIES		-
Foreign	MERCOM BANK	\$	-
		TOTAL	107,566,680

Percentage of obligations in foreign currency: 92.36% in 2003 and  
 Percentage of obligations in local currency: 7.64% in 2003 and

-----	-----	-----	-----
Taxp. No.	Bank or Financial Institution		Long-term portion as of 31/06/2003
-----	-----	-----	-----
		ThCh\$	
	LOANS IN DOLLARS		
79.561.240-8	CHASE MANHATTAN (1)	-	-
97.008.000-7	BANCO CITIBANK	15,017,734	Libor + 0.
Foreign	ABN AMRO BANK (2)	209,736,000	Libor + 1.
Foreign	BBVA BHIF	139,824,000	Libor + 1.
		SUBTOTAL	364,577,734 2.36
	LOANS IN UNIDADES DE FOMENTO		
97.015.000-5	BANCO SANTANDER SANTIAGO	30,145,813	Tab 90 +
		SUBTOTAL	30,145,813 -
	LOANS IN OTHER CURRENCIES		-
Foreign	MERCOM BANK		-
		TOTAL	394,723,547 2.45

Percentage of obligations in foreign currency: 92.36% in 2003 and 87.23%  
 Percentage of obligations in local currency: 7.64% in 2003 and 12.77%

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(1) In April and June 2003, the Company prepaid loans in the amount of US\$ 90,000,000 and US\$ 30,000,000 which it had with this bank.

(2) In April 2003, the Company renegotiated this loan, which allowed it to extend the expiry date from December 2003 to April 2008, in addition to changing the agent bank which was Citibank N.A..

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 COMPANIA 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)

16. Obligations with the Public:

a) Promissory Notes:

On January 27, 2003, Telefonica CTC Chile registered a line of negotiable instruments in the securities registry, inspection number No. 5. The maximum amount of this line is ThCh\$ 35,000,000, where all placements charged to this line may not exceed the mentioned amount. The term of this line shall be 10 years from the date of registration with the Superintendency of Securities and Insurance. The interest rate shall be defined at each issuance of these negotiable instruments.

On June 26, 2003, Telefonica CTC Chile, placed ThCh\$ 2,000,000 in two series (A and B) of negotiable instruments. In this case, the placing agent was Scotiabank Sud Americano. The details of this transaction are as follows:

Registration number or identification of the instrument	Series	Current nominal amount placed	Bond readjustment unit	Interest rate	Final maturity	Book value 2002 ThCh\$	20 ThC
Short-term promissory notes							
005	A	10,000,000	NON-INDEXED CH\$	0.2700	SEP 24, 2003	-	9,92
005	B	10,000,000	NON-INDEXED CH\$	0.2974	NOV 20, 2003	-	9,86
Totales						-	19,78

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

16. Obligations with the public, continued:

b) Bonds

The breakdown of obligations with the public for bond issues, classified as short and long-term is as follows:

Registration number or identification of the instrument	Series	Current nominal amount placed	Bond readjustment unit	Interest rate
				%
Short-term portion of long-term bonds				
143.27.06.91	E (f)	-	U.F.	6.000
143.27.06.91	F	71,429	U.F.	6.000
177.12.08.94	H (a)	-	U.F.	5.800
177.12.08.94	I (d)	-	U.F.	5.500
203.23.04.98	J (b)	-	U.F.	6.750
203.23.04.98	K	-	U.F.	6.750
Issued in New York	Yankee Bonds	-	US\$	7.625
Issued in New York	Yankee Bonds	-	US\$	8.375
Issued in Luxembourg	Eurobonds (c)	-	EURO	5.375
Long-term bonds				
143.27.06.91	F	857,143	U.F.	6.000
177.12.08.94	H (a)	-	U.F.	5.800
177.12.08.94	I (d)	-	U.F.	5.500
203.23.04.98	J (b)	-	U.F.	6.750
203.23.04.98	K	4,000,000	U.F.	6.750
Emitidos en New York	Yankee Bonds (e)	197,000,000	US\$	7.625

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Emitidos en New York	Yankee Bonds	200,000,000	US\$	8.375
Emitidos en Luxemburgo	Eurobonos (c)	139,000,000	EURO	5.375

Registration number or identification of the instrument	Frequency		Par value
	Interest payment	Amortizations	2002
			ThCh\$
Short-term portion of long-term bonds			
143.27.06.91	Semi-annual	Semi-annual	5,355,109
143.27.06.91	Semi-annual	Semi-annual	1,416,022
177.12.08.94	Semi-annual	Semi-annual	8,704,256
177.12.08.94	Semi-annual	Semi-annual	2,300,932
203.23.04.98	Semi-annual	Semi-annual	6,086,415
203.23.04.98	Semi-annual	Semi-annual	1,679,235
Issued in New York	Semi-annual	Maturity	5,964,791
Issued in New York	Semi-annual	Maturity	4,978,080
Issued in Luxembourg	Semi-annual	Maturity	6,174,344
			Total
			42,659,184
Long-term bonds			
143.27.06.91	Semi-annual	Semi-annual	15,720,328
177.12.08.94	Semi-annual	Semi-annual	25,394,374
177.12.08.94	Semi-annual	Semi-annual	25,394,374
203.23.04.98	Semi-annual	Semi-annual	35,552,124
203.23.04.98	Semi-annual	Semi-annual	67,718,331
Emitidos en New York	Semi-annual	Maturity	142,442,764
Emitidos en New York	Semi-annual	Maturity	142,442,764
Emitidos en Luxemburgo	Semi-annual	Maturity	127,054,847
			Total
			581,719,906



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(Translation of financial statements originally issued in Spanish)

16. Obligations with the Public, continued:

b) Bonds, continued:

- a) During August 2002, Telefonica CTC Chile prepaid this bond placement, paying the full balance of capital (UF) plus interest accrued as of that date.
- b) During November 2002, Telefonica CTC Chile prepaid this bond placement, paying the full balance of capital (UF) plus interest accumulated as of that date.
- c) Since June 2002, Telefonica CTC Chile has made partial purchases of its placement denominated in euros; at this period-end the early redemption of this placement amounts to 61.0 million euros.
- d) During May 2003, Telefonica CTC Chile prepaid this bond placement of, paying the full capital balance (UF) plus interest accumulated as of that date.
- e) During May 2003, Telefonica CTC Chile made a partial repurchase of 3.0 million dollars of its placement denominated in that same currency; this redemption was made at a price of 111.57% of par value, which meant a payment of 3.34 million dollars, plus interest accrued as of that date on the nominal amount of the repurchase.

These transactions have implied recognizing a charge to income for the balances off "Disbursements for bond placements to be amortized", as well as the expenses corresponding to "Higher discount rate of bonds to be amortized".

In April 2003, the last installment of this issuance was paid.

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COMPANIA 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)

17. Accruals:

The detail of accruals shown in liabilities is as follows:

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	2002 ThCh\$	2003 ThCh\$
Current	10,580,875	6,596,6
Staff severance indemnities	1,144,845	266,6
Vacation	4,319,835	3,189,0
Other employee benefits (a)	8,798,499	6,085,3
Employee benefit advances	(3,682,304)	(2,944,3
Long-term Staff severance indemnities	22,503,166	18,604,2
Total	33,084,041	25,200,9

(a) Includes provisions for the following concepts: statutory bonus, annual vacation bonus, scholarships, Christmas bonus, Independence Day bonus and others.

During the 2002 and 2003 periods, there were no write-offs for any concept.

18. Staff severance indemnities:

The detail of the charge to income for staff severance indemnities is as follows:

	2002 ThCh\$	2003 ThCh\$
Operating costs and administration and selling expenses	2,700,342	2,420,41
Total charge to income	2,700,342	2,420,41
Payments in the period	(165,367)	(896,98

19. Minority interest:

Minority interest includes recognition of the portion of equity and income of subsidiaries pertaining to third parties. The detail is as follows:

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Subsidiaries	Percentage Minority Interest		Participation in equity June 30,	
	2002 %	2003 %	2002 ThCh\$	2003 ThCh\$
Soc. Nacional de Procesamiento de Datos S.A.	40.01	-	36,890,372	-
Administradora de Telepeajes de Chile S.A.	19.99	20.00	(74,380)	23,3
CTC - Transmisiones Regionales S.A.	0.84	0.84	951,924	1,050,2
Infoera S.A.	0.01	0.01	(3)	-
Fundacion Telefonica	50.00	50.00	146,192	89,6
Tecnonautica S.A.	0.01	0.00	(14)	-
Comunicaciones Mundiales	-	0.34	-	5,4
		Total	37.914.091	1,168,7

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

20. Shareholders' Equity

During the 2002 and 2003 periods, changes in shareholders' equity accounts are as follows:

	Paid-in capital	Price-level Restatement	Con s
	ThCh\$	ThCh\$	
2002			
Balances as of December 31, 2001	715,017,592	-	111
Transfer of 2001 net income to retained earnings	-	-	
Absorption of accumulated deficit development period	-	-	
Final dividend 2001	-	-	
Adjustment of foreign investment conversion reserve	-	-	
Price-level restatement	-	4,290,106	
Net income for the period	-	-	

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Balance as of June 30, 2002	715,017,592	4,290,106	111
Restated balances as of June 30, 2003	740,128,498	4,440,771	115

2003

Balances as of December 31, 2002	736,468,120	-	114
Transfer of 2002 loss to retained earnings	-	-	
Adjustment of foreign investment conversion reserve	-	-	
Price-level restatement	-	8,101,149	1
Net income for the period	-	-	
Balance as of June 30, 2003	736,468,120	8,101,149	115

Accumulated deficit development period

ThCh\$

2002

Balances as of December 31, 2001	(371,667)		4
Transfer of 2001 net income to retained earnings	-		(4)
Absorption of accumulated deficit development period	371,667		
Final dividend 2001	-		
Adjustment of foreign investment conversion reserve	-		
Price-level restatement	-		
Net income for the period	-		1

Balance as of June 30, 2002

Restated balances as of June 30, 2003

2003

Balances as of December 31, 2002	-		(17)
Transfer of 2002 loss to retained earnings	-		17
Adjustment of foreign investment conversion reserve	-		
Price-level restatement	-		
Net income for the period	-		8

Balance as of June 30, 2003

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COMPANIA 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)

20. Shareholders' Equity, continued:

(a) Paid-in capital:

As of June 30, 2003, the Company's paid-in capital is as follows:

Number of shares:

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

Paid-in capital:

Series	Subscribed Capital ThCh\$	Paid-in Capital ThCh\$
A	672,480,822	672,480,822
B	63,987,298	63,987,298

(b) Shareholder distribution:

In accordance with Circular No. 792 of the Chilean Superintendency of Securities and Insurance, the distribution of shareholders based on their participation in the Company as of June 30, 2003 is as follows:

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Type of shareholder	Percentage of Total holdings %	Number of shareholders
10% holding or more	63.24	
Less than 10% holding:		
Investment equal to or exceeding UF 200	36.03	2,
Investment under UF 200	0.73	11,
<b>Total</b>	<b>100.00</b>	<b>14,</b>
Company controller	43.64	

(c) Dividend policy:

As established in Law No. 18,046, except otherwise agreed upon at the General Shareholders' Meeting with the unanimous vote of the outstanding shares, when there is net income, at least 30% should be distributed as dividends.

