NATIONAL TELEPHONE CO OF VENEZUELA
Form 6-K
March 27, 2008

FORM 6 - K

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Report of Foreign Issuer

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

Securities Exchange Act of 1934

For the month of March 2008

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.

Form 20-F __X__ 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 __X__

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 audited financial statements of Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) as of and for the period ended on December 31, 2007, prepared in accordance with International Financial Reporting Standards, which differ in certain important respects from US GAAP, as filed with the Venezuela National Commission on Securities on March 14, 2008.

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, March 14, 2008

Comisión Nacional de Valores

Attention: Dr. Fernando J. De Candia Ochoa

President

Dear Dr. De Candia Ochoa,

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 Financial Statements as of and for the period ended December 31, 2007, which includes its respective notes, that are presented comparative to the previous year ago period (2006) and 2005.

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

Sincerely yours,

/s/ Alexander Sarmiento
Alexander Sarmiento
Interim Chief Financial Officer
Cantv

Compañía Anónima Nacional

Teléfonos de Venezuela

(CANTV) and Subsidiaries

Report of Independent Public Accountants and

Consolidated Financial Statements as of

December 31, 2007 and 2006 and for the years

ended December 31, 2007, 2006 and 2005

Compañía Anónima Nacional Teléfonos de Venezuela (CANTV)

and Subsidiaries

Consolidated Balance Sheet

December 31, 2007 and 2006

(In millions of bolivars)	**Note**	**2007**	**2006**
Assets			
Non-current assets			
Property, plant and equipment, net	5	4,094,344	3,714,737
Cellular concessions, net	3	384,656	144,407
Long-term accounts receivable from Venezuelan Government entities	10	93,025	55,856
Deferred income tax	17	1,720,153	1,167,692
Information systems (software), net	6	532,345	461,940
Other assets	7	32,931	159,502
Total non-current assets		6,857,454	5,704,134
Current assets			
Other current assets	8	176,702	266,030
Inventories, spare parts and supplies, net	9	465,596	681,139
Accounts receivable from Venezuelan Government entities	10	304,281	203,908
Accounts receivable, net	11	1,219,789	915,009
Cash and temporary investments	12	776,311	1,151,987
Total current assets		2,942,679	3,218,073
Total assets		9,800,133	8,922,207
Stockholders equity and liabilities			
Stockholders equity			
Capital stock	13	2,151,299	2,151,299
Additional paid-in capital	13		31,905
Legal reserve	13	215,130	215,130
Workers benefit shares	13	(18,726)	(83,044)
Retained earnings	13	1,501,554	969,493
Attributable to equity holders of the Company		3,849,257	3,284,783
Minority interest in subsidiary		4,548	4,871
Total stockholders equity		3,853,805	3,289,654
Liabilities			
Non-current liabilities			
Long-term debt	14	10,278	29,303
Cellular concession long-term payable	3	55,298	
Provision for litigation	19 (c)	311,785	170,254
Pension and other post-retirement benefit obligations, net	15	1,979,048	1,351,563

Total non-current liabilities		2,356,409	1,551,120
Current liabilities			
Current portion of the long-term debt	14	20,556	28,942
Accounts payable	4	1,854,208	2,061,758
Accrued employee benefits		112,042	118,170
Current portion of pension and other post-retirement benefit obligations, net	15	324,141	242,275
Income tax payable	17	166,330	153,982
Dividends payable, including minimum dividend required by law	13 (b)	486,593	923,583
Deferred revenue	2 (n)	370,746	271,435
Other current liabilities	16	255,303	281,288
Total current liabilities		3,589,919	4,081,433
Total liabilities		5,946,328	5,632,553
Total stockholders equity and liabilities		9,800,133	8,922,207

The notes on pages 5 to 71 are an integral part of the consolidated financial statements

Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) and Subsidiaries

Consolidated Statement of Operations

Years ended December 31, 2007, 2006 and 2005

(In millions of bolivars, except information per share and per ADS)	**Note**	**2007**	**2006**	**2005**
Operating revenues				
Local services		966,129	920,574	912,042
Domestic long distance		303,873	284,253	296,380
International long distance		146,051	121,894	115,435
Fixed-to-mobile outgoing calls		992,480	922,810	751,561
Interconnection incoming		88,193	91,307	97,963
Data transmission		908,073	687,191	542,112
Other wireline-related services		376,249	213,735	200,662
Total wireline services		3,781,048	3,241,764	2,916,155
Access		228,273	172,850	119,758
Airtime		1,782,798	1,366,645	769,304
Interconnection		373,796	339,050	215,244
Activation		66,066	56,452	42,925
Special services		1,004,469	677,030	376,487
Wireless equipment sales		586,228	571,654	431,169
Other wireless-related services		103,362	58,957	26,771
Total wireless services		4,144,992	3,242,638	1,981,658
Other telecommunications-related services		393,576	313,265	190,579
Total operating revenues	2 (n)	8,319,616	6,797,667	5,088,392
Operating expenses				
Labor and benefits	2 (q) and 15	1,492,430	1,147,256	898,016
Operations, maintenance, repairs and other		2,157,179	1,536,891	1,217,369
Cost of sales of wireless equipment		1,397,550	1,172,817	743,556
Additional pension obligation due to Venezuelan Supreme Court ruling,				
Acuerdo Marco (Master Agreement) and Bono Solidario (monthly incentive)	15	362,162	23,043	694,916
Provision for uncollectibles	11	117,521	65,438	35,068
Interconnection costs		718,132	656,431	534,494
Depreciation and amortization	3, 5 and 6	965,782	858,476	827,692
Concession and other taxes	3 and 17	490,774	429,192	295,161
Other (income) expense, net	4 and 7	(116,633)	8,738	(71,721)
Total operating expenses		7,584,897	5,898,282	5,174,551
Operating income (loss)		734,719	899,385	(86,159)
Interest and exchange (loss) gain, net				
Interest income		50,014	92,987	85,572
Interest expense		(9,212)	(12,351)	(27,393)
Exchange (loss) gain, net		(2,037)	(530)	32,843
Total interest and exchange (loss) gain, net		38,765	80,106	91,022

Income before income tax		773,484	979,491	4,863
Income tax (provision) benefit				
Current	17	(302,018)	(186,576)	(147,881)
Deferred	17	552,461	337,460	357,426
Total income tax benefit		250,443	150,884	209,545
Net income		1,023,927	1,130,375	214,408
Net income attributable to:				
Equity holders of the Company		1,021,295	1,127,420	213,929
Minority interest in subsidiary		2,632	2,955	479
Net income		1,023,927	1,130,375	214,408
Basic and diluted earnings per share		1,316	1,457	276
Basic and diluted earnings per ADS (based on 7 shares per ADS)		9,213	10,197	1,934
Weighted average shares outstanding (in millions)		778	776	776

The notes on pages 5 to 71 are an integral part of the consolidated financial statements

Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) and Subsidiaries

Consolidated Statement of Changes in Stockholders Equity

Years ended December 31, 2007, 2006 and 2005

		Attributable to equity holders of the Company							
(In millions of bolivars)	**Note**	**Capital stock**	**Additional paid-in capital**	**Legal reserve**	**Translation and other adjustments**	**Workers' benefit shares**	**Retained earnings**	**Minority interest in subsidiary**	**Total stockholders' equity**
Balance as of December 31, 2004		2,151,299	33,724	215,130	111,767	(80,403)	1,524,116	4,837	3,960,470
Net income							213,929	479	214,408
Dividends declared and approved	13 (b)						(390,407)	(1,637)	(392,044)
Workers benefit shares			(675)			(1,580)			(2,255)
Valuation of available for sale investments, net of realization	2 (y)				(111,510)				(111,510)
Balance as of December 31, 2005		2,151,299	33,049	215,130	257	(81,983)	1,347,638	3,679	3,669,069
Net income							1,127,420	2,955	1,130,375
Dividends declared and approved	13 (b)						(779,786)	(1,763)	(781,549)
Minimum dividends required to be declared	13 (b)						(725,779)		(725,779)
Workers benefit shares			(1,144)			(1,061)			(2,205)
Valuation of available for sale investments, net of realization	2 (y)				(257)				(257)
Balance as of December 31, 2006		2,151,299	31,905	215,130		(83,044)	969,493	4,871	3,289,654
Net income							1,021,295	2,632	1,023,927
Dividends declared and approved	13 (b)						(715,327)	(2,955)	(718,282)
Reversal of minimum dividends required to be declared for 2006	13 (b)						725,779		725,779
Minimum dividends required to be declared	13 (b)						(486,593)		(486,593)
Workers benefit shares	13 (c)		(31,905)			64,318	(13,093)		19,320
Balance as of December 31, 2007		2,151,299		215,130		(18,726)	1,501,554	4,548	3,853,805

