

NATIONAL TELEPHONE CO OF VENEZUELA

Form 6-K

March 16, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6 - K

Report of Foreign Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of the

Securities Exchange Act of 1934

For the month of March 2005

NATIONAL TELEPHONE COMPANY OF VENEZUELA (CANTV)

(Translation of Registrant's Name into English)

EDIFICIO CANTV

AVENIDA LIBERTADOR

CARACAS, VENEZUELA

(Address of Principal Executive Offices)

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

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Form 20-F Form 40-F

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

Yes No

If Yes is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82 -

This report consists of an English translation of the original Spanish language version of a Venezuelan filing of the unaudited financial statements of Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) as of and for the period ended on December 31, 2004, prepared according to Venezuelan GAAP, which differ in certain important respects from US GAAP, as filed with the Venezuela National Commission on Securities on February 25, 2005.

This report contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Actual results could differ materially from those predicted in such forward-looking statements. Factors which may cause actual results to differ materially from those discussed herein include economic considerations that could affect demand for telecommunications services and the ability of the Company to make collections, inflation, regulatory factors, exchange controls and occurrences in currency markets, competition, labor relations, and the risk factors set forth in the Company's various filings with the Securities and Exchange Commission, including its most recently filed Annual Report on Form 20-F. The Company undertakes no obligation to revise these forward-looking statements to reflect events or circumstances after the date hereof, and claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

ENGLISH TRANSLATION

Caracas, February 25, 2005

Sirs

Comisión Nacional de Valores

Present

Attention: Dra. Aida Lamus

President

Dear Dra. Lamus,

In accordance with the requirements of the Periodic or Occasional Information Reporting Norms to Be Submitted by Individuals Regulated by the Venezuelan National Commission on Securities (Normas Relativas a la Información Periódica u Ocasional que Deben Suministrar las Personas Sometidas al Control de la Comisión Nacional de Valores), attached please find the unaudited Financial Statements as of and for the period ended December 31, 2004, which includes its respective notes, that are presented comparative to the previous year ago period (2003).

I will make myself available should you need any clarification or additional information.

Sincerely yours,

/s/ Gregorio Tomassi
Gregorio Tomassi
Head of Strategic Planning and Investor Relations

Cantv

**COMPAÑÍA ANÓNIMA NACIONAL TELÉFONOS DE
VENEZUELA (CANTV) AND SUBSIDIARIES**

Consolidated Financial Statements

as of December 31, 2004 and 2003,

and for the years ended

December 31, 2004, 2003 and 2002

(Translation of financial statements originally issued in Spanish)

COMPAÑÍA ANÓNIMA NACIONAL TELÉFONOS DE VENEZUELA (CANTV) AND SUBSIDIARIESCONSOLIDATED BALANCE SHEET

(In millions of constant bolivars as of December 31, 2004)

	December 31,	
	2004	2003
ASSETS		
CURRENT ASSETS:		
Cash and temporary investments	993,004	930,679
Accounts receivable, net (Note 6)	474,909	517,761
Accounts receivable from Venezuelan Government entities (Note 7)	182,007	138,544
Inventories, spare parts and supplies, net (Note 8)	262,116	87,445
Other current assets	47,120	60,468
Total current assets	1,959,156	1,734,897
Property, plant and equipment, net (Note 9)	4,073,704	4,455,547
Cellular concession, net (Note 2)	185,654	192,425
Long-term accounts receivable from Venezuelan Government entities (Note 7)	38,607	29,012
Other assets (Note 10)	352,550	443,796
Total assets	6,609,671	6,855,677
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of the long-term debt (Note 11)	169,605	238,450
Accounts payable	747,398	485,302
Accrued employee benefits	86,099	91,100
Short-term pension and other post-retirement benefit obligations (Note 13)	88,883	90,470
Dividends payable	23,568	81,928
Deferred revenue	146,769	146,980
Other current liabilities (Note 12)	301,004	275,220
Total current liabilities	1,563,326	1,409,450
LONG-TERM LIABILITIES:		
Long-term debt (Note 11)	92,837	219,392
Provision for legal and tax contingencies (Note 19)	122,221	56,218
Pension and other post-retirement benefit obligations (Note 13)	701,900	767,432
Total liabilities	2,480,284	2,452,492
Minority interests	4,467	3,261

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STOCKHOLDERS EQUITY (Note 14):		
Capital stock adjusted for inflation (equivalent to nominal capital stock of Bs. 29,047 and Bs. 34,173, respectively)	2,564,026	3,013,017
Additional paid-in capital	40,453	40,453
Retained earnings	1,283,644	1,477,579
Legal reserve	256,403	325,303
Treasury stock		(448,991)
Workers benefit shares	(95,830)	(97,629)
Translation adjustment and other	76,224	90,192
	<u> </u>	<u> </u>
Total stockholders equity	4,124,920	4,399,924
	<u> </u>	<u> </u>
Total liabilities and stockholders equity	6,609,671	6,855,677
	<u> </u>	<u> </u>

The accompanying notes are an integral part of the consolidated financial statements

(Translation of financial statements originally issued in Spanish)

COMPAÑÍA ANÓNIMA NACIONAL TELÉFONOS DE VENEZUELA (CANTV) AND SUBSIDIARIESCONSOLIDATED STATEMENT OF OPERATIONS

(In millions of constant bolivars as of December 31, 2004, except information per share and per ADS)

	Years ended December 31,		
	2004	2003	2002
OPERATING REVENUES:			
Local service	957,716	1,055,042	1,186,823
Domestic long distance	300,744	300,107	381,755
Local and domestic long distance	1,258,460	1,355,149	1,568,578
International long distance	113,671	116,651	152,409
Net settlements	(2,310)	13,861	21,959
International long distance	111,361	130,512	174,368
Fixed to mobile outgoing calls	656,251	676,278	860,069
Interconnection incoming	87,916	86,638	69,804
Data transmission	412,560	342,721	257,810
Other wireline-related services	180,729	131,555	119,251
Total wireline services	2,707,277	2,722,853	3,049,880
Wireless services	1,052,284	817,016	764,846
Wireless equipment sales	204,861	62,972	17,690
Total wireless services	1,257,145	879,988	782,536
Other	142,201	145,514	131,312
Total operating revenues	4,106,623	3,748,355	3,963,728
OPERATING EXPENSES:			
Labor and benefits	576,581	662,969	679,954
Operations, maintenance, repairs and administrative	1,186,939	867,676	960,776
Cost of sales of wireless equipments	270,912	94,060	44,468
Provision for uncollectibles	89,198	104,507	105,305
Interconnection costs	411,352	425,917	401,507
Depreciation and amortization	963,344	1,231,807	1,308,861
Concession and other taxes	250,215	217,892	301,258
Total operating expenses	3,748,541	3,604,828	3,802,129
Operating income	358,082	143,527	161,599

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OTHER INCOME (EXPENSES), NET:			
Financing benefit (cost), net (Note 15)	25,251	(19,647)	(14,402)
Gain (loss) in sale of investments	12,576	(46,243)	
Other income (expenses), net	3,764	892	(9,374)
	<u>41,591</u>	<u>(64,998)</u>	<u>(23,776)</u>
Income before income tax	399,673	78,529	137,823
INCOME TAX (Note 17)	(91,193)	(42,420)	(35,566)
	<u>308,480</u>	<u>36,109</u>	<u>102,257</u>
Income before minority interest	308,480	36,109	102,257
Minority interest	1,796	625	1,008
	<u>306,684</u>	<u>35,484</u>	<u>101,249</u>
Net income	306,684	35,484	101,249
	<u>395</u>	<u>46</u>	<u>130</u>
Earnings per share	395	46	130
	<u>2,766</u>	<u>320</u>	<u>913</u>
Earnings per ADS (based on 7 shares per ADS)	2,766	320	913
	<u>776</u>	<u>776</u>	<u>776</u>
Average shares outstanding (in millions)	776	776	776