On April 5, 2002, the General Shareholders' Meeting agreed to pay a dividend of ThCh\$1,233,497 (historical) out of retained earnings and which was paid on May 15, 2002.

On April 4, 2003, the General Shareholders' Meeting was informed of the dividend distribution policy proposed by the Board of Directors for 2003.

Distribution for 2003, of at least 30% of net income of the same year - percentage equal to that required by law - by means of a final dividend in May 2004, which will be proposed at the corresponding General Shareholders' Meeting.

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

20. Shareholders' Equity, continued:

(d) Other reserves:

In 1994 the Company set up a reserve for the purchase of Invercom S.A. and Instacom S.A., in 1998 for the purchase of Sonda S.A. and its subsidiaries and, since 2001, for the adjustment of Consorcio Telefonica de Brasil Celular Holding.

Company		Amount		Net Moveme ThCh\$
		December 31, 2002 ThCh\$	Price-level restatement ThCh\$	
96.720.710-1	Invercom S.A.	41,007	451	-
84.119.600-7	Instacom S.A.	15,726	173	-
83.628.100-4	Sonda S.A.	1,401,666	15,418	(103)
Foreign	TBS Participacion S.A.	466,337	5,130	(200)
Total		1,924,736	21,172	(303)

(1) This movement corresponds to the net effect of the adjustment for conversion differences in accordance with Technical Bulletin No. 64 issued by the Chilean Accountants' Association.

(e) Subsidiary development stage deficit:

The General Ordinary Shareholders' Meeting held on April 5, 2002 approved absorption of the accumulated deficit in the development period as of December 31, 2001, for the subsidiaries Telefonica Gestion de Servicios Compartidos S.A. and Infoera S.A.

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

21. Income and Expenses:

(a) Operating revenues and expenses:

The detail of operating revenue and expenses is as follows:

	2002 ThCh\$	2001 ThC
--	----------------	-------------

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Operating revenues		
Revenues from sale of services	401,625,598	365
Revenues from sale of equipment and projects	33,466,552	35
Total operating revenues	435,092,150	400
Depreciation and amortization	132,791,579	131
Salaries and employee benefits	44,506,448	29
Cost of long distance services and interconnections	29,902,646	37
Cost of sales of equipment and projects	18,465,380	21
Provision for doubtful accounts	10,443,593	14
Contracts with third parties	22,333,367	18
Cost of sales of information technology development	11,044,977	
Vehicle, office and equipment rentals	6,493,295	5
Materials (includes obsolescence provisions)	3,383,892	1
Pole rentals	2,755,940	2
Telephone directory printing	2,472,412	2
Others	15,453,992	13
<hr/>		
Total operating costs	300,047,521	276
<hr/>		
Gross profit	135,044,629	124
<hr/>		

Depreciation includes ThCh\$ 8,860,445 and ThCh\$ 9,802,721 in 2002 and 2003, respectively, for capitalized interest.

- (b) Other non-operating income: The breakdown of other non-operating income is as follows:

	2002 ThCh\$	2003 ThCh\$
<hr/>		
Other Income		
Provision for adjustment to market value for Terra Network	-	3,374,
Penalties on suppliers and indemnities	22,241	994,
Net gain on sale of shares	2,079,431	-
Final compensatory indemnity for termination of Publiguias contract	-	1,570,
Real estate rental	12,505	-
Sale of materials	156,146	-
Net revenues from sale of assets	543,337	-
Recovery of insurance indemnity	-	86,
Reversal of customs trial case provision	-	300,
Dividends received	174,483	-
Others	678,434	430,
<hr/>		
Total	3,666,577	6,755,
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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

21. Income and Expenses continued:

- (c) Other non-operating expenses:  
The detail of other non-operating expenses is as follows:

	2002 ThCh\$	2001 ThCh\$
Other Expenses:		
Lawsuit indemnities and other provisions	1,804,229	1,050,000
Depreciation and retirement of out of service property, plant and equipment (1)	788,099	2,000,000
Loss on sale of property, plant and equipment	348,989	-
Under provided taxes	188,978	-
Provision for decrease in market value - Terra Networks S.A.	4,464,603	-
Difference in tax recovery	543,429	-
Donations	-	8,000
Loss due to accident to assets	-	8,000
Others	1,597,563	1,270,000
<b>Total</b>	<b>9,735,890</b>	<b>4,490,000</b>

(1) This account is mainly for depreciation of the Cable TV network in La Serena and Concepcion (assets that are temporarily out of service) which were not transferred in the sale of subsidiary Multimedia to Cordillera Comunicaciones.

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

22. Price-level restatement:

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The detail of price-level restatement is as follows:

Assets (Charges) Credits	Indexation	2002 ThCh\$	20 Th
Inventories	C.P.I.	283,789	
Prepaid expenses	C.P.I.	(125,101)	
Prepaid expenses	U.F.	-	
Other current assets	C.P.I.	460,735	
Other current assets	U.F.	1,708,137	(6,4
Short and long-term deferred taxes	C.P.I.	1,082,561	1,
Property, plant and equipment	C.P.I.	9,331,944	21,
Investments in related companies	C.P.I.	80,470	
Goodwill	C.P.I.	1,269,621	1,
Long-term receivables	C.P.I.	327	(1,3
Long-term receivables	U.F.	(1,159,603)	
Other long-term assets	C.P.I.	157,136	
Other long-term assets	U.F.	1,194,872	2,
Expense accounts	C.P.I.	2,547,495	1,
Total Credits		16,832,383	22,
-----			
Liabilities - Shareholders' Equity (Charges) Credits	Indexation	2002 ThCh\$	20 Th
-----			
Short-term obligations	C.P.I.	(166,853)	
Short-term obligations	U.F.	(5,023,410)	(3,2
Long-term obligations	C.P.I.	(276,184)	(
Long-term obligations	U.F.	(3,988,704)	(3,7
Shareholders' equity	C.P.I.	(7,869,814)	(14,1
Revenue accounts	C.P.I.	(3,193,926)	(2,6
Total Charges		(20,518,891)	(23,8
-----			
Loss from price-level restatement, net		(3,686,508)	(1,2
-----			

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

23. Exchange differences:

The detail of exchange differences is as follows:

Assets (Charges) Credits	Currency	2002 ThCh\$	
Inventories	US\$	29,106	
Other current assets	US\$	23,069,130	(10,
Other current assets	EURO	(266,177)	
Long-term receivables	US\$	11,945,556	3,
Long-term receivables	EURO	-	(5,
Other long-term assets	US\$	(2,558,672)	
Other long-term assets	EURO	106,290	
<b>Total (Charges) Credits</b>		<b>32,325,233</b>	<b>(12,</b>

Liabilities (Charges) Credits	Currency	2002 ThCh\$	
Short-term obligations	US\$	(825,640)	(10
Short-term obligations	EURO	8,785,702	
Long-term obligations	US\$	(34,155,650)	1
Long-term obligations	EURO	(8,159,086)	
<b>Total Credits (Charges)</b>		<b>(34,354,674)</b>	<b>1</b>

Income (loss), net, from exchange differences	(2,029,441)
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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

24. Issuance and placement of shares and debt expense:

The detail of this item is as follows:

	Short-term		Long-term
	2002 ThCh\$	2003 ThCh\$	2002 ThCh\$
Disbursements made for issuance of bond placement	1,875,982	1,689,029	5,480,883
Higher discount rate of bonds to be amortized	1,217,626	540,302	6,855,059
Disbursements for emission of bonds to be amortized	-	105,860	-
Total	3,093,608	2,335,191	12,335,942

These items are classified in Other Current Assets and Other Long-term Assets, as applicable, and are amortized over the term of the respective bonds, as described in Note 16 "Obligation with the public".

25. Cash Flows:

Financing and investment activities that did not generate cash flows during the period, but that involve future cash flows are as follows:

- a) Financing activities: The detail of financing activities that commit future cash flows is as follows:
  - Obligations with banks and financial institutions - see notes 14 and 15
  - Bonds payable - see note 16
- b) Investment Activities: Investment activities that commit future cash flows are as follows:

	Maturity	ThCh\$
Other investment income from maturity of Zeros:	2004	6,911,
	2005	21,181,

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COMPANIA 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)

26. Derivative Contracts:

The breakdown of derivative contracts is as follows:

TYPE OF DERIVATIVE	TYPE OF CONTRACT	CONTRACT VALUE	MATURITY OR EXPIRY	SPECIFIC ITEM	PURCHASE SALE POSITION
FR	CCPE	164,600,000	III Quart. 2003	Exchange rate	P
FR	CCPE	216,300,000	IV Quart. 2003	Exchange rate	P
FR	CCPE	213,700,000	I Quart. 2004	Exchange rate	P
FR	CCPE	164,284,132	II Quart. 2004	Exchange rate	P
FR	CCPE	118,000,000	III Quart. 2004	Exchange rate	P
FR	CCPE	40,000,000	IV Quart. 2004	Exchange rate	P
FR	CCPE	15,000,000	I Quart. 2005	Exchange rate	P
FR	CCPE	25,000,000	II Quart. 2005	Exchange rate	P
FR	CCPE	19,000,000	III Quart. 2006	Exchange rate	P
FR	CCPE	139,000,000	III Quart. 2004	Exchange rate	P
FR	CCPE	22,000,000	III Quart. 2003	Exchange rate	P
FR	CCPE	13,000,000	I Quart. 2004	Exchange rate	P