The notes on pages 5 to 71 are an integral part of the consolidated financial statements

Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) and Subsidiaries

Consolidated Statement of Cash Flows

Years ended December 31, 2007, 2006 and 2005

(In millions of bolivars)	Note	2007	2006	2005
Cash flows provided by operating activities				
Net income		1,023,927	1,130,375	214,408
Adjustments to reconcile net income to net cash provided by operating activities				
Exchange (gain) loss, net		2,037	530	(32,843)
Minority interest in subsidiary		(2,632)	(2,955)	(479)
Depreciation and amortization	3, 5 and 6	965,782	858,476	827,692
Current income tax provision	17	302,018	186,576	147,881
Deferred income tax (benefit)	17	(552,461)	(337,460)	(357,426)
Provision for pension and other post-retirement benefits	15	585,240	348,998	279,839
Additional pension obligation due to Venezuelan Supreme Court ruling, Acuerdo Marco (Master Agreement) and Bono Solidario (monthly incentive)	15	362,162	23,043	694,916
(Release of) provision for inventories obsolescence	9	(9,045)	110,073	912
Provision for litigation	19 (c)	172,420	43,584	68,878
Provision for uncollectibles	11	117,521	65,438	35,068
Gain on sale of investments in equity	7			(71,260)
Special plan of distribution of Class C shares	13 (c)	26,100		
Changes in current assets and liabilities				
Accounts receivable		(405,336)	(310,717)	(250,266)
Accounts receivable from Venezuelan Government entities		(117,416)	1,230	(6,088)
Inventories, spare parts and supplies		224,588	(478,957)	(59,111)
Other current assets		89,328	(203,478)	769
Accounts payable		(272,514)	896,035	394,857
Accrued employee benefits		(6,128)	25,562	14,195
Pension and other post-retirement benefits payments		(238,051)	(356,901)	(147,993)
Income tax payable		(289,670)	(109,946)	(126,832)
Deferred revenues		99,311	86,917	40,716
Other current liabilities		(23,353)	(3,201)	(12,356)
Changes in non current assets and liabilities				
Long-term accounts receivable from Venezuelan Government entities		(37,169)	8,521	(46,111)
Other assets		126,572	(88,326)	52,867
Provision for litigation		(30,889)	(7,843)	(12,082)
Net cash provided by operating activities		2,112,342	1,885,574	1,650,151
Cash flows used in investing activities				
Acquisition of 1900 MHz band cellular concession	3	(129,000)		
Acquisition of information systems (software)	6	(194,938)	(195,681)	(177,573)
Acquisition of property, plant and equipment	5	(1,250,683)	(1,042,573)	(867,339)
Disposal of information systems (software) and other	6	3,277	5,074	35,840
Disposal of property, plant and equipment and other	5	35,098	32,827	50,682
Net cash used in investing activities		(1,536,246)	(1,200,353)	(958,390)
Cash flows used in financing activities				
Proceeds from borrowings			6,237	69,095

Payments of debt		(28,906)	(52,150)	(243,007)
Dividends paid	13 (b)	(916,086)	(583,745)	(415,133)
Purchase of shares for workers benefit fund, net		(6,780)	(2,205)	(2,255)
Net cash used in financing activities		(951,772)	(631,863)	(591,300)
(Decrease) increase in cash and temporary investments before effect of exchange rate changes on cash and temporary investments		(375,676)	53,358	100,461
Effect of exchange rate changes on cash and temporary investments				30,625
(Decrease) increase in cash and temporary investments		(375,676)	53,358	131,086
Cash and temporary investments				
Beginning of the period		1,151,987	1,098,629	967,543
End of the period	12	776,311	1,151,987	1,098,629
Supplementary information				
Unpaid dividends and provision for minimum dividends required by law		486,593	923,583	
Cash paid during the period for:				
Interest		1,778	5,472	14,447
Income tax		396,853	474,718	419,665

The notes on pages 5 to 71 are an integral part of the consolidated financial statements

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Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

And for the years ended December 31, 2007, 2006 and 2005

(Amounts are expressed in millions of Venezuelan bolivars, unless otherwise indicated)

This is a free translation into English of a document issued in the Spanish language and is provided solely for the convenience of the English speaking readers. This document should be read in conjunction with, and construed in accordance with, laws of the Bolivarian Republic of Venezuela.

1. General Information

Compañía Anónima Nacional Teléfonos de Venezuela (referred to hereinafter as CANTV) is the primary provider of telecommunications services in Venezuela, and the owner of a nationwide basic telecommunications network, through which it provides local, domestic and international wireline telephone services, as well as private network, data networks, public telephony and rural telephony services. In addition, CANTV and its consolidated subsidiaries (referred hereinafter collectively as the Company) provides other telecommunications 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) and C.A. Venezolana de Guías (Caveguías) (Note 2 (d) Summary of significant accounting principles and policies Consolidation).

CANTV is a corporation (compañía anónima) incorporated in Venezuela on June 20, 1930. CANTV s registered office is located at Avenida Libertador, Centro Nacional de Telecomunicaciones, Nuevo Edificio Administrativo, Piso 1, Apartado Postal 1226, Caracas, Venezuela 1010.

In 1991, VenWorld Telecom, C.A. (VenWorld), a company organized under the laws of Venezuela by a private consortium of companies, majority owned by a subsidiary of GTE Corporation (currently Verizon Communications Inc.), acquired operating control and initially 40% of the capital stock of CANTV owned by the Bolivarian Republic of Venezuela.

On January 8, 2007, the President of the Bolivarian Republic of Venezuela announced the intention to nationalize several companies, including CANTV. On May 21, 2007, the Government of the Bolivarian Republic of Venezuela (the Venezuelan Government) assumed operating control of the Company, when it acquired ownership of 86.2% of CANTV s capital stock following completion of a public in a tender offer (Note 13 (a) Stockholders Equity Capital stock).

The Company s shares are listed on the Caracas Stock Exchange. Therefore, the Company is subject to regulations of the Comisión Nacional de Valores (CNV) (the Venezuelan National Securities Commission), which is the regulatory body of companies that trade on this stock exchange. On May 11, 2007, the New York Stock Exchange (NYSE) notified CANTV that it had suspended CANTV s shares from trading on the exchange. On June 18, 2007, the NYSE filed with the Securities and Exchange Commission (SEC) a notification of its intention to remove the ADS from listing and registration on the exchange (Note 13 (a) Stockholders Equity Capital stock).

Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

And for the years ended December 31, 2007, 2006 and 2005

(Amounts are expressed in millions of Venezuelan bolivars, unless otherwise indicated)

The Company s consolidated financial statements were approved for issue by the Board of Directors on March 10, 2008.

2. Summary of Significant Accounting Principles and Policies

The Company s most significant accounting principles and policies for the preparation of the consolidated financial statements are described as follows. These practices and policies have been consistently applied for all periods presented, unless otherwise indicated.

a) Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standard Board (IASB), which comprise: (i) IFRS, (ii) International Accounting Standards (IAS) and (iii) International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC), and under the historical cost convention, except for adjustment for inflation (Note 2 (c) Summary of significant accounting principles and policies Adjustment for inflation).

Pursuant to Resolution No. 157-2004 published in the Official Gazette of Venezuela No. 38,085 dated December 13, 2004, the CNV required companies offering their public securities to the public under the Venezuelan Capital Markets Law to prepare and present their financial statements in accordance with IFRS beginning on January 1, 2006, based on IFRS in effect as January 1, 2005, with earlier adoption of IFRS permitted. On December 8, 2005, the CNV issued Resolution No. 177-2005 which postponed the requirement to prepare financial statements under IFRS until the Venezuelan Federation of Public Accountants adopts IFRS as accounting principles generally accepted in Venezuela (Note 25 Adoption of International Financial Reporting Standards (IFRS) by the Venezuelan Federation of Public Accountants). However, early adoption of IFRS is permitted once certain requirements are complied with.