The accompanying notes are an integral part of the consolidated financial statements

(Translation of financial statements originally issued in Spanish)

COMPAÑÍA ANÓNIMA NACIONAL TELÉFONOS DE VENEZUELA (CANTV) AND SUBSIDIARIESCONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITYYEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(In millions of constant bolivars as of December 31, 2004)

	Capital stock			Additional paid-in capital	Retained earnings	Legal reserve	Treasury stock	Workers benefits shares	Translation and other adjustments	Total stockholders equity
	Nominal value	Inflation adjustment	Total							
Balance as of December 31, 2001	34,173	2,978,846	3,013,017	40,453	2,168,642	325,303	(448,991)	(92,619)	77,951	5,083,756
Net income					101,249					101,249
Dividends declared (Note 14)					(418,433)					(418,433)
Workers benefit shares					(4,399)			(6,210)		(10,609)
Valuation of available for sale investments									16,359	16,359
Balance as of December 31, 2002	34,173	2,978,846	3,013,017	40,453	1,847,059	325,303	(448,991)	(98,829)	94,310	4,772,322
Net income					35,484					35,484
Dividends declared (Note 14)					(400,054)					(400,054)
Workers benefit shares					(4,910)			1,200		(3,710)
Valuation of available for sale investments									(4,118)	(4,118)
Balance as of December 31, 2003	34,173	2,978,846	3,013,017	40,453	1,477,579	325,303	(448,991)	(97,629)	90,192	4,399,924
Net income					306,684					306,684
Dividends declared (Note 14)					(571,587)					(571,587)
Workers benefit shares					2,068			1,799		3,867
Cancellation of treasury stock (Note 14)	(5,126)	(443,865)	(448,991)				448,991			
Release of excess of legal reserve (Note 14)					68,900	(68,900)				
Valuation of available for sale investments									(13,968)	(13,968)
Balance as of December 31, 2004	29,047	2,534,981	2,564,026	40,453	1,283,644	256,403		(95,830)	76,224	4,124,920

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(Translation of financial statements originally issued in Spanish)

COMPAÑÍA ANÓNIMA NACIONAL TELÉFONOS DE VENEZUELA (CANTV) AND SUBSIDIARIESCONSOLIDATED STATEMENT OF CASH FLOWS

(In millions of constant bolivars as of December 31, 2004)

	<u>Years ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES			
Net income	306,684	35,484	101,249
Adjustments to reconcile net income to net cash provided by operating activities-			
Loss (gain) from net monetary position	24,673	(3,804)	(49,004)
Exchange (gain) loss, net	(6,329)	53,651	68,586
Gain in sale of investments	(12,576)		
Depreciation and amortization	963,344	1,231,807	1,308,861
Provision for doubtful accounts	89,198	104,507	105,305
Provision for inventories obsolescence	48,460	11,081	45,847
Provision for legal and tax contingencies	109,311	31,449	32,142
Changes in current assets and liabilities -			
Accounts receivable	(121,714)	(64,807)	(238,592)
Accounts receivable from Venezuelan Government entities	(85,801)	(56,795)	24,193
Inventories, spare parts and supplies	(225,825)	26,252	(15,292)
Other current assets	8,657	(42,609)	1,551
Accounts payable	361,892	(20,195)	158,253
Accrued employee benefits	8,554	80,072	(28,746)
Deferred revenues	15,885	10,609	16,256
Other current liabilities	47,502	31,561	(4,636)
	<u>1,531,915</u>	<u>1,428,263</u>	<u>1,525,973</u>
Changes in non current assets and liabilities -			
Other assets	55,148	(16,375)	31,614
Pension and other post-retirement benefit obligations	(65,532)	(125,744)	(120,156)
	<u>1,521,531</u>	<u>1,286,144</u>	<u>1,437,431</u>
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Acquisition of information systems, net of disposals	(62,102)	(16,931)	(168,072)
Capital expenditures, net of disposals	(475,149)	(131,318)	(606,366)
	<u>(537,251)</u>	<u>(148,249)</u>	<u>(774,438)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES:			
Proceeds from borrowings	41,950		
Payments of debt	(231,768)	(115,956)	(303,176)
Dividends paid	(620,489)	(675,937)	(396,596)
Assignment (purchase) of shares for workers benefit fund	3,867	(3,710)	(10,609)
	<u>(806,440)</u>	<u>(795,603)</u>	<u>(710,381)</u>

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Increase (decrease) in cash and temporary investments before loss in purchasing power of cash and temporary investments and foreign exchange gain on cash and temporary investments	177,840	342,292	(47,388)
LOSS IN PURCHASING POWER OF CASH AND TEMPORARY INVESTMENTS:	(143,008)	(166,147)	(119,358)
FOREIGN EXCHANGE GAIN OF CASH AND TEMPORARY INVESTMENTS:	27,493	69,739	252,372
	<u> </u>	<u> </u>	<u> </u>
Increase in cash and temporary investments	62,325	245,884	85,626
CASH AND TEMPORARY INVESTMENTS:			
Beginning of the year	930,679	684,795	599,169
	<u> </u>	<u> </u>	<u> </u>
End of the year	993,004	930,679	684,795
	<u> </u>	<u> </u>	<u> </u>
SUPPLEMENTARY INFORMATION:			
Unpaid dividends	23,568	81,928	358,500
	<u> </u>	<u> </u>	<u> </u>
Cash paid during the year for -			
Interest	25,129	44,400	56,440
	<u> </u>	<u> </u>	<u> </u>
Taxes	425,722	508,650	372,043
	<u> </u>	<u> </u>	<u> </u>
RESULT FROM NET MONETARY POSITION:			
Operating activities	65,650	55,246	48,966
	<u> </u>	<u> </u>	<u> </u>
Financing activities	52,685	114,705	119,396
	<u> </u>	<u> </u>	<u> </u>

The accompanying notes are an integral part of the consolidated financial statements

(Translation of financial statements originally issued in Spanish)

COMPAÑÍA ANÓNIMA NACIONAL TELÉFONOS DE VENEZUELA (CANTV)

AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004

(Amounts are adjusted for inflation and expressed in millions of constant

bolivars as of December 31, 2004, unless otherwise indicated)

NOTE 1 - EXPLANATION ADDED FOR TRANSLATION INTO ENGLISH:

The consolidated financial statements were originally issued in Spanish and translated into English.

NOTE 2 - COMPANY BACKGROUND AND CONCESSION AGREEMENT:

Compañía Anónima Nacional Teléfonos de Venezuela (referred to as CANTV or the Company) is one of the primary providers of telecommunication services in Venezuela, and the owner of a nationwide basic telecommunications network through which it provides local, national and international wireline telephone service, and private networks, data, public telephone, rural and telex services. In addition, CANTV provides other telecommunication services including national wireless communications, Internet access and publication of telephone directories through its principal subsidiaries: Telecomunicaciones Movilnet, C.A. (Movilnet), Cantv.Net, C.A. (Cantv.Net), C.A. Venezolana de Guías (Caveguías), and Altair, C.A. (Altair). (See note 3 (d) - Consolidation).