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FR	CCPE	46,000,000	II Quart. 2004	Exchange rate	P
Zero Cost Collar	CCPE	225,000,000	IV Quart. 2003	Interest rate	P
S	CCPE	150,000,000	III Quart. 2003	Interest rate	P
S	CCPE	100,000,000	III Quart. 2004	Interest rate	P

Income to be deferred for exchange insurance to be amortized  
 Costs to be deferred for exchange insurance to be amortized  
 Exchange insurance expired during the year ( net )

Total

TYPE OF DERIVATIVE	VALUE OF PROTECTED ITEM	AFFECTED ACCOUNTS		
		ASSET / LIABILITY		EFFE
	ThCh\$	NAME	AMOUNT ThCh\$	REALIZED
FR	115,075,152	asset	115,075,152	-
		liability	(117,423,316)	
FR	151,219,656	asset	151,219,656	-
		liability	(155,853,362)	
FR	149,401,944	asset	149,401,944	-
		liability	(155,795,842)	
FR	114,854,322	asset	114,854,322	-
		liability	(116,900,402)	
FR	82,496,160	asset	82,496,160	-
		liability	(87,241,432)	
FR	27,964,800	asset	27,964,800	-
		liability	(29,851,001)	
FR	10,486,800	asset	10,486,800	-
		liability	(10,808,392)	
FR	17,478,000	asset	17,478,000	-
		liability	(18,022,077)	
FR	13,283,280	asset	13,283,280	-
		liability	(13,179,884)	
FR	111,736,540	asset	111,736,540	-
		liability	(101,409,733)	
FR	15,380,640	asset	15,380,640	-
		liability	(15,801,670)	
FR	9,088,560	asset	9,088,560	-
		liability	(9,454,580)	

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FR	32,159,520	asset	32,159,520	-
		liability	(33,568,370)	
Zero Cost Collar	-	asset	(1,240,212)	(2,056,709)
S	-	asset	(85,739)	-
S	-	asset	3,285,254	(1,530,533)
-----				
Income to be deferred for exchange		liability	(1,527,739)	115,672
insurance to be amortized Costs to be		asset	1,610,259	(533,739)
deferred for exchange insurance to be				
amortizedExchange insurance expired during				
the year ( net )				(518,123)
-----				
	Total			(4,523,432)
-----				

Types of derivatives:

Type of Contract:

FR: Forward

CCPE: Hedge contract for existing items

S : Swap

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COMPANIA 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)

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27. Contingencies and restrictions:

a) Lawsuits:

- (i) Complaint filed by Profesionales Temporales Ltda (Protempore Ltda.):

On January 2, 1998, the Company was notified of a complaint filed by Protempore Ltda. with the 15th Civil Court of Santiago for cancellation of contract with damage indemnity amounting to ThCh\$ 7,885,711.

By sentence dated June 28, 2002, the court rejected all parts of the complaint and damage indemnity filed by Protempore and accepted the counterclaim filed by Telefonica CTC Chile, declaring cancellation of the contracts due to non-compliance

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by the former, sentencing them to indemnify all payments made by the Company as a consequence of their non-compliance. Protempore filed a motion to vacate and appeal against this sentence, which is underway (Case No. 4958-1997).

(ii) Complaint filed by VTR Telefonica S.A.:

On June 30, 2000 VTR Telefonica S.A. filed a complaint in plenary suit for pesos charged for access charges of Ch\$ 2,203 million, based on the differences that would originate when access charge rates were reduced due to the dictation of Tariff Decree No. 187 of Telefonica CTC. The first instance sentence accepted VTR's complaint and compensation alleged by Telefonica CTS. The Company filed a motion to vacate and appeal that is currently underway.

(iii) Labor lawsuits:

In the normal course of business of the Company there have been labor lawsuits filed against it.

To date, among others, there are certain labor lawsuits involving 27 former employees who claim wrongful dismissal. These employees did not sign releases or receive staff severance indemnities. First instance sentences have been handed down in two of these lawsuits, accepting the complaint. They have been appealed by the Company. The Company has obtained favorable sentencing in a third lawsuit, with the Supreme Court ratifying a previous verdict by the Court of Appeals of Concepcion which accepted the Company's arguments.

In addition there are other lawsuits involving 116 former employees who have been paid their staff severance indemnities and have signed their releases, who in spite of having accepted voluntary retirement plans or having been terminated due to the Company's needs, intend to obtain a declaration of nullity. Of these lawsuits, two have been decided in favor of the Company, rejecting the nullity.

Certain labor union have filed complaints before the Santiago Labor Courts, requesting indemnity for various concepts.

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COMPANIA 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)

27. Contingencies and restrictions, continued:

In Management's opinion and that of in house legal counsel, the risk of the Company being obliged to pay indemnities in the amounts claimed in the lawsuits mentioned previously is remote. Management considers it



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improbable that the Company's revenues and shareholders' equity will be significantly affected by these loss contingencies. Therefore no provision has been set up in connection with the indemnities claimed.

### (iv) Complaint against the Chilean Government:

Telefonica CTC Chile continued its efforts to have illegalities incurred in drafting Decree 187 which set its rates corrected. The presentation of an administrative replacement recourse is emphasized. Subsequent to the negative response from the Authority, Telefonica CTC Chile filed an indemnity complaint against the Government for illegalities incurred in the process of setting rates

The complaint was for US\$274 million, plus readjustments and interest, and covers past and future damages until May 2004, due to having to charge lower rates than those that should legally have been set.

The Third Civil Court of Santiago accepted the complaint, and notified the Government. Once the answer from the Government had been received, as well as the answer and rejoinder with which the discussion period ends, the Court of Justice dictated the writ of evidence, setting the pertinent, substantial and disputed evidence. To date the complaint is at the evidence stage, within which Telefonica CTC Chile has rendered abundant testimonial evidence.

### (v) Manquehue Net:

On June 24, 2003, Telefonica CTC Chile filed a petition for forced compliance with contract with damage indemnity before the mixed arbitration court of Mr. Victor Vial del Rio against Manquehue Net, in the amount of Ch \$ 3,647,689,175 in addition to those accrued during the substantiation process. Likewise and on the same date, Manquehue Net filed a petition for discount compliance (in the amount of UF 107,000), in addition to a petition of obligation to perform (signing of 700 service contracts). Regarding both petitions, the Arbitrator conceded transfer on June 25, 2003. The parties were subsequently notified.

### b) Financial covenants:

In order to develop its investment plans, the Company has obtained financing both from the local market and the foreign market (Notes 14, 15 and 16), that establish among others: maximum debt clauses for the Company, interest cover and cash flow.

The maximum debt ratio for these contracts is 1.60, while the interest coverage ratio cannot be less than 3.00 and, lastly, the cash flows ratio must be equal to or exceed 0.166.

Non compliance with these clauses implies that all obligations assumed in those financing contracts will become due.

As of June 30 2003, the Company meets all financial covenants.

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COMPANIA 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)

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27. Contingencies and restrictions, continued:

c) Contracts with Sonda S.A.

In September 2002, Telefonica CTC Chile through its subsidiary Telefonica Empresas, sold and transferred 25% ownership of Sonda S.A. to Inversiones Pacifico Limitada and Inversiones Santa Isabel Limitada, companies related to Mr. Andres Navarro. In addition, the Company signed an agreement with Inversiones Santa Isabel Limitada, which grants various rights and obligations to both parties in the sales option for the remaining 35% of Sonda, which are detailed in note 2d.

28. Third party guarantees:

a) Purchase of VTR L.D. S.A.

In relation to the purchase of VTR L.D. S.A. (CTC Globus S.A.), VTR S.A. (in which Telefonica CTC Chile S.A. does not participate), declared that regarding any contingency that originated before the purchase and sale contract (dated October 14, 1998) and that was not declared at that time, VTR S.A. shall be solely and exclusively responsible for settling it up to approximately US\$10 million, granting guarantees to cover said contingencies. Those guarantees expired on March 27, 2001.

On December 26, 2001 the parties renewed the guarantees for US\$ 2.5 million, and which expire on December 27, 2003.

On June 14, 2002, the parties signed a release which resulted in a payment by VTR S.A. amounting to US\$ 2 million.

b) Commitment to sell ownership in Sonda S.A.

Inversiones Santa Isabel Limitada, signed an agreement with Telefonica Empresas that give it a sales option for 35% of Sonda (as described in note 2d). To guarantee faithful and timely compliance with the obligations derived from the option contract, Inversiones Santa Isabel Limitada issued bank guarantees in favor of Telefonica Empresas for UF 1,983,185. These guarantees will remain in custody until August 26, 2003 and must be renewed within the following 20 days for UF 2,003,260, bearing in mind that they must be sight and renewed with a maturity date of September 26, 2004. Subsequently, during September 2004 they must once again be renewed until Sept 26, 2005 for UF 2,048,885 with an execution procedure similar to the one previously described.

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

29. Local and Foreign Currency:

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

Description	Currency	
<hr/>		
Total current assets:		654
Cash	Non-indexed Ch\$	11
	Dollars	2
	Euros	
Time deposits	Indexed Ch\$	
	Non-indexed Ch\$	13
	Dollars	
Marketable securities	Indexed Ch\$	
	Non-indexed Ch\$	2
	Dollars	58
	Euros	12
	Other currencies	
Notes and accounts receivable (a)	Indexed Ch\$	5
	Non-indexed Ch\$	276
	Dollars	4
Notes and accounts receivable from related companies	Indexed Ch\$	
	Non-indexed Ch\$	7
	Dollars	11
Other current assets (b)	Indexed Ch\$	75
	Non-indexed Ch\$	97
	Dollars	72
	Euros	
Total property, plant and equipment :		2,054
Property, plant and equipment and accumulated depreciation		
	Indexed Ch\$	2,054
Total other long-term assets		305
Investment in related companies	Indexed Ch\$	9
	Dollars	4
Investment in other companies	Indexed Ch\$	
	Dollars	
Goodwill	Indexed Ch\$	203
	Non-indexed Ch\$	
Other long-term assets (c)	Indexed Ch\$	43
	Non-indexed Ch\$	11
	Dollars	31
	Euros	
<hr/>		
Total assets		3,013
<hr/>		
	Indexed Ch\$	2,392
	Non-indexed Ch\$	421
	Dollars	186

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Euros  
Other currencies

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- (a) Includes the following balance sheet accounts: Trade Accounts Receivable, Notes Receivable and Miscellaneous Accounts Receivable.
- (b) Includes the following balance sheet accounts: Inventories, Recoverable Taxes, Prepaid Expenses, Deferred Taxes and Other Current Assets.
- (c) Includes the following balance sheet accounts: Long-term Debtors, Notes and Accounts Receivable from Related Companies, Intangibles, Amortization and Others.