The Company s consolidated financial statements as of and for the year ended December 31, 2005 are covered by IFRS 1, First-time adoption of IFRS , because they are part of the first financial statements prepared by the Company in accordance with IFRS. IFRS 1 is applied when the entity adopts IFRS for the first time and, in general, requires the entity to comply with IFRS in effect on the date of the preparation of the first financial statements prepared under IFRS. In addition, IFRS 1 includes certain exemptions for some requirements under other IFRS.

<u>Standards, amendments and interpretations effective for annual consolidated financial statements as of December 31, 2007</u>

The following new standards, amendments and interpretations of existing standards have been published and are mandatory for the Company s accounting periods beginning on January 1, 2007, or thereafter:

Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

And for the years ended December 31, 2007, 2006 and 2005

(Amounts are expressed in millions of Venezuelan bolivars, unless otherwise indicated)

IFRS 7, Financial instruments: disclosures, and a complementary amendment to IAS 1, presentation of financial statements capital disclosures (effective from January 1, 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risks, liquidity risks and market risks, including sensitivity analysis to market risk. IFRS 7 replaces IAS 30. The amendment to IAS 1 introduces disclosures about the level of an entity s capital and how it manages capital. Beginning January 1, 2007, the Company includes all the disclosures of its financial instruments according to IFRS 7.

Standards, amendments and interpretations effective for annual consolidated financial statements as of December 31, 2007 but not relevant to the Company s operations

The following standards, amendments and interpretations of existing standards have been published or amended and are mandatory for accounting periods beginning on January 1, 2007, or thereafter, but are not relevant to the Company s operations:

IFRS 4, Insurance contracts ;

IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies

IFRIC 8, Scope of IFRS 2 ;

IFRIC 9, Re-assessment of embedded derivatives ; and

IFRIC 10, Interim financial reporting and impairment ;

Standards and interpretations of existing standards that are not yet effective and have not been early adopted by the Company

The following standards and interpretations of existing standards have been published and are mandatory for the Company s accounting periods beginning on January 1, 2008, or thereafter, but that the Company has decided not to adopt them earlier:

IAS 1 (Amendment), Presentation of financial statements (effective from January 1, 2009). IAS 1 (Amendment) establishes changes to require information in financial statements to be aggregated on the bases of shared characteristics. IAS 1 (Amendment) establishes the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Company will apply IAS 1 (Amendment) form January 1, 2009.

IAS 23 (Amendment), Borrowing costs (effective from January 1, 2009). IAS 23 (Amendment) eliminates the option of recognizing immediately as an expense all borrowing costs related to assets that require a substantial period of time before they can be brought to use or sold; as a result, these borrowing costs must be capitalized as part of the cost of the asset. Qualifying assets measured at fair value are excluded from the scope of IAS 23 (Amendment). The Company will apply IAS 23 from January 1, 2009.

Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

And for the years ended December 31, 2007, 2006 and 2005

(Amounts are expressed in millions of Venezuelan bolivars, unless otherwise indicated)

IFRS 8, Operating segments (effective from January 1, 2009). IFRS 8 sets out requirements for disclosure of information about an entity s operating segments as well as about the entity s products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 Segment reporting . The Company will apply IFRS 8 from January 1, 2009.

IFRIC 11, IFRS 2 Group and treasury share transactions (effective from January 1, 2009). IFRIC 11 provides establishes that share-based transactions involving treasury shares or shares of a group entity should be accounted for as equity settled. The Company s management is currently assessing the impact of IFRIC 11 on the Company s operations.

IFRIC 12, Service concession arrangements (effective from January 1, 2008). IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements and is applicable if: (a) the grantor of the concession controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor of the concession controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement. The Company s management is currently assessing the impact of IFRIC 12 on the Company s operations.

IFRIC 13, Customer loyalty program (effective from July 1, 2008). IFRIC 13 establishes that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Company s management is currently assessing the impact of IFRIC 13 on the Company s operations.

IFRIC 14, IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from January 1, 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Company s management is currently assessing the impact of IFRIC 14 on the Company s operations.

b) Use of estimates in the preparation of financial statements

The preparation of consolidated financial statements in accordance with IFRS 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 income and expense recognized during the reporting period. The consolidated financial statements have been prepared based on estimates and assumptions determined based on the Company s strategic business plan for the period 2008-2013 approved by the Board of Directors on February 12, 2008. Future changes in the Company s business plan and/or in management assumptions may significantly affect

Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

And for the years ended December 31, 2007, 2006 and 2005

(Amounts are expressed in millions of Venezuelan bolivars, unless otherwise indicated)

estimates as of December 31, 2007. The consolidated financial statements as of December 31, 2007 have been prepared based on events and facts known as of March 10, 2008, the date on which the Board of Directors approved issuance of the financial statements.

The most significant judgments and principal assumptions made in the application of accounting principles are indicated in sections c , f , h , k , n , p , r and t of this note.

c) Adjustment for inflation

Items included in the financial statements of each one of the Company s entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). IAS 29, Financial reporting in hyperinflationary economies , is applied to the financial statements of the entities whose functional currency is the currency of a hyperinflationary economy. The functional and presentation currency of the Company is the Venezuelan bolivar (Bs).

According to this standard, an economy is considered as hyperinflationary if the following conditions exist:

a. The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency.

b. The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency.

c. Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period.

d. Interest rates, wages and prices are linked to a price index.

e. The cumulative inflation rate over three years is approaching, or exceeds, 100%.

For IAS 29 purposes, Venezuela was considered as a hyperinflationary economy until December 31, 2003 and, accordingly, non-monetary assets and liabilities (fixed assets, inventories, intangibles and deferred revenue) and equity accounts include the effects of inflation through that date. Beginning January 1, 2004, Venezuela is not considered as a hyperinflationary economy and all new transactions are recorded and maintained at their original nominal values; non-monetary assets and liabilities originated before January 1, 2004 are maintained at their acquisition or original value in constant bolivars as of December 31, 2003.

Three-year cumulative inflation for the years ended December 31, 2007, 2006 and 2005 was 63.8%, 59.4% and 73.2%, respectively. For the years ended December 31, 2007, 2006 and 2005, inflation was 22.5%, 17.0% and 14.4%, respectively.

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d) Consolidation

An entity is considered a subsidiary when the Company has the power to determine its financial and operating policies, generally by owning equity representing more than 50% of the voting rights.

The consolidated financial statements include CANTV and all its majority owned subsidiaries. CANTV s principal subsidiaries are: Movilnet, CANTV.Net and Caveguías. The Company also consolidates the workers benefit fund (Note 13 (c) Stockholders equity Workers benefit fund). All subsidiaries are wholly owned, except for Caveguías which is 80% owned.

All significant intercompany balances and transactions among companies are eliminated in consolidation. The accounting practices and policies used by the Company s subsidiaries have been adapted to be consistent with those used by CANTV.

e) Segment reporting

A business segment is a separate group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments (Note 20 Segment reporting). Substantially all of the Company s businesses are conducted in Venezuela and substantially all its assets are located in Venezuela.

f) Property, plant and equipment and depreciation

Property, plant and equipment is recorded at acquisition or construction cost, only when it is probable that it will generate future benefits and the asset s cost can be determined. Property, plant and equipment includes the costs of materials used, as well as direct labor costs and other allocable costs incurred in connection with construction work in progress. The Company capitalizes the estimated cost of asset retirement which is depreciated over the remaining useful lives of the assets. Maintenance and repair costs are expensed when incurred, while major improvements (including technological upgrades) and significant renewals that extend the assets useful lives or asset capability are capitalized.

Upon disposal of fixed assets, the cost and accumulated depreciation are removed from fixed asset accounts, and any gain or loss determined by comparing the proceeds with the carrying amount and are recognized as other expense (income), net in the consolidated statement of operations.