CANTV entered into a Concession Agreement (referred to as the Concession) with the Government of the Bolivarian Republic of Venezuela (referred to as the Government) in 1991 to provide, manage and operate national telecommunications services, with the purpose of guaranteeing high quality service, modernizing and expanding the local network, introducing progressive rate rebalancing and establishing a framework for the introduction of competition. CANTV did not make an initial payment for this concession. November 2000 marked the opening of the telecommunications market to competition and the entrance of new competitors (see Note 19 (d) - Commitments and contingencies - Concession mandates and Note 4 (c) - Regulation - Competition). Beginning on June 12, 2000, the Company was regulated by the Concession and the Organic Telecommunication Law, enacted on that date (see Note 4 - Regulation).

Significant terms of the Concession are as follows:

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- a) The Concession established a special privilege regime of limited concurrence, through which the Government designated CANTV, except in certain circumstances, as the exclusive provider of wireline telephone service, including local, national and international access until November 27, 2000. Beginning on November 27, 2000, any party who obtains the corresponding administrative concession is permitted to provide basic telecommunication services in the country (see Note 4(c) - Regulation).

- b) The Concession is for 35 years ending in 2026, and is renewable for an additional period of 20 years subject to the approval of the Ministry of Infrastructure (referred to as the Ministry) and satisfactory performance by CANTV of its obligations under the Concession.
- c) Until December 31, 2000, CANTV paid to the Government an annual 5.5% of billed services related to Concession tax. Beginning in January 2001, the Company is subject to an annual concession tax of up to 4.8% of gross revenues (see Note 4(a) - Regulation - Tax regime). These expenses are reflected in the accompanying consolidated statements of operations as Concession and other taxes totaling Bs 101,823, Bs 91,274 and Bs 113,395 for the year ended December 31, 2004, 2003 and 2002, respectively.
- d) The Concession specifies various penalties that may be imposed on CANTV for negligent or intentional violation of its provisions. Depending on the nature of the violation, penalties may include a public reprimand, a fine up to 1% of services billed, and/or revocation and termination of the Concession. Penalties assessed against CANTV through December 31, 2004 have not been material. Also, penalties assessed against CANTV through December 31, 2004 for other concepts have not been material.

Cellular Concession

On May 19, 1992, the Company purchased one of two Cellular concessions from the Government for Bs 275,039 (Bs 5,388 on an historical cost basis) and established Movilnet. The cellular concession was granted for 20 years and is renewable for an additional 20 year period. The amount paid for the cellular concession is being amortized over 40 years. As of December 31, 2004 and 2003, accumulated amortization is Bs 89,385 and Bs 82,614, respectively.

The cellular concession agreement specifies various penalties that may be imposed on CANTV for negligent or intentional violation of its provisions. Depending on the nature of the violation, penalties may include a public reprimand, imposition of fines proportionate to the damage caused and/or temporary suspension or extinction of the concession. Through December 31, 2004, no penalties have been imposed on Movilnet under this concession agreement.

Beginning in 2001, the tax regime applicable to cellular services operators was 9.3% of gross revenues subsequently decreasing by 1% per annum through 2005 (see Note 4(a) - Regulation - Tax regime).

For the years ended December 31, 2004, 2003 and 2002, the Cellular concession tax expense included in the consolidated statements of operations is reflected as Concession and other taxes and totaled Bs 77,464, Bs 50,741 and Bs 87,993, respectively.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES:

a) Basis of presentation

Consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in Venezuela (VenGAAP) issued by the Venezuelan Federation of Public Accountants (VFPA). According to the Venezuelan Statement of Accounting No. 0, the hierarchy of controlling accounting guidance is VenGAAP followed in succession by the International Financial Reporting Standards (IFRS), Mexican GAAP bulletins, Financial

Accounting Standard Board pronouncements (FASB) and accounting standards issued by other Latin-American countries with issues similar to those of Venezuela.

b) Use of estimates in the preparation of financial statements

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of revenues and expenses recognized during the reporting period. Actual results may differ from those estimates.

c) Adjustment for inflation

The Company's consolidated financial statements are expressed on a constant bolivar basis as of December 31, 2004, in accordance with the Venezuelan Statement of Accounting Principles Number 10 Standards for the Preparation of Financial Statements Adjusted for Inflation (DPC 10) (revised and comprehensive), issued by the VFPA and dated December 2000. For all legal and statutory purposes, CANTV uses financial statements adjusted for inflation.

Amounts disclosed in the consolidated financial statements have been adjusted to reflect the bolivar's purchasing power at December 31, 2004 based on the Consumer Price Index (CPI) for the metropolitan area of Caracas as published by the Central Bank of Venezuela (BCV). The purpose of this update is to present financial statements under the same purchasing power. Therefore, the accompanying financial statements do not represent market or realizable value of non-monetary assets, which will vary from the updated values based on price indices.

As of December 31, the most representative indices used in the preparation of the inflation adjusted financial statements are as follows (1997 base):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Period CPI	459.65073	385.66175	303.46946
Average for period CPI	428.73086	352.14698	268.63036
Annual Inflation	19%	27%	31%

Each caption in the accompanying consolidated financial statements has been presented on the basis of the CPI at December 31, 2004, as follows:

- i. Monetary assets and liabilities (cash and cash equivalents, accounts receivable, certain other assets and most liabilities) including foreign currency balances as of December 31, 2004, have not been adjusted for the effect of inflation since they already represent their inflation-adjusted value at that date. The balances as of December 31, 2003, have been updated based upon the relative change in the CPI between that date and the CPI at December 31, 2004.
- ii. Non-monetary assets (principally inventories, spare parts and supplies, net, property, plant and equipment, net, the cellular concession, net and certain other assets) and shareholders' equity have been updated based upon the relative change in the CPI between the time the assets and equity were acquired or contributed and the CPI at December 31, 2004.

- iii. The non-monetary liability for pension and other post-retirement benefit obligations and their related expenses is recorded based on actuarial calculations (see Note 13 - Retirement benefits).
- iv. Monetary revenues and expenses have been updated based on the change in the CPI from the month in which transactions were recorded and the CPI at December 31, 2004.
- v. Non-monetary expenses (primarily depreciation, amortization and pension and other post-retirement benefit expenses) are based on the value of the corresponding asset (primarily property, plant and equipment, cellular concession and software) in the accompanying consolidated balance sheets (See (ii) above).
- vi. The monetary result is attributable to the Company's net monetary asset or liability position during an inflationary period and is shown under the Financing cost, net in the accompanying consolidated statements of operations (see Note 15- Financing cost, net).

d) Consolidation

The consolidated financial statements include CANTV and all its majority-owned subsidiaries. CANTV's principal subsidiaries are: Movilnet, Cantv.Net, Caveguías, CANTV Finance Ltd. and Altair, C.A The Company is also consolidating the workers' benefit fund (see Note 14 - Shareholder's equity - Workers' benefit fund). All subsidiaries are wholly owned, except for Caveguías which is 80% owned. All significant intercompany balances and transactions among the companies have been eliminated in consolidation.