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

29. Local and foreign currency, continued

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

DESCRIPTION	Currency	Up to 90 days				
		2002		2003		Amount ThCh\$
		Amount ThCh\$	Average annual interest %	Amount ThCh\$	Average annual interest %	
Short-term obligations with banks and financial institutions	Indexed Ch\$	9,319,258	2.48	9,299,134	3.36	8,83
	Non-indexed Ch\$	14,523,570	2.32	-	-	
	Dollars	1,290,504	21.55	-	-	1,48
Short-term portion of obligations with banks and financial institutions	Indexed Ch\$	16,631,843	2.34	458,216	3.60	
	\$ no reajustable	-	-	9,834,890	3.54	
	Dollars	153,566,683	3.16	9,729,717	2.00	3,82
Obligations with the public (Promissory notes)	Non-indexed Ch\$	-	-	19,783,488	3.40	
Obligations with the public (Bonds payable)	Indexed Ch\$	5,226,212	6.75	1,682,208	5.80	20,31
	Dollars	10,942,871	-	10,599,153	-	
	Euros	6,174,344	-	5,446,422	-	

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Long-term obligations maturing within a year	Indexed Ch\$	472,615	9.40	417,338	8.95	3
	Non-indexed Ch\$	20,911	-	-	-	
Notes and accounts payable to related parties	Indexed Ch\$	9,024,621	-	-	-	
	Non-indexed Ch\$	7,919,267	-	13,638,297	-	
	Dollars	112,841	-	-	-	
Other current liabilities (d)	Indexed Ch\$	2,240,067	-	24,089,605	-	6,42
	Non-indexed Ch\$	198,641,451	-	144,531,038	-	3,17
	Dollars	8,004,861	-	10,390,879	-	47
TOTAL CURRENT LIABILITIES		444,111,919		259,900,385		44,57
Subtotal by currency	Indexed Ch\$	42,914,616		35,946,501		35,61
	Non-indexed Ch\$	221,105,199		187,787,713		3,17
	Dollars	173,917,760		30,719,749		5,78
	Euros	6,174,344		5,446,422		

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

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

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

29. Local and foreign currency, continued

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

		1 to 3 years		
		2002		
		Amount	Average annual interest rate	A
		ThCh\$	%	T

LONG-TERM LIABILITIES

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Obligations with banks and financial institutions		Indexed Ch\$	60,184,667	8.00	
		Non-indexed Ch\$	7,835	11.75	
		Dollars	303,745,597	2.71	10
Bonds payable		Indexed Ch\$	34,123,002	6.06	2
		Dollars	142,442,764	8.38	14
		Euros	127,054,847	5.38	
Other long-term liabilities	(e)	Indexed Ch\$	2,906,378	-	
		Non-indexed Ch\$	4,466,400	-	
		Dollars	23,727,677	3.00	

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TOTAL LONG-TERM LIABILITIES			698,659,167		28
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Subtotal by currency		Indexed Ch\$	97,214,047		3
		Non-indexed Ch\$	4,474,235		
		Dollars	469,916,038		24
		Euros	127,054,847		

---

		5 to 10 years		
		2002		
		Amount	Average annual interest rate	M
		ThCh\$	%	

LONG-TERM LIABILITIES

Obligations with banks and financial institutions		Indexed Ch\$	0	-	
		Non-indexed Ch\$	27,776	11.75	
		Dollars	0	-	
Bonds payable		Indexed Ch\$	44,308,136	6.32	6
		Dollars	0	-	
		Euros	0	-	
Other long-term liabilities	(e)	Indexed Ch\$	37,013,366	-	
		Non-indexed Ch\$	6,510,744	-	2
		Dollars	0	-	

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TOTAL LONG-TERM LIABILITIES			87,860,022		9
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Subtotal by currency		Indexed Ch\$	81,321,502		7
		Non-indexed Ch\$	6,538,520		2
		Dollars	-		
		Euros	-		

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		1 to 3 years		
		2002		
		Amount	Average annual interest rate	A
		ThCh\$	%	T
LONG-TERM LIABILITIES				
Obligations with banks and financial institutions	Indexed Ch\$	30,145,813	3.60	
	Dollars	154,841,733	2.33	167,
Bonds payable	Indexed Ch\$	3,707,612	6.72	5,
	Dollars	139,824,000	8.38	137,
	Euros	111,736,540	5.38	
Other long-term liabilities (e)	Indexed Ch\$	13,787,481	-	7,
	Non-indexed Ch\$	1,880,159	-	
	Dollars	23,870,902	2.70	
TOTAL LONG-TERM LIABILITIES		479,794,240		319,

Subtotal by currency	Indexed Ch\$	47,640,906		13,
	Non-indexed Ch\$	1,880,159		
	Dollars	318,536,635		305,
	Euros	111,736,540		

		5 to 10 years		
		2002		
		Amount	Average annual interest rate	Mo
		ThCh\$	%	
LONG-TERM LIABILITIES				
Obligations with banks and financial institutions	Indexed Ch\$	-	-	
	Dollars	41,947,201	2.40	
Bonds payable	Indexed Ch\$	7,819,023	6.72	65
	Dollars	-	-	
	Euros	-	-	
Other long-term liabilities (e)	Indexed Ch\$	4,384,001	-	40

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	Non-indexed Ch\$	1,049,618	-	16
	Dollars	-	-	
-----				
TOTAL LONG-TERM LIABILITIES		55,199,843		122
-----				
		12,203,024		105
		1,049,618		16
		41,947,201		
		-		

- (e) Includes the following balance sheet accounts: Notes and accounts payable to related companies, Miscellaneous accounts payable, Accruals, Deferred Taxes, Other Liabilities.

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COMPANIA 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)

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30. Sanctions:

Neither the Company, nor its Directors and Managers have been sanctioned by the Superintendency of Securities and Insurance or any other administrative authority during the 2003 period.

31. Subsequent Events:

- a) Offer from Telefonica S.A. to purchase shares of Terra Networks

On May 28, 2003 Telefonica S.A. announced an offer to purchase 100% of the shares of Terra Lycos. On July 10, 2003 the Board of Directors of CTC Transmisiones Regionales S.A. agreed to participate in the offer (OPA) and sell the 2,984,986 shares of Terra Networks S.A. it owns at a price of 5.25 euros per share.

- b) Payment of eventual dividend and capitalization of Share Premium.

The Extraordinary Shareholders' Meeting of Telefonica CTC Chile S.A. held on July 11, 2003, approved payment of an eventual dividend of Ch\$17.5 per share to be charged to retained earnings at December 31, 2002. The dividend will be paid on July 30, 2003. Additionally, the Extraordinary Shareholders' Meeting approved modification of the bylaws to reflect the company's capital increase resulting from the capitalization of the "Share Premium" account.

- c) Promise of Sale Contract with Isapre Consalud S.A.



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On July 23, 2003, Compania de Telecomunicaciones de Chile S.A. signed a Promise of Sale Contract with the Isapre Consalud S.A. group for 100% of the shares of Compania de Telecomunicaciones de Chile Isapre S.A. (Istel) for the equivalent in pesos of 9,175 Unidades de Fomento, which is subject to the results of a "due diligence" to be performed by the interested buyer. The final contract will be signed on September 1 of this year.

- d) In the period from July 1 to July 24, 2003, there have been no other significant subsequent events that affect these consolidated financial statements.

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### COMPANIA 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)

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#### 32. Environment:

In management's opinion and in the opinion of in-house legal counsel, the nature of the Company's operations do not directly or indirectly affect the environment; therefore, as of the closing date of these consolidated financial statements, no resources have been committed or payments made for non-compliance of municipal ordinances or of those of other supervisory bodies.

#### 33. Accounts payable:

The detail of the accounts payable balance is as follows:

---

	2002	2003
	ThCh\$	ThCh\$
Suppliers		
Local	117,469,817	96,557,976
Foreign	7,579,002	10,784,473
Carrier service		
Local	9,870,607	6,026,759
Foreign	1,096,734	1,163,523
Accrual of completion percentage	27,072,286	13,785,496
Total	163,088,446	128,318,227

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Alejandro Espinoza Querol  
General Accountant

Claudio Munoz Zuniga  
General Manager

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COMPANIA DE TELECOMUNICACIONES DE CHILE S.A. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED FINANCIAL  
STATEMENTS AS OF JUNE 30, 2003

Management's Discussion and Analysis of the Consolidated Financial Statements 2

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### Management's Discussion and Analysis of the Consolidated Financial Statements 3

#### 1. HIGHLIGHTS

##### Results for the Period and Business Statistics for the Company

As of June 30, 2003, Telefonica CTC Chile recorded consolidated net income of Ch\$ 8,217 million, figure which compares positively with net income of Ch\$ 1,382 million obtained as of June 30 of the previous year.

At an operating level, the income of Telefonica CTC Chile reached Ch\$ 60,327 million. It should be noted that for comparison purposes, the first half of 2002 includes the contribution of the subsidiary Sonda to the Company's consolidated income.

For comparative purpose in the table below, the following financial statement line items are presented as described in Note 3 to the financial statements:

Certain financial statement information presented as described and quantified in Note 3 (\*)

	For the six month period		
	Ended June 30,		VARIATION
	2002	2003	%
Revenues	390,785	400,309	2.4%
Costs	(197,492)	(208,959)	5.8%
EBITDA	193,293	191,350	-1.0%
Depreciation	(128,163)	(131,023)	2.2%
Operating Income	65,130	60,327	-7.4%

(\*) For comparison purposes, 2002 excludes consolidated results of SONDA S.A.. SONDA S.A. has been presented in the financial statements of the Company since September 1, 2002 as an equity-method investee.

Including the effects of Sonda, consolidated operating income decreased by 9.2% in relation to the first half of the previous year.

Non-operating income at June 30, 2003, shows a loss of Ch\$ 35,398 million, a 33.5% drop in relation to the same period in the previous year, derived mainly from a decrease in price-level restatement, together with a decrease in the financial expenses associated to a lower level of debt and better financing conditions together with a drop in other non-operating revenues.