Depreciation is calculated using the straight-line method over the estimated useful lives of fixed assets. Land is not depreciated.

Due to rapid changes in technology and new competitors, selecting the estimated economic life of telecommunications plant and equipment requires a significant level of judgment. The Company annually reviews data on expected utilization of new equipment, asset retirement activity and net salvage values to determine adjustments to depreciation rates.

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During the first quarter of 2006 and 2007, the Company performed an analysis of useful lives. The most significant changes were made for new additions, mainly in the plant category, resulting in a shorter useful life for commutation, transmission and data equipment. The remaining useful lives of assets already installed remained unchanged. The Company s management considers that as of December 31, 2007 and 2006, in accordance with applicable accounting principles, there is no impairment in the carrying value of this group of assets. Future changes in the Company s business plan and/or in management assumptions may significantly affect estimates of the value of the use of property, plant and equipment as of December 31, 2007 (Note 2 (h) Summary of significant accounting principles and policies Impairment of long-lived assets).

The estimated useful lives as of December 31, 2007 are as follows:

	Useful lives (Years)
Plant	
Wireline telecommunications	
Transmission equipment	5 to 15
Access network	10 to 32
Commutation equipment	4 to 13
Other	3 to 20
Wireless telecommunications	
Data transmission	5 to 6
Commutation equipment	3 to 6
Radio bases	3 to 7
Other	3 to 7
Other telecommunications services	2 to 13
Buildings and facilities	3 to 30
Furniture and equipment	5 to 10
Vehicles	4 to 5

g) Information systems (software) and amortization

This account includes computer systems (software) acquired, developed or modified solely to meet the internal needs of the Company and is not for sale. The cost of certain projects and computer systems (software) for internal use and upgrades that extend the assets useful lives or improve their capabilities is capitalized as assets and classified as information systems. Software maintenance and modification expenses that do not increase its functionality are expensed when incurred.

Software acquired is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Costs related to the evaluation phase of an internally developed software project are recognized as an expense, and the identifiable costs of developing software applications are capitalized if the Company is able to control the future benefits. Post-implementation and operation expenses are recognized as an expense of the year.

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Amortization is calculated using the straight-line method over the estimated useful lives which are between three and seven years.

The Company upgrades its systems to adapt the network to the technological requirements of new products and services. Identifiable system upgrade costs are capitalized to the corresponding hardware within property, plant and equipment or information systems when this upgrade meets the criteria of a major improvement and renewal that extends the asset s useful life or improve asset capacity and the Company is able to control the future benefits, or otherwise expensed. For accounting purposes these activities are not considered to be research and development expenses. The Company conducts no other activities that could be considered research and development.

The Company does not hold intangible assets with indefinite useful lives.

h) Impairment of long-lived assets

The Company assesses impairment of long-lived assets, including intangible assets, whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. The recoverable amount is the higher of an assets fair value less cost to sell and its value in use. The value in use is the present value of the projection of discounted cash flows estimated to be generated by these assets or upon disposal. In the event that 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 recoverable values. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

The Company s management, based on its business plan for the period 2008-2013 approved by the Board of Directors on February 12, 2008, considers that there are no events or circumstances that indicate that the carrying amount of long-lived assets may not be recoverable and, in accordance with applicable accounting principles, there is no impairment in the carrying value of these assets. In addition, management considers that the estimates of future cash flows are reasonable; however, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuations of those long-lived assets. These unforeseen changes include significant technological changes, timely tariff approvals and macroeconomic changes, among others.

i) Investments

Investments in equity and obligations are classified as financial assets for trading and available for sale depending on the purpose for which they were acquired, and are recorded at their realizable or fair value.

An investment is classified as for trading if acquired principally for the purpose of selling in the short term. Gains or losses arising from changes in fair value are presented in the consolidated statement of operations, under other expense (income), net.

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Available for sale investments are measured at their estimated realizable or fair value. The change in their fair values is presented in the statements of changes in stockholders equity, under translation and other adjustments, until their sale.

If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

j) Inventories, spare parts and supplies, net

Inventories, spare parts and supplies are recorded at acquisition cost, net of reserves, which does not exceed their net realizable value. Certain inventories, spare parts and supplies are expensed when purchased due to their low value. Cost is determined using the average method.

Net realizable value is the estimated selling price in the ordinary course of business, considering promotions, less the applicable variable selling expenses.

The provision for inventory obsolescence is determined based on an analysis performed on the specific turnover of materials and supplies, and the provision for net realizable value is recorded monthly based on the lower of the specific net market price of wireline and wireless terminal equipment for sale and the book value. These provisions are presented as operating expenses.

Current conditions in the local and global economies have a certain level of uncertainty. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole, and it is even more difficult to estimate growth or contraction in various parts of the economy. Because all components of Company s budgeting and forecasting are dependent upon estimates of growth or contraction in the markets it serves and demand for its products or services, the prevailing economic uncertainties render estimates of future demand for product or services more difficult. Such economic changes may affect the sales of the Company s products and its corresponding inventory levels, which would potentially impact the valuation of its inventory.

k) Accounts receivable and provision for uncollectible accounts

Accounts receivable are recognized initially at fair value less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Accounts receivables from Venezuelan Government entities that are expected to be collected after one year are adjusted at their present value at origination date. When an account receivable is uncollectible, it is written off against the provision for uncollectible accounts. Subsequent recoveries of amounts previously written off are credited as other income (expense), net in the consolidated statement of operations.

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The Company maintains a provision for uncollectible accounts at a level deemed adequate to provide for potentially uncollectible receivables. The balance of this allowance for uncollectible accounts is continuously assessed and adjusted by management based on historic experience and other current factors that affect the collectibility of accounts receivable. Based on the analyses, as of December 31, 2007, the Company recorded a provision equivalent to 1.8% of wireline services accounts receivable, 1.7% for wireless services accounts receivable, and 1.9% for Internet and other voice services. Additionally, a review of the age and status of receivables is performed, designed to identify risks on individual accounts and groups of accounts, in order to provide these accounts with a specific allowance on a continuous basis.

During 2006, based on historic experience and current trends, the Company changed its estimate for wireless telephony and Internet provision for uncollectibles, which was accounted for prospectively. The provision was previously estimated based on a percentage of gross revenues and aging analysis of accounts receivable but now the estimation is based on a percentage and aging analysis of accounts receivables, which is considered to be more appropriate under current circumstances. This change in estimate resulted in a reversal of Bs. 12,000 in the provision of 2006.

During 2005, based on historic experience and current trends, the Company changed its estimate for fixed telephony provision for uncollectibles, which was accounted for prospectively. The provision was previously estimated based on a percentage of gross revenues and aging analysis of accounts receivable but now the estimation is based on a percentage and aging analysis of accounts receivables, which is considered to be more appropriate under current circumstances. This change in estimate resulted in a reversal of Bs. 20,000 in the provision of 2005.

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

Changes in external factors, such as economic environment, may impact the estimations. The Company believes that its provision for uncollectibles as of December 31, 2007 and 2006 is adequate and proper. However, if the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

l) Cash and temporary investments

Cash and temporary investments include short-term and highly liquid investments, having maturities of three months or less, and are considered cash equivalents. These investments are recorded at their fair value. Foreign exchange gain (loss) on cash and temporary investments are reflected as a separate caption in the consolidated statement of cash flows.

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m) Provision for litigation

The Company s management records a provision for those contingencies and/or litigation, which are considered probable and can be measured with reasonable sufficient reliability, based on the opinion of legal counsel (Note 19 (c) Commitments and contingencies Litigation and provision for litigation). The Company s management believes that the provision for litigation recorded as of December 31, 2007 and 2006 is adequate and reasonable to cover the identified risks. However, the provision is based on developments to date and the final outcome of litigation may be different than expected.

n) Revenue recognition

Revenue for wireline services, wireless services, Internet access and data transmission, are recognized in the period in which services are rendered, based on minutes of use and basic monthly recurring charges, all net of promotional discounts. Revenue from settlement of traffic with international telecommunications carriers is recognized on a net basis and based on estimates of traffic volume and rates as earned or caused.