On October 24, 2003, an extraordinary Shareholders' Meeting of Altair approved its dissolution and the transfer of its assets and liabilities to CANTV effective December 31, 2003, before which date it was included as a subsidiary in the consolidated financial statements.

e) Cash and cash equivalents

Cash and cash equivalents and temporary investments include short-term, highly liquid investments, having original maturities of three months or less. The loss in purchasing power of bolivar denominated cash and cash equivalents and temporary investments is due to inflation and foreign exchange gains of cash and cash equivalents and temporary investment, are reflected as a separate caption in the consolidated statements of cash flows.

f) Inventories, spare parts and supplies, net

Inventories, spare parts and supplies are recorded at acquisition cost, net of reserves, which do not exceed their net realizable value. Certain inventories, spare parts and supplies whose original cost per unit does not exceed the equivalent in bolivars of US\$500 are expensed when purchased.

g) Property, plant and equipment and depreciation and amortization

Property, plant and equipment is recorded at acquisition or construction cost, adjusted for inflation. Property, plant and equipment includes capitalized direct labor, allocated overhead costs, and materials used in connection with construction work in progress. Maintenance and repair costs are expensed when incurred while major improvements (including technological upgrade) and renewals that extend the assets' useful lives or asset capability are capitalized. Upon disposal of fixed assets, the cost and accumulated depreciation are reduced from fixed asset accounts, and any gain or loss is recognized in the Company's consolidated statements of operations.

Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the fixed assets and the amortization over the period assigned to the intangible assets (see Note 2 - Company Background and Concession Agreement - Cellular Concession and Note 10- Other assets).

In November 2004, based on technical studies, the Company revised and updated the depreciation periods of certain equipment from the cellular network related to second generation mobile services changing the useful lives from 7 to 5 years, and certain radio bases components changing the useful lives from 7 to 3 years. These changes in estimates resulted in an additional expense recorded in 2004 of Bs 12,104.

h) Computer software

The cost of certain projects and computer systems (software) for internal use and the upgrades that extend the assets' useful lives or asset capability are capitalized and classified as information systems. The cost of these assets is amortized between 3 to 7 years. Internal-use software is defined as software which is acquired, internally developed, or modified solely to meet the internal needs of the Company, and no substantive plan exists or is being developed by the Company to market the software externally. Regular maintenance and modifications to existing software and modifications to existing software and internal costs incurred in the adoption and implementation of new software are expensed when incurred.

i) Impairment of long-lived assets

The Company assesses impairment of long-lived assets, including intangible assets, based on the projection of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. In the event such cash flows are not expected to be sufficient to recover the recorded value of the assets, these assets are written down to their estimated fair values. The Company's management believes that as of December 31, 2004 and 2003, in accordance to applicable accounting principles, there is no impairment in the carrying value of its long-lived assets.

j) Revenue recognition

Revenues for telecommunication services, including wireless services, access to Internet and data transmission are recognized in the period in which services are rendered based on minutes of use, monthly charges for basic rent and special services, all net of credits and discounts

adjustments. Revenues from settlement of traffic with international telecommunications carriers are recognized on a net basis and are based on estimates of traffic volume and rates. Advertising revenues and related telephone directory printing costs are recognized upon publication of directories. Revenues related to phone handsets sales are recognized when the equipment is delivered and accepted by the customer or distributor.

The Company records billed services not rendered, such as submarine cable usage, unlimited plans for Internet access, amounts related to unused prepaid cards, monthly charges for telecommunication services and telephone directories, as deferred revenue.

Reimbursable Subscriber rights from wireline services activation are recorded as a liability (see Note 12 - Other current liabilities)

During 2004, the Company began to defer revenues from activation of wireless lines fees charged to customers, which is being recognized progressively over the estimated average time in which services are expected to be rendered and not at the time of the sale. Prior to 2004, the Company did not charge to customers significant amounts related to activation fees.

During 2002, the Company launched a promotion for cellular subscribers consisting of awarding customers with credits in services for their total usage transacted during November and December of 2002. The amount was credited to each subscriber's account in equal installments, beginning in February 2003, over a twelve month period. The credits were granted only if certain conditions were met. Postpaid customers were required to maintain active and solvent accounts, while prepaid customers were required to maintain positive balances. In January 2004, the remaining balance of deferred revenues of Bs 3,237 related to the 2002 promotion was recognized. A similar promotion was not offered during 2003 and 2004.

During November 2004, the Company launched "Promoción Navidad" for wireless subscribers effective until January 2005 which included bundling products and services such as cellular handsets, activation fees, credits and short messaging, among others. Revenue from activation fees will be deferred and recognized over an estimated average time in which customers are expected to be maintained. Credits for services earned by customers at the time they enroll the promotion will be credited in equal installments during a five month period beginning the following month of the purchase of products. The amount from these credits produced a deferred revenue, which will be amortized in equal installments over a five-month period.

The Company, as part of its sales strategy, offers incentives to distribution channels and customers. Prior to and during 2003, commissions given to authorized agents and incentives on line activations and commissions given to card distributors were presented as operations, repairs, maintenance, and administrative expenses. In December 2004, the Company changed its way to present these commissions as a reduction of revenues in the corresponding caption in the statement of operations. This change was performed following current industry practices for the recognition of cash incentives. Financial statements for 2003 and 2002 have been reclassified for comparison purposes. (See (u) - Consolidated financial statement reclassifications).

k) Provision for uncollectible accounts

The Company maintains a provision for doubtful accounts at a level deemed adequate to provide for potentially uncollectible receivables. The Company currently reserves 3% of monthly billed revenues for wireline services, 5% for wireless services and 10% for Internet and other voice services. The balance of this allowance is continuously assessed by management using several factors that affect the collectibility of accounts receivable. A review of the age and status of receivables is performed, designed to identify accounts to be provided with allowance on a continuous basis.

A full allowance is provided for receivables from permanently disconnected subscribers. Permanent disconnections are made after performing several collection efforts following non-payment by wireline and wireless subscribers. Such permanent disconnections generally occur within 90 days.

l) Amortization of discount on issued promissory notes

The Company has issued discounted promissory notes and commercial paper denominated in bolivars. The discount is being amortized using the effective rate method (see Note 11 - Long-term debt).

m) Income tax

Income tax is calculated based upon taxable income, which is different from income before tax in the consolidated statement of operations. Venezuelan tax legislation does not permit consolidation of results of subsidiaries for tax purposes. Investment tax credits for new investment in property, plant and equipment reduce the income tax during the year in which such assets are placed in service. Investment tax credits as well as tax losses, except those from tax inflation adjustment, are permitted to be carried forward for 3 years. The Law established a Corporate Minimum Asset Tax, which remained in effect until August 2004 and was equivalent to a minimum tax calculated based on net assets adjusted for inflation. (see Note 17 - Taxes).

The Company recognizes through the deferral method, the impact of income taxes originating from temporary differences existing between income tax expense calculated on the basis of net income, determined in accordance with VenGAAP, and taxable income for the period, in accordance with current tax legislation. Such tax effect is assigned to future periods in which such temporary differences will be realized.

Recording of deferred income tax benefit is subject to a reasonable expectation of realization and a deferred tax asset can not be credited against results for an amount exceeding tax based on taxable income. Based on tax results from prior years and current conditions of economic uncertainty, the Company has not recorded the potential asset resulting from deferring the tax effect of temporary reconciliation differences.

n) Employee severance benefits and other benefits

Employee severance benefits are calculated and recorded in accordance with the Venezuelan labor law and the Company's current collective bargaining agreement.

Under the current Labor Law, employees earn a severance indemnity equal to 5 days salary per month, up to a total of 60 days per year of service. Labor indemnities are earned once an employee has completed 3 months of continuous service. Beginning with the second year of service, the employees earn an additional 2 days salary for each year of service (or fraction of a year greater than six months), cumulative up to a maximum of 30 days salary. Severance benefits must be funded and deposited monthly in either an individual trust or a severance fund, or accrued in the employer's accounting records, as specified in writing by each employee.