Regarding business operating statistics, as of June 30, 2003, fixed telephone lines in service of Telefonica CTC Chile reached 2,566,384, a decrease of 7.0% in relation to June 30, 2002. ADSL customers in service increased to 84,202 a growth of 178.2 % in relation to the previous year. Mobile service customers reached 1,944,393, a growth of 13.7% compared to 2002. The long distance business experienced a drop in traffic of 12.5% in domestic long distance (DLD) and a growth of 2.3% in outgoing international long distance (ILD), of 322 million of minutes and 32 million of minutes, respectively, as of June 30, 2003. ATM links for

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corporate customers decreased by 8.1% whereas IP links grew by 256.0%.

As of June 30, 2003, the corporation's payroll was 4,807 persons, representing a decrease of 39.0% in comparison to June 2002 (13.5% upon excluding the Sonda payroll in 2002).

### Management's Discussion and Analysis of the Consolidated Financial Statements 4

#### Tariff Setting Process for Telefonica CTC (Local Telephone Service)

As an issue prior to the process of setting the rates for the services provided by Telefonica CTC, on January 13 of this year, Telefonica CTC Chile S.A. requested the pronouncement of the Antitrust Commission with respect to decreeing freedom of rates in specific geographic areas, to define the telephone services which will be subject to rate regulation in areas where the market conditions are not sufficient to guarantee a freedom of rates regime and to determine that Telefonica CTC Chile S.A. has the right to offer alternative rate plans without prior authorization.

On April 30, 2003, Telefonica CTC submitted to the Undersecretary of Telecommunications (Subtel) its proposal for the Technical Economic Basis for the Tariff Setting Study for services rendered by Telefonica CTC Chile to other public telephone service suppliers, to concessionaires of intermediate services, which provide long distance telephone services and to suppliers of complementary services.

On May 20, 2003, the Antitrust Commission dictated Resolution No. 686 which defines the services subject to tariff setting by the Ministries of Economy and of Transportation and Telecommunications, which are similar to those established for the 1999 - 2004 period. The mentioned Resolution No. 686 rejects the petition for tariff freedom for specific primary zones requested by Telefonica CTC Chile, and in relation to the request for rate flexibility, informed favorably by the Regulator, the Antitrust Commission did not issue a specific pronouncement in spite of the fact that most of its members were for making a pronouncement on the same, whereas the rest of the members considered that such matter did not correspond to that Commission.

On May 30, 2003, Subtel sent Telefonica CTC Chile the Preliminary Technical Economic Basis. In this respect, Telefonica CTC Chile formulated 84 controversies to the Preliminary Technical Economic Basis of Subtel and requested that an Expert Commission would set up in conformity with what is established in the law and Regulation that Regulates the Procedure, Advertising and Participation of the Tariff Setting Process.

The Expert Commission was officially established on June 17, 2003, integrated by the experts designated by Telefonica CTC Chile and Subtel. On July 17, the mentioned Commission issued its report on the controversies formulated by Telefonica CTC.

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### Process for Setting Interconnection Rates for Telefonica Movil

On January 10, 2003, Telefonica Movil presented its proposal for Technical Economic Basis to the Undersecretary of Telecommunications, to govern the process for setting interconnection rates.

By means of Resolution dated February 22, 2003, Subtel approved the Final Technical Economic Basis that will govern the interconnection rate setting process for the concessionaires mobile telephone service to the public for the 2004 - 2009 period.

### Financial Debt Decrease

Telefonica CTC Chile continues to improve its debt level through amortization of loans, renegotiation of rates and terms of current loans and also through the global decrease in market rates. As of June 30, 2003, interest-bearing debt reached US\$ 1,413 million, reflecting a decrease of 22.8% compared to the nominal interest-bearing debt of US\$ 1,831 million recorded as of June 30, 2002. The decrease in debt levels together with improved financing conditions in turn had the effect of lowering financial expenses for 2003.

### Telefonica S.A.'s Offer to Purchase Shares of Terra Networks

On May 28, 2003, Telefonica S.A. announced an offer to purchase 100 % of the shares of Terra Lycos. On July 10, 2003, the Board of Directors of CTC Transmisiones Regionales S.A. agreed to participate in the offer (OPA) and sell 2,984,986 shares of Terra Networks S.A. owned by it at an unit price of 5.25 Euros.

Recovery in the price of the shares of Terra Networks in the international market during this year, had a positive impact on the investment valuation of the shares that CTC Transmisiones Regionales S.A. holds in that company. This resulted in recognition of Ch\$ 3,375 million in non-operating incomes in the first half of 2003.

### Placement of Negotiable Instruments

On January 27, 2003, Telefonica CTC Chile S.A. registered a line of negotiable instruments in the Securities Registry with a maximum amount of Ch\$ 35,000 million, for a 10-year term. On June 26, Telefonica CTC Chile, placed Ch\$ 20,000 million, through a placing agent, in two series of equal par value, with final maturity deadline in September and November 2003.

Management's Discussion and Analysis of the Consolidated Financial Statements 6

2. VOLUME STATISTICS, PROPERTY, PLANT & EQUIPMENT AND STATEMENTS OF INCOME

TABLE No. 1  
VOLUME STATISTICS

=====

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DESCRIPTION	JUNE 2002	JUNE 2003	VARIAT Q
Lines in Service at (end of period)	2,760,252	2,566,384	(193,868)
Total Average Lines in Service	2,752,417	2,625,176	(127,241)
Local calls (millions) (1)	2,514	2,376	(138)
Inter-primary DLD Minute(2) (thousands)	1,531,596	1,309,939	(221,657)
Total ILD Minutes(3) (thousands)	1,024,469	798,771	(225,698)
ILD Minute Outgoing (incl. Internet)	875,274	621,916	(253,358)
ILD Minutes Incoming	149,195	176,854	27,659
Line Connections	165,515	124,423	(41,092)
Mobile Telephone Customers	1,710,326	1,944,393	234,067
ADSL Connections in Service	30,262	84,202	53,940
Permanent Personnel Telefonica CTC Chile	3,231	2,631	(600)
Permanent Personnel Subsidiaries	4,654	2,176	(2,478)
Total Corporate Personnel	7,785	4,807	(3,078)

1. Does not include calls from public phones owned by the Company.
2. DLD: Domestic Long Distance. Corresponds to all outgoing traffic of primary areas attended by Telefonica CTC Chile, including the traffic of 188 Telefonica Mundo and Globus 120, for which access fees are charged.
3. ILD: International Long Distance. Corresponds to all outgoing and incoming international calls of primary areas attended by Telefonica CTC Chile, including the traffic of 188 Telefonica Mundo and Globus 120, for which access fees are charged.

TABLE No. 2  
CONSOLIDATED NET PROPERTY, PLANT AND EQUIPMENT  
(Figures in millions of pesos as of June 30, 2003)

DESCRIPTION	JUNE 2002	JUNE 2003	VARIA MCh\$
Land, Infrastructure, Machinery and Equipment	3,783,190	3,898,081	114,891
Projects and Works in Progress	186,782	114,346	(72,436)
Accumulated Depreciation	(1,915,892)	(2,112,525)	(196,633)
NET PROPERTY, PLANT & EQUIPMENT	2,054,080	1,899,902	(154,178)

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TABLE No. 3  
CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS  
ENDED AS OF JUNE 30, 2003 AND 2002  
(Figures in millions of pesos as of 06.30.03)

DESCRIPTION	Jan - Jun 2002	Jan - Dec 2002
Local Telephone Service	188,076	385,420
Basic Telephone Service	159,720	325,684
Fixed Charges	79,837	160,479
Variable Income	76,140	158,168
Connections and Other Installations	3,743	7,037
Access Charges and Interconnections (1)	11,837	23,521
National Long Distance	4,617	9,540
International Long Distance	1,789	3,552
Other Charges and Interconnection Services	5,431	10,429
Advertisements in Telephone Directories	1,150	4,897
Other Local Telephone Services	15,369	31,319
Value Added Service	8,302	17,352
Commercialization of Equipment	2,809	5,022
Other Services	4,258	8,945
Long Distance	37,434	75,553
National Long Distance	16,705	33,298
International Service	14,382	28,357
Media and circuit rentals	6,347	13,898
Mobile Communications	99,875	209,208
Mobile Communications	57,963	122,224
CPP Interconnection (2)	41,912	86,984
Corporate Communications	40,656	87,154
Equipment Sales and Rental, Network Sales	10,795	24,771
Private Services	29,861	62,384
Other Businesses	69,051	115,308
Information Services (3)	44,016	63,008
Public Telephones	6,535	12,211
ITI Maintenance and Equipment Sales	14,245	28,554
Other Income (4)	4,255	11,536
<b>TOTAL OPERATING INCOME</b>	<b>435,092</b>	<b>872,644</b>

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OPERATING COSTS	(300,047)	(608,861)
Payroll	(44,506)	(80,441)
Depreciation	(132,791)	(263,906)
Other Operating Costs	(122,750)	(264,513)
ADMINISTRATION AND SELLING COSTS	(68,600)	(131,850)
-----		
TOTAL OPERATING COSTS	(368,647)	(740,710)
-----		
OPERATING INCOME	66,445	131,933
-----		
Financial Income	6,923	16,875
Other Non-operating Income	3,667	13,367
Income from Investment in Related Companies (5)	(290)	2,381
Financial Expenses	(40,102)	(82,368)
Amortization of Goodwill	(7,939)	(24,933)
Other Non-operating Expenses	(9,736)	(38,297)
Price-level Restatement	(5,716)	(9,051)
-----		
NON-OPERATING INCOME	(53,193)	(122,027)
-----		
INCOME BEFORE INCOME TAX	13,252	9,907
-----		
Taxes	(11,251)	(27,011)
Minority Interest	(619)	(770)
-----		
NET INCOME (6)	1,382	(17,874)
=====		

- (1) Due to accounting consolidation does not include access charges of 188 Mundo Telefonica and Globus.
- (2) Corresponds to income recorded in Telefonica Movil.
- (3) Revenues from Sonda S.A. are included only in 2002 due to deconsolidation as of September of that year.
- (4) Includes revenues from Istel, Teleemergencia and Tgestiona
- (5) For the purposes of a comparative analysis, participation in income from investments in related companies is shown net (net income/losses).
- (6) For comparative purposes certain reclassifications have been made for 2002 statements of income.

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3. ANALYSIS OF RESULTS FOR THE PERIOD

3.1 OPERATING INCOME

As of June 30, 2003, operating income reached Ch\$ 60,327 million, which represents a decrease of 9.2% in comparison to the previous year.