Revenue related to phone handset sales is recognized when the equipment is delivered and accepted by the customer or distributor. The distributor only has the right of return of equipment using the warranty only in case of damaged equipment. The Company does not have obligations of returns for excess inventories with the distributors. Equipment sales are recognized as income and the corresponding cost of sales as part of the operating expenses.

Submarine cable usage is recognized as revenue on a monthly basis, once the service is rendered.

Unlimited plans for Internet access are recognized as revenue on a monthly basis, once the service is rendered.

Amounts related to prepaid cards are recognized as revenue based on monthly usage. Prepaid cards expire in one year after being activated by the customer. Unused balances of prepaid cards are recognized as revenues at expiration date.

Monthly charges for telecommunications services are recognized as revenues on a monthly basis, once the service is rendered.

Advertising in telephone directories is recognized as revenues when the obligations to the customers are fulfilled, which is at the time of the publication and distribution of directories.

The Company records revenues from other telecommunications services which include interconnection facilities, data transmission services, late payment charges, reconnection fees and miscellaneous charges.

Interconnection facilities are recognized as revenue on a monthly basis, once the service is rendered.

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Data transmission services include a monthly recurring fee, which is initially recorded as deferred revenue for services billed in advance, and revenue is recognized based on traffic when the service is rendered.

Late payment charges are recognized as revenues when generated, which is after 30 days of non-payment by the subscriber.

Reconnection fees are recognized as revenue when generated, which is the moment the subscriber s line is reconnected after paying overdue amounts.

Miscellaneous charges include subscriber line relocation, private number, other equipment sales and vertical services, and are recognized as revenue once the service is rendered or the equipment is sold and delivered.

Revenue from wireless line activation fees charged to new customers is deferred and recognized monthly over the estimated average time that the customer will maintain and use wireless lines. The amortization of the deferred amount is calculated using the straight line method.

The Company records as deferred revenue billed services not rendered, such as submarine cable usage, unlimited plans for Internet access, amounts related to unused prepaid cards, monthly advanced charges for telecommunications services and telephone directories. Earned revenues pending for billing are included in accounts receivable.

Deposits received from subscribers for wireline service activation are recorded as a liability when reimbursable (Note 16 Other current liabilities).

The Company has agreements with customers, in which certain equipments are sold including modems, personal computers, among others, financed without charging interest. These revenues and the corresponding accounts receivable are recognized at present value using the effective interest method. Interest income is recognized on a time-proportion basis using the effective interest method.

Customer arrangements that include both equipment and services sold in bundled packages are evaluated to determine whether the elements are separable. If the elements are deemed separable and fair value can be reliably determined, total revenue is allocated based on the relative fair values of the separate elements and the revenue associated with each element is recognized as earned. Equipment sales are recognized upon delivery and each service is recognized according to the applicable revenue recognition policy. If the elements are not deemed separable, total revenue is deferred and recognized ratably over the longer of the contractual period or the expected customer relationship period.

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The Company has agreements with third parties to act as exclusive authorized agents to capture and provide wireless services and equipment sales to new customers. The Company gives discounts based on volume of equipment sold. Discounts earned by the authorized agents are accrued based on equipment sold, and recorded as a reduction of the Company s revenues in the corresponding caption.

The Company also has agreements with third parties to provide them with Telecommunication Center franchises that render fixed line services directly to the public. The Company is required to pay commissions as sales incentives established by type and volume of services rendered by the Telecommunication Center in its installations. Commissions earned by the Telecommunication Centers are considered as cash incentives and are recorded as a reduction of the Company s revenues in the corresponding caption, depending on the related services. The Company also gives discounts based on volume of equipment sold. Discounts earned by the Telecommunication Centers are accrued based on equipment sold, and recorded as a reduction of the Company s revenues in the corresponding caption.

o) Cost and expense recognition

Costs and expenses are recognized on an accrual basis.

Accounts payable are initially recognized at their fair value and later recorded at the amortized amount.

Costs and expenses related to the publication of directories, including production and printing costs and selling and distribution costs are recognized upon publication and distribution of the directories.

The Company, through its business units, performs multiple market studies to identify new products and services to remain competitive, which are recognized as operating expenses as incurred. These activities are not considered to be research and development costs.

Advertising costs are recognized as operating expenses as incurred. Advertising expense for the years ended December 31, 2007, 2006 and 2005 was Bs. 195,097, Bs. 108,801 and Bs. 82,835, respectively.

p) Income tax

Income tax is calculated based upon taxable income, which is different from income before tax for accounting purposes. Venezuelan tax legislation does not permit consolidation of results of subsidiaries for tax purposes. Tax credits for new investment in property, plant and equipment reduce income tax for the year in which such assets are placed in service and are permitted to be carried forward for three years (Note 17 Taxes). Tax losses generated during the year, except those from tax inflation adjustment, are permitted to be carried forward for three years.

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The Company records income taxes in accordance to IAS 12, Accounting for income taxes , which requires the recognition of assets and liabilities for the accounting of deferred income taxes. Under this method, deferred income taxes reflect the net effect of the tax consequences expected in the future as a result of: (a) Temporary differences due to the application of statutory tax rates applicable in future years over the differences between the amounts according to the balance sheet and the tax base of existing assets and liabilities; and (b) Tax credits and losses carryforwards. In addition, under IAS 12, the effects on deferred taxes of changes in tax rates are recognized in the income of the year. A deferred tax asset is recognized if it is probable that future tax income will be generated to be used. Deferred income tax provides for temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not be reversed in the foreseeable future. The main items generating deferred taxes are the differences between tax and book bases of property, plant and equipment, pension and other post-retirement benefit obligation liabilities, net and some provisions which will be deductible in future years.

Differences between tax and book bases of property, plant and equipment generate a deferred tax asset since property, plant and equipment are adjusted for inflation for tax purposes creating a higher tax base which will be realized in the future through a higher depreciation expense deductible for tax purposes. Pension plan and other post-retirement benefit obligation liabilities also generate a deferred tax asset which will be reversed in the future when payments and contributions will be made.

The Company, based on its business plan for the period 2008-2013 approved by the Board of Directors on February 12, 2008, and considering that the Company generated taxable income in the past, considers that the estimates of future taxable income to be reasonable and sufficient to realize the recognized deferred tax assets.

q) Employee severance benefits and other benefits

The costs of defined contributions to employee severance benefits are calculated and recorded on an accrual basis in accordance with the Venezuelan Labor Law and CANTV s current collective bargaining agreement. Under the current Venezuelan Labor Law, employees earn a severance indemnity equal to five days salary per month, up to a total of 60 days per year of service, with no retroactive adjustment. Labor-related indemnities are earned once an employee has completed three months of continuous service and are recorded on an accrual basis. Beginning with the second year of service, the employee earns an additional two 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 calculated and settled monthly and either deposited in a severance trust fund or accrued in the employer s accounting records and bear interest, as specified in writing by each employee. No additional payments and/or deposits related to past services are required.

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In the event of unjustified termination, employees have the right to an additional indemnity payment of one month s salary per year of service up to a maximum of 150 days of current salary. Furthermore, in the event of unjustified termination, the Venezuelan Labor Law requires payment of an additional severance benefit up to a maximum of 90 days of current salary based on length of employment. This additional indemnity does not apply when the employee voluntary terminates the labor relation. The Company recognizes the costs of this additional termination benefits when it is demonstrably committed to either: (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or (ii) providing termination benefits as a result of an offer made to encourage employees to voluntary terminate.

Additionally, the Venezuelan Labor Law requires a mandatory annual profit-sharing distribution to all employees in amounts of up to 120 days of salary. The Company made distributions equal to 120 days of salary for the years ended December 31, 2007, 2006 and 2005, totaling Bs. 132,201, Bs. 109,916 and Bs. 88,549, respectively.

Employee entitlements to annual compensated leave are accrued as earned by the employees.

The Company has a workers benefit program designed, among other things, to annually reward employee excellence via the voluntary free granting of Company shares (Note 13 (c) Stockholders equity Worker s benefit fund). This benefit is recognized as an expense when the shares are awarded to the worker and the amount is determined based on the market value at the date when the shares are granted.

The Company does not grant stock purchase options, except for the option mentioned in Note 13 (d) Stockholders equity Stock option.