In the event of unjustified or involuntary termination, employees have the right to an additional indemnification payment of one month of salary per year of service up to a maximum of 150 days of current salary. Furthermore, in the event of involuntary termination, the Law requires payment of an additional severance benefit up to a maximum of 90 days of current salary based on length of employment.

The Company has a workers benefit fund designed, among others, to award employee excellence via the granting of Company shares (see Note 14- Shareholders' equity - Workers benefit fund). This contribution is recognized as an expense when the shares are awarded to the worker and it is determined based on the market value at the date when the shares are granted.

Additionally, Venezuelan labor law requires mandatory annual profit sharing distribution to all employees in amounts of up to 120 days of salary. CANTV made distributions equal to 120 days salary for the years ended December 31, 2004, 2003 and 2002, totaling Bs 75,552, Bs 69,820 and Bs 81,772, respectively.

o) Pension plan and other post-retirement benefits

The noncontributory pension plan benefit and postretirement benefits relating to health care expenses are accrued based on actuarial estimates using real discount rate and real rate of compensation increase (see Note 13 - Retirement benefits). Cumulative gains and losses in excess of 10% of the greater of Projected Benefit Obligation or market-related value of plan assets are amortized over the expected average remaining future service of the current active employees until December 31, 2004. Beginning that date, amortization period will be 4 years, which does not exceed the expected average remaining future service of the current active employees. Actuarial gains and losses may result from differences between assumptions applied in the estimates, such as inflation rates, assets returns and actual results (see Note 13 - Retirement benefits).

p) Foreign currency denominated transactions

Foreign currency denominated transactions are recorded at the bolivar exchange rate as of the date of the transaction. Outstanding balances of foreign currency denominated assets and liabilities are translated into bolivars using the exchange rate at the balance sheet date, which was Bs 1,920/US\$1 and Bs 1,600/US\$1 as of December 31, 2004 and 2003, respectively

(controlled rate, see Note 21 - Exchange control and Note 5 - Balances in foreign currency). Any exchange gain or loss from the translation of these balances and transactions is reflected as exchange gain (loss), net in the Financing benefit (cost), net caption in the accompanying consolidated statements of operations (see Note 15 - Financing cost, net). The Company does not engage in hedging activities on either foreign currency balances or transactions.

q) Fair value of the financial instruments

Financial instruments are recorded in the balance sheet as part of the asset or liability at its corresponding fair market value. The carrying value of cash and equivalents, accounts receivable and accounts payable approximate their fair values since these instruments have short-term maturities. Since most of CANTV's and subsidiaries loans and other financing obligations are subject to market-variable interest, management believes that carrying values approximate their fair market value. The Company has not identified financial assets qualifying as derivatives. The Company recognizes transactions with financial instruments on the negotiation date.

r) Concentration of credit risk

Although cash and cash equivalents, accounts receivable and financial instruments of CANTV and subsidiaries are exposed to a potential credit loss risk, management believes it is not significant. Cash and cash equivalents include short-term financial investments, primarily certificates of deposit and commercial paper, which have maturities of three months or less, in high quality institutions. Most of the Company's accounts receivable are from a wide and diverse group of customers, and collectively do not represent a significant credit risk. There is a concentration of Government accounts receivables (see Note 7 - Accounts receivable from Venezuelan government entities).

The Company is also exposed to risks related to exchange rate fluctuations and interest rate fluctuation.

s) Earnings (loss) per share

Earnings (loss) per share are based on 776,240,474, 775,997,457 and 776,201,812 of average common shares outstanding at December 31, 2004, 2003 and 2002, respectively. This number of shares excludes treasury shares and shares for workers benefits. Basic and diluted earnings per share are the same for all the periods presented, since the Company did not have potential dilutive instruments.

t) Market risk:

The carrying amounts of cash and short-term investments, trade receivables and payables, and short-term and long-term debt approximate their fair values.

The Company is exposed to market risk, including changes in interest rates and foreign currency exchange rates.

The Company does not use derivative financial instruments in its investment portfolio. The Company places its investments with the highest quality issuers and, by policy, limits the amount

of credit exposure to any one issuer. The Company is averse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk and market risk by investing with U.S. and European issuers that are guaranteed by wholly-owned foreign companies with the safest and highest credit quality securities.

The Company mitigates default risk by investing in highly liquid U.S. dollar denominated short-term financial investments, primarily certificates of deposit and commercial paper, which have maturities of three months or less. The Company does not estimate any material loss with respect to its investment portfolio.

The majority of the Company's indebtedness is denominated in foreign currencies, primarily in U.S. dollars and Japanese yen, which exposes the Company to market risk associated with changes in exchange and interest rates. The Company's policy is to manage interest rate risk through the use of a combination of fixed and variable rate debt. Currently the Company does not hedge against foreign currency exposures, but keeps cash reserves in U.S. dollars to meet financing obligations. Currently, US dollars are not readily available due to the exchange control regime in effect since February 5, 2003.

u) Consolidated financial statement reclassifications

Certain amounts from the December 31, 2003 consolidated financial statements have been reclassified for comparison purposes, mainly as mentioned above in (j) - Revenue recognition.

NOTE 4 - REGULATION:

CANTV's services and tariffs are regulated by the rules established in the Concession agreement, the Organic Telecommunications Law enacted in 2000 and its Regulations, as well as the agreement (see Note 2 - Company background and concession agreement).

The Organic Telecommunications Law along with the Regulations provide the general legal framework for the regulation of telecommunications services in Venezuela. Under the Organic Telecommunications Law, suppliers of public telecommunications services, such as the Company, must operate under concessions granted by the Government, which acts through the Ministry of Infrastructure.

La Comisión Nacional de Telecomunicaciones (CONATEL) is an independent regulatory body under the direction of the Infrastructure Ministry, created by presidential decree in September 1991 (CONATEL Decree), which has, among others, the authority to manage, regulate and control the use of Venezuela's limited telecommunications services resources, granting of concessions, licenses and administrative authorizations as well as recommend the approval of tariffs and collection of taxes. CONATEL, together with the Superintendent of Promotion and Protection of Free Competition (Pro-Competencia), is also responsible for the promotion and protection of free competition.

a) Tax regime

The 2001 Law adopted a new tax regime applicable to all telecommunications service operators based on gross revenues. The new tax replaces the former annual tax and concession fee, which was assessed at 5.5% for wireline and 10% for wireless services. The new composite tax

rate totals 4.8% and is comprised of the following: 2.3% activity tax, 0.5% CONATEL funding tax up to 0.5% spectrum allocation tax, 1% Universal Service Fund tax and 0.5% Telecommunications Training and Development Fund tax. In addition, cellular operators became subject to a supplementary tax of up to 4.5% of their gross revenues (excluding interconnection revenue), which decreases by 1% per annum through 2005 when it will be eliminated. This tax was 1.5% for 2004 and 2.5% for 2003.

b) Tariffs

On February 22, 2001, pursuant to the New Organic Telecommunications Law, CONATEL established maximum tariffs effective March 10, 2001 and a new price-cap system under which the maximum tariffs may be adjusted based on a formula tied to the wholesale price index (WPI) and the devaluation rate of the bolivar against the US dollar. The price-cap system allows an increase or decrease of established tariffs based on deviations in excess of up to 7.5% above or below the projected monthly estimates of those indices. If the accrued excess of the projected index deviates more than 7.5% above the projections, CONATEL must review the price-cap formula. This price-cap system remains effective as of December 31, 2004.