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### Operating Revenues

Operating revenues for the period reached CH\$400,309 million showing a decrease of 8.0% in relation to 2002. This decrease incorporates the effects of the deconsolidation of Sonda as of September 2002. Isolating this effect, operating revenues increased by 2.4% over the previous year.

This variation was mainly originated by a 12.2% increase in mobile services, together with a 3.8% increase in revenues from corporate communications. The above was partly offset by a 10.3% decrease in long-distance revenues and a drop of 0.8% in local telephone revenues. The latter is mainly due to the generation of greater revenues equivalent to 32.1% for added value services and other services such as ADSL, partly compensating the decreased revenues derived from the Corporation's decrease in traffic and lines in service.

Revenues from Local Telephone Service: Revenues from Basic Telephone Service decreased by 3.6% in respect of the previous year. The variation experienced by this revenue is mainly derived from: (i) the 1.6% decrease in the level of fixed charge, corresponding to the fixed monthly charge for network connections, mainly due to the decrease in the number of lines in service and compensated in part by the indexation of rates applicable to these services; (ii) the 5.0% drop in revenues from variable charge, mainly due to the decrease in lines in service, to the downward trend in the behavior of traffic per line and compensated in part by the indexation applicable to these services.

Consolidated revenues from access charges and interconnections decreased by 6.1%, mainly due to the 2.7% decrease in revenues from domestic long distance access charges and a 19.0% decrease in revenues from international long distance access charges, due to the 22.0% drop in international interconnection traffic, and to a 4.7% decrease in revenues from other charges and interconnection services.

Other Local Telephone Services increased by 32.1% due to an 11.7% increase in value added services, higher revenues equivalent to 61.5% for commercialization of equipment and a 52.3% increase in other services and, lastly, to a 52.3% increase in other services, mainly due to contributions from broad band services for the concept of ADSL, which show a sustained growth during the last few periods.

Long Distance: Revenues from these services decreased by 10.3% in comparison to 2002, due to a decrease of 12.9% and 6.9% in revenues from DLD and ILD, respectively, the latter influenced by an average decrease of 13.6% in the price of these services, in spite of a 2.3% growth in outgoing ILD traffic. Media and circuit rentals show decreased revenues equivalent to 11.0% in relation to the first quarter of 2002.

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Mobile Communications: Total revenues from this business increased by 12.2% in relation to 2002, mainly due to the 14.6% growth experienced in the average mobile customer base, partially offset by the drop in average revenue per subscriber, and a higher level of prepaid customers in relation to contract customers. It should be noted that these revenues include regulated calling party pays revenues for incoming traffic to

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mobile telephones.

Corporate Communications: Business revenues shows an increase of 3.8% in comparison to the previous year, corresponding to a 15.5% increase in the sale and rental of equipment and networks, compensated by a 0.4% decrease in private services. The above is explained by the increase in corporate services, a 256.0% increase in dedicated IP links and the growth in Broad Band and ISP services, all offset in part by the 8.1% decrease in the number of ATM services and the 49.3% decrease in Datarred services.

Other Operating Revenues: This income, excluding the effect of Sonda in 2002, shows a 3.0% increase mainly due to higher revenues from alarm monitoring services and increased revenues from maintenance of interior telephone lines and public telephony equipment.

### Operating Costs

Operating costs of Ch\$339,982 million for the period decreased by 7.8% compared to 2002.

This decrease is mainly explained by a 33.5% decrease in salaries which translates into a 12.0% decrease excluding Sonda in 2002, reflecting the savings in the workforce reduction carried out by the Company in October 2002. Depreciation decreased by 1.3% (increase of 2.2% when excluding Sonda in 2002) due mainly to the Corporation's new assets becoming operational. Other operating costs dropped by 5.8%, (however, when excluding Sonda in 2002, they increased by 11.7%) mainly due to an increase in the interconnection service costs and an increase in the Corporation's allowance for doubtful accounts.

Administration and selling costs in comparison to the first half of 2002, show a decrease of 7.0%, however, upon excluding Sonda in 2002, they increased by 5.6% due mainly to the increase in expenses from advertising expenses, sales commissions and outsourcing services, partly offset by remuneration savings due to the reduction in the Corporation's payroll.

### 3.2 NON-OPERATING RESULT

Non-operating result in the first half of 2003 shows a loss of Ch\$35,398 million, figure that is less than the non-operating result for the same period in 2002. The variation in non-operating result is broken down as follows:

Interest income shows a drop of 33.7%, mainly due to lower domestic and international interest rates and less available funds, which have been assigned to diminish the Corporation's financial debt.

Other non-operating income There is a 84.2% increase mainly a rise in the price of Terra Networks shares in the market during 2003 and the final adjustment of the compensatory indemnity due to early termination of the contract with Publiguias S.A., partly offset by the sale of shares booked in the first half of 2002.

Interest expenses decreased by 13.7% in 2003, mainly due to a reduced debt and better financing conditions.

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Other non-operating expenses decreased by 53.8%, derived mainly from higher expenses incurred in 2002 due to staff severance indemnities and

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expenses related to lawsuits. Additionally, 2002 includes the effect of the lower market value of the Terra Networks shares.

Price-level restatement shows a deficit of \$316 million, 94.5% lower than the loss of Ch\$5,716 million recorded in the first half of 2002. This last figure partly picks up the effect of the devaluation of Sonda's investments in Argentina and Brazil. It should be noted, that there has been a 100% level of coverage on exchange rate variations and 84% coverage of interest rate variations. The Company's coverage policy for the peso-dollar exchange has allowed it to neutralize the effects of the exchange rate variations in 2002 and 2003.

### 3.3 NET INCOME FOR THE PERIOD

Net income was Ch\$ 8,217 million in comparison with net income of Ch\$ 1,382 million earned in 2002. Net income obtained during the period derives from a 33.5% drop in non-operating result and a 9.2% decrease in operating income, together with a 48.4% increase in income tax in relation to the previous year. This increase in tax expense is fundamentally due to a 130.8% increase in deferred tax expense derived from a 101.4% increase in amortization of complementary accounts plus an increase in deferred tax expense of 158.4% for the period, a situation that is partially compensated by a 25.8% drop in income taxes payable.

## 4. RESULTS BY BUSINESS AREA

**Local Telephone Business:** Showed a net loss of CH \$15,469 million in the period, which represents a decrease of CH\$ 3,442 million in the loss with respect to the previous year, explained mainly by a 24.4% decrease in non-operating deficit.

**Long Distance Business:** showed a profit of Ch\$13,458 million, a 35.7% increase over the previous year. This variation is composed of a 22.5% drop in the operating income, and a non-operating gain of Ch\$2,571 million which compares positively with the non-operating deficit of Ch\$5,739 million in the first half of 2002.

**Corporate Communications Business:** This business contributed income of Ch\$4,963 million, compared to income in 2002 of Ch\$9,596 million. This variation is mainly due to a 30.58% drop in operating income as a result of drop in revenue due to the transfer of PYMES customers to local business. The above was partly offset by a decrease in goods and services and salary expenses. In addition there was a non-operating deficit of Ch\$ 1,012 million as of June 2003, while the previous year showed non-operating income of Ch\$214 million for the same period.

**Mobile Business:** The Mobile Communications business contributed income of Ch \$4,200 million to the consolidated net income during the period, whereas in 2002 it had income of Ch\$2,140 million. This positive contribution is derived from higher results at an operating and non-operating level.

**Other Businesses:** These businesses as a whole showed income of Ch\$1,064 million as a result operating income of Ch \$ 4,208 million and a non-operating deficit of Ch\$2,969 million, whereas during the same period in the previous year, there was a loss of Ch\$1,357 million. In 2003 these businesses include mainly public telephone services, maintenance and installations of basic telephone equipment, "Isapre Istel" (employee health insurance) and shared services. In 2002 they also include the results of SONDA.

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INCOME AND COSTS BY BUSINESS  
AS OF JUNE 30, 2002 AND 2003  
(Figures in millions of pesos as of 06.30.03)

	Local			Corporate Communications		
	Jan-Jun 2002	Jan-Dec 2002	Jan-Jun 2003	Jan-Jun 2002	Jan-Dec 2002	Jan-Jun 2003
Operating Income	212,575	435,002	214,108	59,072	115,487	53,095
Income	188,076	385,420	186,651	40,656	87,154	42,202
Intercompany Transfers	24,499	49,582	27,457	18,416	28,333	10,893
Operating Expenses	(187,282)	(384,387)	(188,831)	(48,710)	(94,777)	(45,902)
Payroll	(27,521)	(55,504)	(24,303)	(7,731)	(14,679)	(6,236)
Depreciation	(88,269)	(174,468)	(83,746)	(5,327)	(11,176)	(6,272)
Goods and Services	(42,486)	(94,231)	(56,104)	(15,426)	(36,726)	(13,305)
Intercompany Transfers	(29,006)	(60,184)	(24,679)	(20,225)	(32,197)	(20,089)
Operating Income	25,293	50,615	25,276	10,362	20,710	7,193
Non-operating Income and Expenses						
Financial Expenses	(39,924)	(82,848)	(34,205)	(235)	(461)	0
Other Income and Expenses	(8,388)	(24,794)	(1,006)	489	(1,122)	(480)
Intercompany Transfers	12,476	23,355	8,112	(39)	276	(532)
Non-operating Income	(35,835)	(84,287)	(27,100)	214	(1,307)	(1,012)
R.A.I.I.D.A.I.E (*)	117,651	223,645	116,128	16,138	31,040	12,453
Taxes and Others	(8,369)	(17,287)	(13,646)	(980)	(2,425)	(1,218)
Income After Taxes	(18,911)	(50,959)	(15,469)	9,596	16,977	4,963
			Mobile Telephones			Others

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	Jan-Jun 2002	Jan-Dec 2002	Jan-Jun 2003	Jan-Jun 2002	Jan-Dec 2002
Operating Income	103,692	217,854	114,691	79,610	137,89
Income	99,875	209,208	112,077	69,051	115,30
Intercompany Transfers	3,818	8,646	2,614	10,558	22,58
Operating Expenses	(96,256)	(201,115)	(107,154)	(76,493)	(134,09
Payroll	(6,819)	(13,747)	(7,032)	(18,189)	(25,81
Depreciation	(24,432)	(51,557)	(30,253)	(9,971)	(17,13
Goods and Services	(59,630)	(125,908)	(64,655)	(36,656)	(66,99
Intercompany Transfers	(5,374)	(9,904)	(5,213)	(11,677)	(24,15
Operating Income	7,436	16,739	7,537	3,116	3,79
Non-operating Income and Expenses					
Financial Expenses	2,129	2,229	(467)	(948)	(1,06
Other Income and Expenses	475	(1,856)	(163)	2	(3,65
Intercompany Transfers	(7,392)	(12,505)	(3,972)	(1,464)	(3,70
Non-operating Income	(4,787)	(12,132)	(4,602)	(2,410)	(8,42
R.A.I.I.D.A.I.E (*)	24,952	53,935	33,655	11,626	13,56
Taxes and Others	(509)	(665)	1,265	(2,064)	(2,80
Income After Taxes	2,140	3,942	4,200	(1,357)	(7,44

(\*) R.A.I.I.D.A.I.E. : Income before taxes, interest, depreciation, amortization and extraordinary items.