As of March 10, 2008, certain provisions of CANTV s 2007-2009 collective bargaining agreement are still under negotiation with CANTV s workers, and the possible effects on the 2007 consolidated financial statements of the final agreements reached with respect to such provisions are not known,

r) Pension plan and other post-retirement benefits

The costs of defined benefit pension plan and other post-retirement benefits relating to health care expenses are accrued based on actuarial calculations performed by independent actuaries, using the projected credit method and nominal discount rates, asset returns, salary progressions and projected medical costs, to calculate projected benefit liabilities (Note 15 Retirement benefits).

Actuarial gains and losses may result from differences between assumptions used for their estimates (including inflation rates) and actual results (Note 15 Retirement benefits). In 2007 and 2006, cumulative actuarial gains and losses in excess of 10% of the greater of projected benefit obligations and market-related value of plan assets are amortized

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conservatively and consistently over a period of four years, which was shorter than the expected average remaining future service of currently active employees and resulted in a faster recognition of cumulative actuarial gains and losses. Beginning in 2008, the Company has changed the amortization period for cumulative actuarial gains and losses to the expected average future service of current active employees.

The measurement of pension obligations, costs and liabilities is dependent on a variety of long-term assumptions, including estimates of the present value of projected future pension payments to plan participants, considering the likelihood of potential future events, such as minimum urban wages increases and demographic experience. These assumptions may have an effect on the amount and timing of future contributions, if any variation occurs. Additionally, the plan trustee conducts an independent valuation of the fair value of pension plan assets.

The discount rate enables us to state expected future cash flows at a present value on the measurement date. The Company is required to select a long-term rate that represents the market rate for high-quality fixed income investments or for Venezuelan Government bonds, and considers the timing and amounts of expected future benefit payments, for which the Company has selected the Venezuelan Government bonds. A lower discount rate increases the present value of benefit obligations and usually increases expense. The Company s inflation assumption is based on projections by the Ministry of the Popular Power for Finance and the Central Bank of Venezuela. The salary growth assumptions consider the Company s long-term actual experience, the future outlook and projected inflation. The expected return on plan assets reflects asset allocations, investment strategy and the views of investment managers. The actuarial values are calculated based on the Company s specific experience combined with published statistics and market indicators. The plan assets are presented at their fair value and those denominated in foreign currency are converted into bolivars using the official exchange rate at the date of the financial statements.

The Company provides certain medical benefits to substantially all retired employees and accrues actuarially determined post-retirement benefit costs as active employees earn these benefits.

During 2007, the Company decided to establish a defined contribution pension plan for all employees of the subsidiaries Movilnet, CANTV.Net and Caveguías, and for those employees of CANTV who began their employment on May 21, 2007 or thereafter. The plan comprises a 3% contribution from the employee and 3% contribution from the Company. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

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s) Foreign currency transactions

Foreign currency transactions are recorded at the exchange rate as of the transaction date. Outstanding balances of foreign currency assets and liabilities are translated into bolivars using the official, controlled and fixed exchange rate at the balance sheet date, which was Bs. 2,150 per US$1 as of December 31, 2007 and 2006 (Note 4 Balances in foreign currency and Note 21 Exchange controls). Any exchange gain or loss from the translation of these balances or transactions is presented as exchange gain (loss), net shown in the accompanying consolidated statement of operations. The Company does not engage in hedging activities in connection with its foreign currency balances and transactions.

During the years ended December 31, 2007 and 2006 there was no official devaluation of the Bolivar against the U.S. dollar. The devaluation of the bolivar against the U.S. dollar was 12% for the year ended December 31, 2005.

t) Fair value of financial instruments

Financial instruments are recorded in the balance sheet as part of the assets or liabilities at their corresponding fair market value. The carrying value of cash and cash equivalents, trade accounts receivable and trade accounts payable approximates their fair values since these instruments have short-term maturities. Management believes that carrying amounts of CANTV and subsidiaries loans and other financing obligations subject to market-variable interest approximate fair value. The Company has not identified any financial instruments that qualify as embedded derivatives. The Company records transactions with financial instruments at their transaction date.

Financial instruments that qualify as derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value through profit and loss, based on current market value.

The Company does not have financial instruments that qualify for designation as hedging instruments.

u) Concentration of credit risk

Although cash and temporary investments, accounts receivable and other financial instruments of CANTV and subsidiaries are exposed to a potential credit loss risk, the Company s management considers that this risk is adequately covered by recorded provisions. Cash and temporary investments include short-term financial investments, primarily certificates of deposit and commercial paper, which have maturities of three months or less, in institutions with high creditworthiness. Other financial instruments include investments in bonds denominated in bolivars and U.S. dollars. Most of the Company s accounts receivables are from a diversified group of customers and individually do not represent a significant credit risk. There is a concentration of Venezuelan Government accounts receivables (Note 10 Accounts receivable from Venezuelan Government entities). There is also a concentration of credit risk due to the fact that subscribers accounts receivable are all from debtors of the same country.

v) Earnings per share

Earnings per share is calculated by 778,287,442, 775,950,426 and 776,167,423 average common shares outstanding on December 31, 2007, 2006 and 2005, respectively. This number of shares excludes workers benefit shares, which are considered as treasury stock for accounting purposes. Basic and diluted earnings per share are the same for all the periods presented, since the Company did not have instruments considered potentially dilutive.

w) Dividend distribution

Dividend distribution to the Company s stockholders is recognized as a liability in the Company s financial statements in the period in which the dividends are approved by the Company s stockholders.

Additionally, the Company recognizes a liability for the minimum dividends required to be declared pursuant to the Capital Market Law (Note 13 (b) Stockholders equity Dividends).

x) Market and liquidity risk

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

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

The Company limits investment risk by only investing in securities of the most solid companies and institutions. The Company is averse to investment loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk and investment risk; therefore, it mainly invests in those investments secured or guaranteed by its parent company. The Company sometimes has acquired derivative financial. The Company does not expect any material loss in its investment portfolio.

The Company does not hedge against foreign currency exposures. Currently, U.S. dollars are not readily available due to the exchange controls regime in effect since February 5, 2003 (Note 21 Exchange controls).

Prudent liquidity risk management implies maintaining sufficient cash and temporary investments, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of underlying businesses, the Company s treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The Company s objective when managing capital risk is to safeguard the Company s ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

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y) Total recognized gains and losses (includes those recognized directly in equity)

Total recognized gains and losses represents changes in stockholders equity for the period from transactions and other events, and circumstances from non-owner sources. It includes all changes in equity for the period, except those resulting from investments by owners and distributions to owners. During the years ended December 31, 2006 and 2005, the only component recorded directly in equity and not recognized in the statement of operations was the unrealized gain (loss) from investments considered as available-for-sale. During the year ended December 31, 2007, there is no amount recorded for this concept.

	2007	2006	2005
Net income	1,023.927	1,130,375	214,408
Unrealized loss on investments available-for-sale			(837)
Realization of gain on investments available-for-sale		(257)	(71,260)
Realization of cumulative translation adjustment			(39,413)
Recognized directly in equity		(257)	(111,510)
Total recognized gain and loss	1,023.927	1,130,118	102,898

3. Concessions and Telecommunications Regulation

CANTV s services and tariffs are regulated by the rules established in the Concession Agreement (referred to as the Concession), the Telecommunications Law enacted in 2000 (referred to as the Telecommunications Law) and its Regulations.

The Telecommunications Law and its Regulations, which provide the general legal framework for the regulation of telecommunications services in Venezuela, establish that suppliers of public telecommunications services must operate under administrative licenses and concessions granted by the Venezuelan Government, through the Ministry of the Popular Power for Telecommunications and Information Technology (the Company s principal stockholder).

The Comisión Nacional de Telecomunicaciones (CONATEL) (the Venezuelan National Telecommunications Commission) is an independent regulatory body under the direction of the Ministry of the Popular Power for Telecommunications and Information Technology (principal stockholder of the Company), created by Presidential Decree in September 1991, which has, among others, the authority to manage, regulate and control the use of limited resources for telecommunications services, grant administrative licenses and concessions, recommend the approval of tariffs and collection of taxes, as well as the promotion and protection of free competition together with the Superintendencia para la Promoción de la Libre Competencia (Pro-Competencia) (Superintendency for the Promotion of Free Competition).