On May 30, 2002, pursuant to the new price-cap system CONATEL published in the Official Gazette N° 37,454 the price-cap corresponding to year 2002, which became effective on June 15, 2002. This agreement contemplated the new scheme for residential plans, which reduced the number of plans from 7 to 5, including a flat residential tariff and the prepaid tariff. The new plans established by the Company under that scheme are: Limited, Classic and Talk More For Less, which replaced the 5 previous plans in effect through June 14, 2002. Under the price-cap system, CANTV was authorized to increase national and international long distance call services tariffs to a maximum of 19.70% and 12.83%, respectively, which have not changed since June 2002. The Company, instead, granted promotional discounts between 5.84% and 11.40% for these services.

In addition, the May 30, 2002 agreement included two provisions for extraordinary adjustments. The first extraordinary adjustment was related to residential customers, establishing the adjustment to the Price-Cap in September 2002 for any deviations between the projected variables in the agreement and the actual figures published by the Central Bank of Venezuela. The extraordinary adjustment could be up to 4%, and only required notification to CONATEL through publication in the local press. On September 16, 2002 this extraordinary tariffs adjustment became effective at the maximum 4%. The second extraordinary adjustment related to fixed to mobile outgoing calls services and international long distance. This extraordinary adjustment was applicable only if significant deviations in the devaluation occurred. On August 31, 2002, an adjustment of fixed to mobile tariffs was approved and published in the Official Gazette N°. 37,506 on August 15, 2002. Tariffs for international long distance services did not require an extraordinary adjustment.

Beginning April 1, 2003, an average increase of approximately 25% to non-regulated residential and non-residential customers and miscellaneous services tariffs by CONATEL as well as a 12% increase for flat residential plan basic rent tariffs became effective pursuant to the Official Gazette No. 37,454 published on May 30, 2002.

On April 27, 2003, regular tariff increases became effective pursuant to the tariff agreement published in the Official Gazette No. 37,669 dated April 10, 2003. Pursuant to the tariff review,

during 2003 a regular base increase of 19% came into effect, distributed in three portions in the months of April, July and October for Non-residential services and public telephones. Additionally, this agreement reproduces the provisions for extraordinary adjustments effected in July and October 2003 and January 2004 at the rates of 2%, 2% and 5%, respectively. CONATEL also approved the application of a Charge per call established of Bs. 28 (nominal) for non-residential customers.

Beginning August 4, 2004, the fixed to mobile calls price caps for residential, non residential and public telephone services were adjusted, pursuant to the Official Gazette No. 37,983 published on July 20, 2004. The adjustment for residential and non residential fixed to mobile tariff were 7.4% and 6.3% for public telephony.

c) Competition

Pursuant to the Concession, prior to November 27, 2000, the Company was the sole provider of basic telephone services. During that period, the Ministry could grant concessions to operate in population centers with 5,000 or fewer inhabitants if CANTV was not providing basic telephone services in such areas and did not contemplate doing so within two years, according to the network expansion and modernization plans established in the Concession.

In December 1996, the Ministry of Infrastructure exercised its authority under this provision to grant a rural, multi-service concession to Infonet Redes de Información C.A. (Infonet) to provide basic telephone services, except national and international long distance services, in population centers with 5,000 or fewer inhabitants in eight western states of Venezuela. Additionally, multi-service concessions were granted in January 1998 to Corporación Digitel, C.A. (Digitel) (see Note 22 - Intent of Acquisition of Digitel), and Consorcio ELCA, C.A. (now Digicel) for the central and eastern regions of Venezuela, respectively. Currently Infonet, Digitel and Digicel are operating as providers of telephony services.

On November 24, 2000 CONATEL issued regulations based on the new organic Telecommunications Law, which established the basic regulatory framework. The new regulations had the objective of creating an appropriate environment for new entrants and allowing effective competition. These regulations rule the sector's opening, interconnection, administrative and spectrum concessions.

In November 2000, CONATEL formally started the auction of frequencies for Wireless Local Loop (WLL) services. Thirteen qualified bidders were announced by CONATEL. Five regions were defined and in each region frequency was auctioned in different bands. Telcel, C.A. (Telcel) and Génesis Telecom, C.A. (Génesis) were two of the companies granted a concession. Additionally, CONATEL has granted administrative habilitations to offer long distance services to the following companies: Convergence Communications de Venezuela (Convergence), Veninfotel, Multiphone de Venezuela, C.A. (Multiphone), Telecomunicaciones NGTV, S.A., Totalcom Venezuela C.A. (Totalcom), Etelix, Telcel, Entel Chile S.A (Entel), LD Telecom, Convergía de Venezuela, C.A. (Convergía), Corporación Telemic, C.A. and Corporación Intercall, C.A., most of which offer the service by means of prepaid cards (Calling Cards).

During the second quarter of 2001, the Company completed the update of four interconnection agreements with Digicel, Digitel, Infonet and Telcel, telecommunications operators which existed before the opening. Current operators maintaining interconnection agreements with the

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Company are: Telcel, Digicel, Infonet, Digitel, Convergence Communications de Venezuela, Veninfotel, Entel Venezuela (formerly Orbitel), Multiphone, Totalcom, Etelix, Telecomunicaciones NGTV, S.A., LD Telecom, Convergía Venezuela, C.A and Corporación Intercall, C.A. These agreements permit interconnection of telecommunication services between CANTV and other carrier's networks.

Effective April 5, 2002, CONATEL initiated a pre-subscription long distance service where wireline service customers can access continually and automatically a previously selected operator's national and international long distance network without the use of the identification code.

NOTE 5 - BALANCES IN FOREIGN CURRENCY:

The Company has assets and liabilities denominated in U.S. dollars and liabilities in Japanese yen (see Note 3(t) - Market risk), as of December 31, as follows:

	2004	2003
	(Expressed in millions of U.S. dollars)	
Cash and cash equivalents	127	129
Accounts receivable, net	37	24
Other assets	30	41
Accounts payable	(132)	(63)
Short and long-term debt	(96)	(217)
	(34)	(86)

Effective February 5, 2003, the Venezuelan Government and the BCV signed exchange control agreements that immediately established limits to the exchange of foreign currency (see Note 21 - Exchange control).

NOTE 6 - ACCOUNTS RECEIVABLE, NET:

The Company's accounts receivable, net balances as of December 31, are as follows:

	2004	2003
Subscribers:		
Wireline telecommunications	386,277	413,187
Wireless telecommunications	71,718	60,404
Other telecommunications services	51,719	47,971
Net settlements	34,550	30,135
Telephone and prepaid card distributors	22,761	45,517
Other	4,763	19,857

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	<u>571,788</u>	<u>617,071</u>
Less: Allowance for doubtful accounts	(96,879)	(99,310)
	<u>474,909</u>	<u>517,761</u>

Unbilled revenue of Bs 113,565 and Bs 108,572 are included in accounts receivable as of December 31, 2004 and 2003, respectively. (See Note 3 (j) - Revenue recognition).

NOTE 7 - ACCOUNTS RECEIVABLE FROM VENEZUELAN GOVERNMENT ENTITIES:

The Company's largest customer is the Venezuelan public sector, including the Central and decentralized Government, its agencies and enterprises, the Venezuelan states and municipalities (collectively, Government entities). Government entities generated approximately 8%, 7% and 5%, of the Company's consolidated revenues for the years ended December 31, 2004, 2003 and 2002, respectively.