GRAPH OF NET INCOME (LOSS) BY BUSINESS  
(Six month period ended June, 30)  
(Figures in millions of pesos as of 06.30.03)

(BAR GRAPH)

	Local	Corporate Communications	Long Distance	Mobile Telephones	Others
Jun 2002	(18,911)	9,596	9,915	2,140	(1,357)
Jun 2003	(15,469)	4,963	13,458	4,200	1,064

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## 5. STATEMENT OF CASH FLOWS

TABLE No. 4  
CONSOLIDATED CASH FLOWS  
(Figures in millions of pesos as of June 30, 2003)

DESCRIPTION	JAN-JUN 2002	JAN-JUN 2003	VARIATIO MCh\$
Cash flows from operating activities	123,754	154,603	32,849
Cash flows from financing activities	(69,635)	(116,858)	(47,223)
Cash flows from investment activities	(25,783)	(39,508)	(13,725)
Effect of inflation on cash and cash equivalents	(642)	(533)	109
Net change in cash and cash equivalents for the period	27,694	(296)	(27,990)

The decrease of CH\$ 296 million in cash and cash equivalents for 2003 to the increase of CH\$ 27,694 million in 2002, comes from higher cash flows destined to investment and, mainly to greater amortization and prepayment cash flows to decrease the debt of Telefonica CTC Chile, a situation that was partly offset by increased cash flows from operating activities during the first half of 2003, as compared to the same period of the previous year.

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## 6. FINANCIAL INDICATORS

TABLE No. 5  
CONSOLIDATED FINANCIAL INDICATORS

DESCRIPTION	JAN - JUN 2002	JAN - DEC 2002
LIQUIDITY RATIO		
Current Ratio	1.34	1.18

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(Current Assets / Current Liabilities)

Acid Ratio (Most liquid assets / Current Liabilities)	0.21	0.25
--	------	------

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### DEBT RATIOS

Debt Ratio (Total Liabilities / Shareholders' Equity)	1.22	1.09
--	------	------

Long-term Debt Ratio (Long-term Liabilities / Total Liabilities)	0.70	0.73
---	------	------

Financial Expenses Coverage (Income Before Taxes and Interest / Interest Expenses)	1.22	0.92
---	------	------

---

### RETURN AND NET INCOME PER SHARE RATIO

Operating Margin (Operating Income / Operating Revenues)	15.3%	15.1%
---	-------	-------

	3.1%	6.1%
--	------	------

Operational Income Return (Operating Income / Net Property, Plant and Equipment (1))	\$ 1.4	-\$18.6
---	--------	---------

Net Income per Share (Net Income / Average number of paid shares each year)	0.1%	-1.4%
--	------	-------

Return on Equity (Net income / Average shareholders' equity)	0.05%	-0.61%
---	-------	--------

Return Shareholders' on Assets (Net income / Average assets)	0.07%	-0.87%
---	-------	--------

Operating Assets Yield (Net income / Average operating assets (2))	0.06%	0.1%
---	-------	------

Return on Dividends (Paid dividends / Market Price per Share)		
--	--	--

---

### ACTIVITY INDICATORS

Total Assets	MCh\$ 3,013,688	MCh\$ 2,701,
Sale of Assets	MCh\$ 14,758	MCh\$ 21,
Investments in other companies and property, plant and equipment	MCh\$ 48,614	MCh\$ 147,

Inventory Turnover (Cost of Sales / Average Inventory)	0.65	2.6
---	------	-----

Days in Inventory (Average Inventory / Cost of sales times 360 days)	278	140
---	-----	-----

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(1) Figures at the beginning of the year, restated.

(2) Property, plant and equipment are considered operating assets

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In the previous table, the following is highlighted:

The current ratio shows a decrease because the levels of current assets and liabilities decreased by 37.9% and 35.0%, respectively. The debt ratio

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decreased due to lower levels of financial liabilities compared to January - June 2002.

### 7. EXPLANATION OF THE MAIN DIFFERENCES BETWEEN MARKET OR ECONOMIC VALUE AND THE BOOK VALUE OF THE COMPANY'S ASSETS

Due to an imperfect market for the assets of the sector, there is no economic or market value that can be compared to the respective accounting values. However, there are certain buildings with a book value of zero or close to zero, which have a market value, which, compared to the book value, is not significant in respect to the Company's assets taken as a whole.

In relation to other assets, such as marketable securities (shares and promissory notes) with a referential market value, the corresponding provisions have been set up, when the market value is lower than the book value.

### 8. REGULATORY ISSUES

#### Fixed Telephony Tariff Decree

Decree No. 187 is in effect as of May 5, 1999. It establishes maximum rates for Telefonica CTC Chile for local telephone services and interconnection services for a period of five years, which expires on May 4, 2004.

The main services subject to tariff regulation are: Telephone Line Service (formerly Fixed Charge), Local Measured Service, Local Tranche, Access Charges, Communications Service from Public Telephones and Network Unbundling Services.

In relation to the procedure to be followed for setting rates for services subject to tariff regulation, on January 13 of this year, Telefonica CTC Chile S.A. requested that the Antitrust Commission decree freedom of rates in specific geographic areas, that they define telephone services which will be subject to rate regulation in areas where the market conditions are not sufficient to guarantee a freedom of rates regime and that they determine that Telefonica CTC Chile S.A. has the right to offer alternative rate plans without prior authorization.

Subtel, together with the process of rate setting for Telefonica CTC Chile, initiated the process of rate setting for public services provided by Entelphone in Easter Island and access charge rates provided by Entelphone, CMET, Telesat and Manquehue Net.

On April 30, 2003, Telefonica CTC submitted to Subtel its proposal for the Technical Economic Basis for the Tariff Setting Study for services provided to the public and for the Tariff Setting Study for services provided by Telefonica CTC Chile to other concessionaires of Public Telephone services, to intermediate services concessionaires that provide long distance telephone services and to suppliers of complementary services.

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On its side, on May 20, 2003, the Antitrust Commission dictated Resolution No. 686 which defines the services subject to rate setting by the Ministries of Economy and of Transportation and Telecommunications, which



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are similar to those established for the 1999 - 2004 period. The mentioned resolution No. 686 rejects the petition for tariff deregulation for specific primary zones requested by Telefonica CTC Chile, and in relation to the request for rate flexibility, informed favorably by the Regulator, the Antitrust Commission did not issue a specific pronouncement in spite of the fact that most of its members were in favor of making a pronouncement on the same, whereas the rest of the members considered that such matter did not correspond to that Commission.

On May 30, 2003, Subtel sent Telefonica CTC Chile the Preliminary Technical Economic Basis. In this respect, Telefonica CTC Chile formulated 84 controversies to the Preliminary Technical Economic Basis of Subtel and requested the formation off a panel of experts in conformity with what is established in the law and Regulations that regulates the Procedure, Advertising and Participation in the Rate Setting Process.

The Expert Commission was officially constituted on June 17, integrated by the experts designated by Telefonica CTC Chile and Subtel. On July 17, the mentioned panel issued its report on the controversies informed by Telefonica CTC Chile. Once the pronouncement has been sent, which is not binding upon nature Subtel, it has 10 days to dictate the Final Technical Economic Basis.

Entelphone, CMET, Manquehue Net and Telesat did not formulate controversies to the Preliminary Technical Economic Basis. Consequently with the above, Subtel dictated the Final Technical Economic Basis for the respective companies.

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### Mobile Telephone Tariff Decree

Decree No. 97 is in effect as of February 12, 1999. It establishes maximum rates for Telefonica Movil for interconnection services, including Mobile Access Charge, for a period of five years, which expires on February 12, 2004.

Since the expiry of the five-year period of current regulated rates is nearing, on January 10, 2003, Telefonica Movil presented its Technical Economic Basis Proposal to the Undersecretary of Telecommunications, beginning the process of setting the rates for the 2004-2009 period. In Exempt Resolution dated February 22, 2003, the Undersecretary of Telecommunications approved the Final Technical Economic Basis that will apply to the process of setting the Access Charges Rates for the mobile telephone public service for the 2004 - 2009 period.

### Lawsuit Against the State of Chile

Upon extinguishing the administrative instances to correct the illegalities involved in the Tariff Setting Process, Telefonica CTC Chile S.A. filed a lawsuit for damages against the State of Chile.

The lawsuit for US\$274 million, plus readjustments and interests, covers past and future damages until May 2004, resulting from having to charge lower rates than those that should legally have been set.

The Third Civil Court of Santiago accepted the complaint, and notified the State. Once the answer from the State had been received, as well as the

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answer and rejoinder with which the discussion period ends, the Court dictated the writ of evidence, setting the pertinent, substantial and disputed evidence, which initiated the presentation of evidence stage, in which witnesses for the plaintiff and for the State have testified.

Upon conclusion of the testimonial and partial testing, the expert investigation stage requested by the parties begins.

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### 9. ANALYSIS OF MARKETS, COMPETITION AND RELATIVE PARTICIPATION

Continued growth is observed in the mobile and broad band Internet market during the first quarter of 2003, in contrast with the stagnation in the fixed-network voice communication, long distance and narrow band Internet business.

In the competitive environment, there were no relevant changes in the relative participation of the operators in the various businesses, with exception of an increase in the participation of Telefonica CTC Chile in the broad band market.