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Concession Agreement

CANTV entered into a Concession Agreement with the Venezuelan Government in 1991 to provide, manage and operate national telecommunications services, including wireline telephone services, private networks and value-added services, guaranteeing high quality service, modernizing and expanding the network, introducing progressive rate rebalancing and establishing a framework for the introduction of competition into the market. CANTV did not make an initial payment for this Venezuelan Government concession and for accounting purposes it was recognized at a symbolic minimum nominal amount. November 2000 marked the opening of the telecommunications market to competition and the entrance of new competitors (Note 3 (c) Concessions and telecommunications regulation Regulation Competition). Since June 12, 2000, the Company has been regulated by the Concession, the Telecommunications Law and its Regulations (Note 19 (d) Commitments and contingencies Concessions mandates).

Significant terms of the Concession are as follows:

a) The Concession established a special privilege regime of limited concurrence, through which the Venezuelan Government designated CANTV, except in certain circumstances, as the exclusive provider of basic telephone service, including local, national and international access until November 27, 2000. Beginning on that date, any party that obtains the corresponding administrative concession is permitted to provide basic telecommunications services nationwide.

b) The Concession is for 35 years (ending in 2026), and is renewable, with no cost, for an additional period of 20 years, subject to the approval of the Venezuelan Government and satisfactory performance by CANTV of its obligations under the Concession.

c) Until December 31, 2000, CANTV paid the Venezuelan Government an annual 5.5% of billed services by means of a concession tax. Beginning January 2001, the Company is required to pay up to 4.8% of gross revenues (Note 3 (a) Concessions and telecommunications regulation Regulation Tax regime). These expenses are presented in the accompanying consolidated statement of operations as concession and other taxes totaling Bs. 157,582, Bs. 127,798 and Bs. 107,363 for the years ended December 31, 2007, 2006 and 2005, 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 the termination of the Concession. As of December 31, 2007, CANTV has not been penalized for any violation. Furthermore, the penalties that have been assessed against CANTV for other matters through December 31, 2007 have not been material.

e) Upon any termination of the Concession, all of CANTV s real estate, equipment, structures and facilities assets utilized in the performance of services under the

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Concession would be forfeited to the Venezuelan Government in exchange for a payment equal to an amount determined by an expert and independent entity agreed by the Venezuelan Government and CANTV.

On May 21, 2007, the Venezuelan Government, through the Ministry of the Popular Power for Telecommunications and Information Technology, assumed operating control of the Company, when it acquired ownership of a majority of CANTV s shares (Note 13 (a) Stockholders Equity Capital stock), without changing the terms of the Concession, which remain in effect until its expiration date. The regulatory body (CONATEL) is under the direction of this Ministry.

Cellular Concession

On May 19, 1992, CANTV purchased a cellular service concession (the Cellular Concession) from the Venezuelan Government for Bs. 230,766 (Bs. 5,388 in nominal amounts) and established the subsidiary Movilnet to operate wireless communications. The Cellular Concession was granted for 20 years and is renewable with no cost for an additional 20-year period, subject to the satisfactory performance of the obligations established in the Cellular Concession. The amount paid for the acquisition of the Cellular Concession is being amortized over 40 years using the straight-line method. As of December 31, 2007 and 2006, accumulated amortization is Bs. 92,039 and Bs. 86,358, respectively. Amortization expense was Bs. 5,681 for each one of the years ended December 31, 2007, 2006 and 2005.

The Cellular Concession specifies various penalties that may be imposed on Movilnet for negligent or intentional violation of its provisions. Depending on the nature of the violation, penalties may include a public reprimand, the imposition of fines proportionate to the damage caused and/or temporary suspension or termination of the concession. Through December 31, 2007, no penalties have been imposed on Movilnet for any such violation.

Upon any termination of the Cellular Concession, all of Movilnet s real estate, equipment, structures and facilities utilized in the performance of services under the Cellular Concession would be forfeited to the Venezuelan Government in exchange for a payment equal to the net value of such assets recorded for income tax purposes. The net tax value of Movilnet s assets as of December 31, 2007, on such basis was Bs. 3,227,475.

Beginning in 2001, the tax regime applicable to cellular telephony service operators is up to 9.3% of gross revenues and with periodic decreases of 1% per annum through 2005 (Note 3 (a) Concessions and telecommunications regulation Regulation Tax regime). These expenses are presented in the accompanying consolidated statement of operations as concession and other taxes totaling Bs. 189,410. Bs. 146,046 and Bs. 94,852 for the years ended December 31, 2007, 2006 and 2005, respectively.

On August 14, 2006, CONATEL granted Movilnet the administrative license with the attributes of ground mobile radio communications and establishment and use of telecommunication networks. Later, on November 28, 2007, CONATEL transformed Cellular Concession into an administrative license and included the attributes of mobile telephony and transport.

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On May 21, 2007, the Venezuelan Government, through the Ministry of the Popular Power for Telecommunications and Information Technology, assumed operating control of the Company, when it acquired ownership of a majority of CANTV s shares (Note 13 (a) Stockholders Equity Capital stock), without changing the terms of the Concession, which remain in effect until its expiration date. The regulatory body (CONATEL) is under the direction of this Ministry.

Cellular Concession for 1900 MHz Band

On November 28, 2007, Movilnet obtained a cellular concession for the use the radioelectric service in the 1900 MHz band (the Cellular Concession for 1900 MHz band) for Bs. 258,000 (equivalent to Bs. 248.798, which represents the present value of the discounted cash flow to be disbursed for the payment of the concession), payable in three installments without interest as follows:

a) Payment of Bs. 129.000 (equivalent to US$60 million at the official exchange rate in effect on the date of the subscription of the concession), at the time the concession was granted.

b) Payment of Bs. 64.500 (equivalent to US$30 million at the official exchange rate in effect on the date of the subscription of the concession), one year after the date that the concession was granted.

c) Payment of Bs. 64.500 (equivalent to US$30 million at the official exchange rate in effect on the date of the subscription of the concession), two years after the date that the concession was granted.

The Cellular Concession for 1900 MHz band was granted for 15 years in accordance to the Telecommunications Law Regulations on Administrative Licenses and Concessions for the Use of the Radioelectric Spectrum. The Cellular Concession for 1900 MHz band will be used for the new GSM cellular network (Note 5 Property, plant and equipment, net). The amount paid for the Cellular Concession for 1900 MHz band will be amortized over 15 years using the straight-line method.

Value-Added Services Concession

The majority of the Company s value-added services are provided directly by CANTV s wholly owned subsidiary, CANTV.Net. On October 5, 1995, CONATEL granted to CANTV.Net the Value-Added Services Concession, which has an initial term of 10 years and is renewable for an additional 10-year period, subject to certain conditions.

Under the Value-Added Services Concession, CANTV.Net is granted the right to offer voice-mail services nationwide. Subsequently, the Value-Added Services Concession has been expanded to allow CANTV.Net to offer additional services such as Internet access. Pursuant

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to the Telecommunications Law, CANTV.Net applied for the conversion of this concession into an administrative license. The conversion of concessions into administrative licenses had to be completed within two years following the enactment of the Telecommunications Law. CONATEL has not issued the administrative license to CANTV.Net. The Company is currently performing the necessary formalities to obtain the right to continue offering these services. On March 30, 2006, CANTV.Net received a communication from CONATEL indicating that all rights and obligations established in the concession granted remain in effect until CONATEL completes the transformation of the administrative licenses.

The Value Added Services Concession requires the payment to CONATEL of an annual concession fee equal to 4.3% of the revenues of CANTV.Net (Note 3 (a) Concessions and telecommunications regulation Regulation Tax regime). These expenses are presented in the accompanying consolidated statements of operations as concession and other taxes totaling Bs. 15,507, Bs. 11.693 and Bs. 7,787 for the years ended December 31, 2007, 2006 and 2005, respectively.

On May 21, 2007, the Venezuelan Government, through the Ministry of the Popular Power for Telecommunications and Information Technology, assumed operating control of the Company, when it acquired ownership of a majority of CANTV s shares (Note 13 (a) Stockholders Equity Capital stock), without changing the terms of the Concession, which remain in effect until its expiration date. The regulatory body (CONATEL) is under the direction of this Ministry.