The following table shows accounts receivable from Government entities as of December 31:

<u>Years</u>	<u>2004</u>	<u>2003</u>
2004	151,310	
2003	39,556	113,651
2002 and prior	29,748	53,905
	<u> </u>	<u> </u>
Total accounts receivable from Venezuelan government entities	220,614	167,556
	<u> </u>	<u> </u>
Less: Long-term portion	(38,607)	(29,012)
	<u> </u>	<u> </u>
	182,007	138,544
	<u> </u>	<u> </u>

During the years ended December 31, changes in accounts receivable from Government entities are as follows:

	<u>2004</u>	<u>2003</u>
Balance at beginning of year	167,556	149,918
Billings	345,050	272,838
Collections	(265,021)	(223,251)
Monetary loss	(26,971)	(31,949)
	<u> </u>	<u> </u>
Balance at end of year	220,614	167,556
	<u> </u>	<u> </u>
Less: Long-term portion	(38,607)	(29,012)
	<u> </u>	<u> </u>
	182,007	138,544
	<u> </u>	<u> </u>

The amounts that Central Government entities can pay for telecommunication services are established in annual budgets, which are not based upon actual annual usage. As a result of these budgeting processes and due to other macroeconomic reasons, a number of Government entities have not paid the Company in full for telecommunications services received. In addition, as a result of inflation and devaluation, the real value of these balances has decreased.

To reduce the government debt owed to CANTV, management has taken actions to reduce uncompensated usage and recover prior years balances. In addition, collection tasks are being reinforced and payment agreements are being negotiated with government entities to reduce

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delay in payments. However, there is no guarantee that the Company will not continue to experience significant delays in the collection of government receivables and that inflation and devaluation will continue to reduce the value of these assets.

During 2003, the Company received payments in the form of a note denominated in US dollars and Venezuelan National Debt Bonds denominated in bolivars, in the amount of Bs 68,470 (nominal value of Bs 70,191). Bs. 41,592 was applicable to centralized government entities and the remaining Bs. 26,878 was attributable to decentralized entities. As of December 31, 2004, Bs 57,095 of these bonds have become due and Bs 36,540 of them has been utilized by the Company for the payment of certain taxes, the remaining portion was recorded as temporary investments.

During 2004, the Company received payments in the form of Venezuelan National debt bonds denominated in bolivars, in the amount of Bs 7,731 (nominal value of Bs 8,081). Bs 5,314 was applicable to centralized government entities and the remaining Bs 2,417 was attributable to decentralized entities.

CANTV's management believes all amounts from Government entities will be collected either in cash and/or through Government bonds and promissory notes.

NOTE 8: INVENTORIES, SPARE PARTS AND SUPPLIES, NET:

Inventories, spare parts and supplies, net balances as of December 31, is comprised as follows:

	<u>2004</u>	<u>2003</u>
Network equipment inventories	127,586	86,398
Equipment for sale	194,815	23,772
Prepaid cards	5,690	4,612
	<u>328,091</u>	<u>114,782</u>
Less: Allowance for inventory obsolescence	(65,975)	(27,337)
	<u>262,116</u>	<u>87,445</u>

Sales and inventory of equipment for sale balance increased substantially during the effectiveness of the exchange control regime, since the Company has increased its participation as direct distributor of cellular handsets.

NOTE 9 - PROPERTY, PLANT AND EQUIPMENT, NET:

Property, plant and equipment, net of depreciation and amortization, as of December 31, is comprised as follows:

	Useful lives (in years)	2004	2003
		_____	_____
Plant			
Wireline telecommunications	3 to 32	14,378,520	15,714,849
Wireless telecommunications	2 to 20	1,285,057	1,139,122
Other telecommunications services	5 to 13	52,781	52,155
Buildings and facilities	5 to 25	3,590,239	3,138,232
Furniture and equipment	3 to 7	569,373	612,811
Vehicles	3 to 5	95,556	60,389
		_____	_____
		19,971,526	20,717,558
Less: Accumulated depreciation			
Wireline telecommunications plant		(12,035,079)	(12,694,326)
Wireless telecommunications plant		(824,926)	(769,529)
Other		(3,317,285)	(2,937,996)
		_____	_____
		(16,177,290)	(16,401,851)
		_____	_____
		3,794,236	4,315,707
Land		88,159	97,011
Construction work in progress		191,309	42,829
		_____	_____
		4,073,704	4,455,547
		_____	_____

Depreciation expense recorded year ended December 31, 2004, 2003 and 2002 totaled Bs 856,992 and Bs 1,127,895 and Bs 1,216,530, respectively. As of December 31, 2004, fully depreciated assets reached approximately Bs. 11,415,877, of which 95% are related to wireline telecommunications (approximately Bs 10,213,362 as of December 31, 2003).

Capitalized direct labor and allocated overhead costs totaled Bs 18,953, Bs 15,794 and Bs 27,812 for the years ended December 31, 2004, 2003 and 2002, respectively.

As of December 31, 2004, Construction work in progress mainly includes ongoing projects for the expansion of the new mobile technology network, expansion of Internet broadband access network, and integration and transformation of the Company's information systems.

Beginning in October 2004, the Company's management began a sale process through the auction of non-operating property, plant and equipment. During 2004, assets with a carrying value of Bs 4,857 were sold through this mechanism and as of December 31, 2004, Property, plant and equipment, net includes Bs 2,947 related to non-operating buildings and land currently in sale process, which do not exceed their market value.

NOTE 10 - OTHER ASSETS:

Other assets as of December 31, are comprised as follows:

	<u>2004</u>	<u>2003</u>
Information Systems (Software), net	301,512	338,991
Investments in equity	30,524	50,080
Investment in Government obligations		41,002
Prepaid taxes		10,208
Other	20,514	3,515
	<u>352,550</u>	<u>443,796</u>

Information Systems (Software), includes the cost of computer systems for internal use, net of accumulated amortization and the cost of usage rights to satellites that are amortized over periods ranging from 3 to 7 years based upon the terms of contracts that grant usage rights. Amortization expense was Bs 106,352, Bs 103,912 and Bs 92,331, for the years ended December 31, 2004, 2003 and 2002, respectively. Accumulated amortization was Bs 1,147,673 and Bs 810,116 as of December 31, 2004 and 2003, respectively.

Investments in equity represent the Company's share in the International Satellite Telecommunications Organization (INTELSAT) and in New Skies Satellites N.V. representing 1.12% and 1.44% ownership, respectively. The Company classifies these investments as available for sale and their fluctuation in fair value is reflected as Translation and other adjustments in the statement of changes in shareholders' equity.

In July 2004, CANTV's Board of Directors approved the sale of the Investment in New Skies Satellites N.V. In November 2004, the effective sale was approved for an amount of US\$11,479,355 equal to Bs. 22,040, for which a net gain of Bs. 21,021 was recorded in the Company's results, including the realization of Bs 20,633 previously recorded in the Translation and other adjustments account in equity. As of December 31, 2004, 95% of the proceeds from the sale have been received.

In September 2004, CANTV's Board of Directors also approved the sale of the investment in INTELSAT to Zeus Holdings Ltd. On October 20, 2004, the sale was approved at the INTELSAT general annual shareholders'. Final closing and collection of sale proceeds was still in process as of December 31, 2004 (see Note 24 - Subsequent events).