Among the relevant competitive events, in mid-April 2003, the highlight is the announcement of the owner of AT&T Chile (AT&T Latin America) that it had requested protection under Chapter 11 of the Bankruptcy Law in the United States of America for reorganizing its operations. At the same time AT&T Corp had an agreement of intent to sell its participation in AT&T Latin America to Southern Cross, which finally did not prosper.

#### Local Telephone Service

This market contemplates providing local telephone services inside the primary areas, interconnection services with other telecommunications companies and other unregulated local services.

Incorporation into this market is regulated by concessions awarded by the Undersecretary of Telecommunications of the Ministry of Transport and Telecommunications (Subtel).

Currently eleven companies with twelve brands participate in this market, including rural operators. The penetration rate per 100 inhabitants as of MAY 2003 was in the order OF 23.7 lines per 100 inhabitants (considering the population figures of the April 2002 census) Telefonica CTC Chile has approximately 75.5% of fixed telephone lines as of May 2003.

On August 21, 1999, Decree No. 187 was published in the Official Gazette. This decree was drafted jointly by the Ministries of Transport and Telecommunications and of Economy, Development and Reconstruction and it sets rates for the regulated services of Telefonica CTC Chile during the five-year period from 1999-2004. The Decree had to be applied retroactively as of May 4, 1999.

In Resolution No. 611, the Antitrust Commission established the possibility for Telefonica CTC Chile to offer alternative tariff plans to Decree No. 187, oriented toward volume discounts, and to request tariff deregulation in certain geographic areas. In this regard, on September 4, 2001, Telefonica CTC Chile presented a proposal for alternative tariff plans (for high traffic consumption), which was approved in October 2002.

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On May 24, 2002, Telefonica CTC Chile also obtained authorization from Subtel to commercialize prepaid telephone service for low income segments, which was commercially implemented in October 2002.

Of the five companies that were awarded the bid to operate fixed wireless telephone service concessions in the 3,400 to 3,700 MHz or Wireless Local Loop (WLL), only Entel (licenses: one national and 13 regional) is currently developing its projects. Telefonica del Sur (which was awarded licenses from the VIII to X Regions) informed Subtel of the interruption of its project, due to extenuating circumstances, this being the reason that Subtel annulled the concession for local wireless public service in the VIII and IX regions.

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Telefonica CTC Chile does not currently hold a license to operate with WLL technology.

#### Long Distance

This market contemplates communications services between primary areas (DLD) and international communications (ILD), also known as intermediate services.

On March 9, 1994 Law No. 19,302 came into effect. It establishes the application of a multicarrier system for domestic and international long distance calls. This law allows local telephone operators to participate in the long distance market through an independent subsidiary subject to some requirements.

In this market there are currently 14 companies operating with 17 carrier codes. Traffic in the DLD and ILD market, through fixed telephone lines recorded a drop in the first half of 2003 with respect to the first half of 2002 estimated at 11% and 6% respectively. Telefonica CTC Chile, through its subsidiaries 188 Telefonica Mundo and GLOBUS 120, reached an estimated market share of 38.7% in domestic long distance and 31.4% in outgoing international long distance, in the second quarter of 2003.

#### Corporate Communications

This business area contemplates providing circuit and data services (Datared, El, ATM, Frame Relay), IP network solutions, Hosting, ASP and advanced telecommunications solutions for corporate clients and Internet service providers (ISPs). Likewise, it includes the commercialization of advanced equipment (multiple lines and PABx, among others).

In October 2002, Telefonica Empresas refocused toward the company and corporate segments. In this business Telefonica CTC Chile competes with 8 companies in the private service area and with at least 10 companies in the hosting business, with a market share of approximately 47% considered during the first half of 2003, including sale of advanced equipment to companies.

#### Mobile Communications

Provides mobile communication services (cellular telephony, paging, trunking and wireless data transmission).

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There are currently four mobile telephone operators and one smaller operator of mobile satellite communications.

Telefonica CTC Chile, through its subsidiary Telefonica Movil, has approximately 30% of a total of 6.6 million of customers estimated as of June 2003.

Regarding the tender offer for PCS mobile spectrum in the 1,900 MHz band (3 bands of 10 MHz each), once the Supreme Court verdict to exclude Smartcom was handed down, the Ministry of Transport and Telecommunications called on Telefonica Movil S.A. and Bellsouth to proceed to bid on the three concessions on July 18, 2002.

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On July 18, 2002, the three 10 MHz frequencies on the 1,900 MHz band were awarded. Telefonica Movil Chile was awarded two frequencies (20 MHz) for a total of UF 544,521, equivalent to US\$12.8 million.

On the other hand, Telefonica CTC enabled the specialized radio-communications interconnection requested by a mobile service operator, which is available as of the beginning of April 2003.

#### Pay TV

The pay television market is composed of two main cable TV competitors with approximately 80% of the pay TV market. (roughly 710,000 customers), two satellite TV operators and approximately 20 cable TV operators in specific areas, jointly have the remaining 20% of the market.

On July 3, 2000, a contract was signed for the sale by Telefonica CTC Chile of Metropolis Intercom to Cordillera Comunicaciones S.A. once the transaction was authorized by the Antitrust Commission. The amount of the transaction was US\$270 million for 40% of Metropolis Intercom, 100% of its cable television network (except the cable TV network in the IV and VIII Regions) and 100% of Compania de Telecomunicaciones de Chile Plataforma Tecnica Red Multimedia. In addition the arbitration processes of both companies ended by way of a legal settlement.

In January 2002, a merger agreement was reached between Liberty Media and United Global Com (UCG), companies that participate in the Chilean operators Metropolis Intercom and VTR, respectively.

#### Internet Access

In this market there are currently approximately 34 ISP's operating effectively, in which three of them concentrate 83% of the traffic. IP traffic (switched) for the second quarter of 2003 in the network of Telefonica CTC Chile, reached approximately 1,671 million of minutes, a 2% drop in respect to the second quarter of 2002 mainly due to the migration of intensive users to broad band access.

Telefonica CTC Chile focuses on Internet access for corporate clients through its ISP TIE, segment in which it holds a market share near to 30%, and has commercial agreements with ISP Terra.

Telefonica CTC Chile continues with an intensive deployment of internet access through ADSL broad band, directly to the final customer and through a wholesale model in the ISP industry. At the end of June 2003, Telefonica

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CTC Chile's broadband connections in service reached 84,202, representing a growth of 178.2% when compared to June 2002, thus achieving a market share of 33%.

### Management's Discussion and Analysis of the Consolidated Financial Statements 20

#### Other Businesses

Comprises the Public Telephone market, in which Telefonica CTC Chile participates through its subsidiary CTC Equipos. There are seven nationwide companies of, which CTC Equipos, as of June 2003, has approximately 23% market share as of June 2003 considering its own public telephones. Additionally, Telefonica CTC Chile has another 21,588 community telephones installed.

On January 11, 1999, Telefonica CTC Chile completed the acquisition of 60% of Sonda S.A. The agreement included the commitment of Sonda S.A. to purchase 100% of the information assets of Telefonica CTC Chile, which has completed in the first quarter of 1999.

On October 12, 2001, Telefonica CTC Chile signed a new shareholders' agreement with Inversiones Pacifico II Ltda. and Inversiones Atlantico Ltda. in which it grants each of these companies a call option for its 60% stake in Sonda S.A. maturing in June 2005. Additionally, the outsourcing and rental contracts between Sonda and Telefonica CTC Chile were terminated and a contract was signed in virtue of which Telefonica CTC Chile repurchases, at book value, the assets that were sold to Sonda S.A. in January 1999.

On September 26, 2002, Telefonica CTC Chile S.A., through its subsidiary Telefonica Empresas signed a sales contract for 25% ownership of Sonda S.A. for Ch\$27,921 million (approximately US\$37.5 million), paid in cash.

Through this agreement Inversiones Pacifico II Limitada acquired 11% of Sonda and Inversiones Santa Isabel Limitada acquired 14%. Both companies are related to Mr. Andres Navarro H. Thus, company's control is transferred to Andres Navarro, while Telefonica CTC Chile keeps the remaining 35% ownership through its subsidiary Telefonica Empresas.

On November 20, 2001 a new subsidiary was formed to commercialize and install alarm systems and video cameras for residential and corporate customers, providing monitoring and surveillance services and any other service relating to the above. As of May 2003, it is estimated that Telefonica CTC Chile has a market share of 29% in this service.

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#### 10. ANALYSIS OF MARKET RISK

##### Financial Risk Coverage

With the attractive foreign interest rates in certain periods, the Company has obtained financing abroad, denominated mainly in dollars and euros and, in certain cases, at a floating interest rate. For this reason the Company faces two types of financial risks, the risk of exchange rate fluctuations and the risk of interest rate fluctuations.

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### Financial risk due to foreign currency fluctuations

The Company has exchange rate coverage instruments, the purpose of which is to reduce the negative impact of dollar and euro fluctuations on its financial results. The percentage of interest-bearing debt exposure is defined and continuously reviewed, basically considering the volatility of the exchange rate, its trend, and the cost and availability of hedging instruments for different terms.

The main hedging instruments used are dollar/UF and dollar/peso forward agreements.

As of June 30, 2003, the interest-bearing debt in original currency expressed in dollars was US\$1,413 million, including US\$991 million of financial liabilities in dollars, US\$220 million in debt expressed in "unidades de fomento" (inflation indexed Chilean currency unit), and US\$160 million of debt in euros. In this manner, US\$1,211 million corresponded to debt exposed to foreign currencies, and therefore directly or indirectly exposed to variations of the dollar.

Simultaneously, the Company had dollar/UF and dollar/peso exchange insurance and assets in dollars that resulted, as of June 30, 2003, in Zero exposure to foreign exchange.

### Financial risk due to floating interest rate fluctuations

The policy for hedging interest rates seeks to reduce the negative impact on financial expenses due to interest rate increases.

As of June 30, 2003, the Company had debts at variable interest rates, Libor, Euro Libor and TAB, mainly for syndicated loans.

To protect the Company from increases in the variable (floating) interest rates, derivative financial instruments have been used, particularly "collars" and "Forward Rate Agreements" (which protect the Libor rate), to limit the future fluctuations of interest rates. As of June 30, 2003, this has allowed the Company to end with an exposure of 16% of the total interest-bearing debt in original currency.

### SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

Date: August 29, 2003

TELECOMMUNICATIONS COMPANY OF CHILE

By /s/ Julio Covarrubias F.  
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Name: Julio Covarrubias F.  
Title: Chief Financial Officer