Regulation

a) Tax regime

Beginning in 2001, the Telecommunications Law adopted the tax regime applicable to all telecommunications service operators based on gross revenue. The composite tax rate established in the Telecommunications Law 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 Research and Development Fund tax. In addition, cellular service operators became subject to a supplementary tax of up to 4.5% of their gross revenue (excluding interconnection revenue), which decreased by 1% per annum through 2005 when it was eliminated.

b) Tariffs

Telecommunications regulations establish regarding tariff matters that operators are free to set prices and that only tariffs from operators rendering services in a dominant position will be regulated. Asymmetric regulation of rendered services in a dominant position is founded in setting price-caps and its indexation through the application of the compound index of adjustment as established in the Regulations for Basic Telephony Services.

Since the enactment of the Telecommunications Law and its Regulations in 2000, CONATEL has established maximum tariffs as a result of agreements reached with CANTV. These agreements cover, in addition to the definition of price-caps for each telecommunication

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service, other tariff-related matters including: definition of the compound index of adjustment tied to the Wholesale Price Index (WPI) and the devaluation rate of the bolivar against the U.S. dollar; establishment of schemes for extraordinary adjustments allowing additional adjustments to established tariffs in case of deviations in the projected macroeconomic variables included in the compound index of tariff adjustment; changes in residential plans and migration of clients between residential plans; and the possibility of incorporation of new proposals for additional plans.

On February 13, 2003, as published in the Official Gazette of Venezuela No. 37,631, the Venezuelan Government, as a supplementary measure to the new exchange controls regime, instituted price controls for all products considered as essential needs, including residential fixed telephone services. The adoption of the price controls has suspended the approval of tariff increases applicable to CANTV since 2003 for residential services. In addition, this situation has affected approval of tariff increases in non-residential and public telephony where tariffs have been frozen since 2004.

Beginning July1, 2007, CANTV reduced its fixed-to-mobile tariffs by an average of 21%, as part of its new corporate strategy and to support the new regulatory framework for interconnection matters that CONATEL will announce in the coming months.

On November 22, 2007, Administrative Ruling No. 1.110 was published in the Official Gazette of Venezuela No. 38,816, pursuant to which CONATEL established the price-caps that apply to CANTV s international long distance services for non-residential subscribers and public telephony. This Administrative Ruling reiterated the existing price-caps, except for the price-cap applicable to Cuba which was increased in 65%.

On January 3, 2008, the Resolution No. DM 323 and DM 023 was published in the Official Gazette of Venezuela No. 38,842, pursuant to which CONATEL established the price-caps that apply to CANTV s international long distance services for residential subscribers. This Resolution reiterated the existing price-caps, except for increases of the price-caps applicable to Cuba by 107%, Greece by 46%, Hong King by 46%, Honduras by 39% Japan by 107% and Hawaii by 206%.

Currently, CANTV and CONATEL are reviewing various tariff issues relating to basic services, including, development of a new tariff proposal for the inclusion of plans for socio-economic sectors with the lowest resources, and the study, design and implementation of a new regulatory tariff regime for basic services.

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 Venezuelan Government 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

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Concession. CONATEL granted multi-service concessions to Infonet Redes de Información C.A. (Infonet), Corporación Digitel, C.A. (Digitel) and Digicel, C.A. (Digicel) to provide basic telecommunications services, except domestic and international long distance services, in population centers with 5,000 or fewer inhabitants. On May 18, 2006, CONATEL approved the merger of Digitel, Infonet and Digicel. Digitel continues as the surviving entity after the merger.

On November 24, 2000, CONATEL issued regulations based on the Telecommunications Law, which established the basic regulatory framework to create an appropriate environment for new participants and allowing effective competition. These regulations govern, among other things, the sector s opening, interconnection, administrative licenses and spectrum concessions.

Additionally, CONATEL has granted administrative licenses to offer long distance services to the following companies: Convergence Communications de Venezuela (Convergence), Veninfotel Comunicaciones, C.A. (Veninfotel), Multiphone de Venezuela, C.A. (Multiphone), Telecomunicaciones NGTV, S.A. (New Global Telecom), Totalcom Venezuela, C.A. (Totalcom), Etelix.com, C.A. (Etelix), Telcel, C.A. (Movistar), Entel Venezuela, C.A. (Entel), LD Telecom Comunicaciones, C.A. (LD Telecom), Convergia de Venezuela, S.A. (Convergia), Corporación Intercall, C.A. (Intercall) and Corporación Telemic, C.A. (Intercable), most of which offer the service by means of prepaid cards (calling cards).

Current operators maintaining interconnection agreements with the Company are: Movistar, Digitel, Convergence, Veninfotel, Entel, Multiphone, Totalcom, Etelix, New Global Telecom, LD Telecom, Convergia, Intercall and Intercable. These agreements permit interoperations between CANTV s basic telecommunications network and local and long distance domestic and international services of these companies.

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 domestic and international long distance network without the use of the long distance operator s identification code.

In 2004, the Venezuelan Government incorporated CVG Telecomunicaciones (currently Telecom Venezuela), a telephone company to provide data transmission and other services through fiber-optics and Internet protocol platforms in north-central Venezuela and the Guayana region, located in the southeast of Venezuela. As of August 14, 2007, Telecom Venezuela became a company under the direction of the Ministry of the Popular Power for Telecommunications and Information Technology (the Company s principal stockholder).

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d) Universal Service Fund

The Telecommunications Law provides for the creation of the Universal Service Fund and the Telecommunications Research and Development Fund. These funds are created by CONATEL from the contributions made by telecommunications companies as part of the telecommunications taxes.

The purpose of the Universal Service Fund is to ensure that every citizen has the opportunity to access telecommunications services, including the Internet. This fund is used to subsidize the development of infrastructure for the provision of telecommunications services by operators in unprofitable areas.

The Telecommunications Research and Development Fund was created to provide financial resources to universities, technology institutes and research institutions to study and research telecommunications technology.

In May 2006, CANTV and CONATEL signed an agreement to provide the installation, operation, administration and maintenance of telecommunications infrastructure for the connectivity of the civil records and notaries offices with the General Office of Civil Records and Notary Offices of the Ministry of the Popular Power for Interior Affairs and Justice. In addition, CANTV and CONATEL signed an agreement to provide the installation, operation, administration and maintenance of telecommunications infrastructure for the creation of a virtual private network that would connect 47 offices and 100 mobile identification units with the main office of the Oficina Nacional de Identificación y Extranjería (ONIDEX) (National Office of Identification and Immigration). The funding for this infrastructure of both projects will be provided by the Universal Service Fund, and the property rights to the infrastructure will be transferred to CANTV once the obligation is met and subject to certain conditions.

4. Balances in Foreign Currency

The Company has monetary assets and liabilities in U.S. dollars and liabilities in Japanese yen (Note 2 (x) Summary of significant accounting principles and policies Market and liquidity risk) as of December 31, 2007 and 2006 as shown below:

(Expressed in millions of U.S. dollars)	**2007**	**2006**
Cash and temporary investments	25	161
Accounts receivable, net	23	27
Other assets	11	71
Trade accounts payable	(517)	(601)
Debt obligations	(14)	(27)
	(472)	(369)
Pension plan assets (Note 15 (a) Retirement benefits Pension plan)	349	343

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Effective February 5, 2003, the Venezuelan Government and the Central Bank of Venezuela signed exchange controls agreements that immediately established limits to foreign currency transactions (Note 21 Exchange controls).

The Company conducted purchase-sale and exchange transactions with securities in bolivars and foreign currency, originating a net income of Bs. 71,873 during the year ended December 31, 2007, and a net loss of Bs. 60,604 during the year ended December 31, 2006, shown in other expense (income), net in the consolidated statement of operations (Note 21 Exchange controls)

5. Property, Plant and Equipment, Net

A reconciliation of the carrying amount at the beginning and end of years ended December 31, 2007 and 2006 is as follows:

Cost	December 31, 2006	Additions	Disposals and other	Transfers	December 31, 2007
Plant					