INTELSAT was initially an international telecommunications organization integrated by 148 member countries or their designated telecommunication entities. In July 2001 INTELSAT was converted to a share corporation and privatized. Up to July 2001 this investment was recorded by CANTV under the equity method and the adjustment resulting from the translation to bolivars of the financial statements of this foreign entity was included in CANTV's shareholders' equity.

As of December 31, 2003, Investments in Government obligations include bonds received from the Venezuelan Government, the most significant one for an amount of Bs 16,141 (nominal value of Bs 19,411) with a quarterly payable variable interest rate, due on November 18, 2005. As of December 31, 2004, bonds received from the Government are recorded as temporary

investments based on due dates lower than three months. During 2004, Management changed the classification from Investments held to maturity to Available for sale. Variations from fair value of these investments are recorded in the Translation and other adjustment and valuation of available for sale investments in equity until actual disposition. As of December 31, 2004, an amount of Bs 1,094 were recorded as unrealized gain related to these bonds.

NOTE 11 - LONG-TERM DEBT:

Long-term debt as of December 31, is comprised of the following:

	<u>2004</u>	<u>2003</u>
Notes in U.S. dollars at fixed interest rates of 9.25% at December 31, 2003, maturing in 2004.		190,691
Bank loans in Japanese yen a fixed interest rate of 5.8% at December 31, 2004 and 2003, maturing through 2009.	91,072	105,802
IFC loans in U.S. dollars at variable interest rates:		
a. Six-month LIBOR plus a margin between 1.75% and 3.00%, (averaging 5.06% and 4.18% at December 31, 2004 and 2003, respectively), maturing through 2005.	48,000	47,674
b. Six-month LIBOR plus a margin of 2.00%, (averaging 3.17% and 3.11% at December 31, 2004 and 2003, respectively), maturing through 2007.	25,200	33,372
c. Six-month LIBOR plus a margin of 1.75% and 3.00% (averaging 2.92% and 2.86% at December 31, 2004 and 2003, respectively), maturing through 2005.	19,200	38,139
Promissory notes in bolivars, bearing interest at a fixed rate of 23.5%, maturing through 2005		24,479
Bank loans in bolivars at fixed and variable interest rates of 22.20% and 22.52% at December 31, 2004 and 2003, respectively, maturing through 2010, partially guaranteed by a first grade mortgage on Company's properties up to Bs 10,500.	36,900	15,679
Banks loan in bolivars, bearing interest at the average lending rate of the four major banks in Venezuela (35.70% at December 31, 2003), maturing through 2007		1,852
Notes payable suppliers in U.S. dollars at a fixed interest rate of 5.48% maturing in 2004.	120	154

	<u>2004</u>	<u>2003</u>
Commercial paper issued at discount at an annual interest of 12.59%, due in June 2005	41,950	
Total debt	262,442	457,842
Less: Current maturities	(169,605)	(238,450)
Total long-term debt	<u>92,837</u>	<u>219,392</u>

In February 1997, the Company prepaid the outstanding debt balance under the Bank Refinancing Agreement and Bs 48,240 of debt to suppliers with the proceeds from the sale of two Guaranteed Notes for US\$ 100 million each, which were payable in 2002 and 2004, respectively. The notes were issued by CANTV Finance Ltd., a wholly owned subsidiary of the Company. The Guaranteed Notes are unconditionally and irrevocably guaranteed by CANTV for payment of principal and interest. In January 2004 and February 2002, the Company made each payment of US\$100 million related to such Guaranteed Notes.

In February 1990, the Company acquired a loan with the Japan Bank for International Cooperation (formerly The Export - Import Bank of Japan) by ¥16,228 million, and invested in technological changes in the transmission network and urban connection. This loan is amortized semi-annually and as of December 31, 2004, the outstanding balance of this loan is ¥4,869 million.

On June 7, 1996, the Company entered into an agreement with the International Finance Corporation (the IFC Facility). Pursuant to the IFC Facility, the Company obtained loan commitments aggregating up to US\$261 million, of which US\$175 million was disbursed. Of the amount disbursed, US\$75 million was used in the Company's modernization and expansion program as mandated by the Concession and for certain other capital expenditures. The remaining US\$100 million represents the conversion of certain debt outstanding under a Bank Refinancing Agreement into longer-term debt.

In March 1998, the Company paid US\$150 million of the outstanding debt under the IFC Facility with the proceeds from the sale of variable-interest-rate notes issued by CANTV Finance Ltd., a wholly-owned subsidiary of the Company, which are unconditionally and irrevocably guaranteed as to payment of principal and interest by CANTV. The principal on the remaining loan is payable as a single payment of US\$25 million in 2005. The interest rate on this loan is based on LIBOR plus a margin and an additional amount of up to 3% based on the Company's annual net income equivalent in U.S. dollars, paid semi-annually. Pursuant to the IFC Facility, the Company may pay dividends only if it is current with respect to its semi-annual payments. In addition, the Company is required to meet certain financial ratios, including a long-term debt-to-equity ratio, a current ratio and a fixed charge coverage ratio, each as defined by the agreement. The Company has complied with these covenants as of December 31, 2004.

In 1997, Movilnet signed an agreement with the IFC Facility for two loans totaling US\$95 million, which were disbursed during 1998. The proceeds of these loans were used for expansion and modernization of the cellular network. As of December 31, 2004 the balance of this debt is US\$ 23.1 million.

In September 2000, the Company issued discounted promissory notes of Bs 28,000 denominated in bolivars with a maturity of 5 years. The promissory notes were placed at a 44% discount and an annual fixed interest rate of 23.5%. Additionally, in September and December 2000, two loan agreements were signed with local banks for Bs 7,000 each, with maturities between 5 and 10 years.

In a Shareholders Meeting held on March 31, 2004, the issuance of Commercial Paper for an amount up to US\$ 100 million or the equivalent in bolivars was approved. On September 30, 2004, Comisión Nacional de Valores (CNV), the Venezuelan securities commission approved the first issuance of commercial paper for up to Bs 80,000. As of December 31, 2004, the first three series were issued for a total amount of Bs 46,000 from the first issuance, of which Bs 44,505 have been placed in the market at discount and annual interest rate of 12.59% due in June 2005. The remaining portion of Bs. 1,495 was placed in January 2005.

On December 22, 2004, the CNV approved the second issuance of commercial paper by CANTV for up to Bs. 112,000. According to the Venezuelan Capital Markets Law, the Company is required to issue at least 10% of the approved maximum amount within 90 days following the Commission's approval.

As of December 31, 2004 estimated payments of long-term debt are: Bs 169,605 in 2005, Bs 29,287 in 2006, Bs 29,441 in 2007, Bs 21,233 in 2008, Bs 12,876 in thereafter, translated into bolivars at the exchange rate at this date.

NOTE 12 - OTHER CURRENT LIABILITIES:

Other current liabilities as of December 31, were comprised of the following:

	<u>2004</u>	<u>2003</u>
Concession tax	64,378	60,196
Subscriber rights	74,791	80,790
Accrued liabilities	59,695	37,279
Income, value added and other taxes (Note 16 - Taxes)	75,134	63,630
Interest payable	3,995	12,388
Technical and administrative services due to shareholders	5,568	4,622
Other	17,443	16,315
	<u>301,004</u>	<u>275,220</u>

Subscriber rights represent up-front payment from customers when services are activated.

NOTE 13 - RETIREMENT BENEFITS:

Pension plan

The Company sponsors a non-contributory pension plan for its employees. The benefits to be paid under the plan are based on years of service and the employee's final salary. As of December 31, 2004 and 2003, the Company has funded Bs 606,141 (includes US\$