

NATIONAL TELEPHONE CO OF VENEZUELA  
Form 20-F  
May 18, 2007

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**SECURITIES AND EXCHANGE COMMISSION**

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report: N/A

Commission file number 1-14538

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

(Exact name of Registrant as specified in its charter)

**NATIONAL TELEPHONE COMPANY OF**

# VENEZUELA (CANTV)

(Translation of Registrant's name into English)

**BOLIVARIAN REPUBLIC OF VENEZUELA**

(Jurisdiction of incorporation or organization)

**AVENIDA LIBERTADOR, CENTRO NACIONAL DE TELECOMUNICACIONES,  
NUEVO EDIFICIO ADMINISTRATIVO, PISO 1, APARTADO POSTAL 1226 CARACAS, VENEZUELA 1010**

(Address of principal executive offices)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Class D shares of common stock, par value Bs. 36.90182224915 per share	New York Stock Exchange*
American Depositary Shares (ADSs) each of which represents 7 Class D shares of common stock	New York Stock Exchange

\* Not for trading but only in connection with the registration of ADSs pursuant to the requirements of the Securities and Exchange Commission.

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

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Class A shares . . . . .	251,178,710	Class C shares . . . . .	48,912,843
Class B shares . . . . .	51,900,000	Class D shares . . . . .	435,149,296

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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## INTRODUCTION

As used in this Form 20-F, unless the context otherwise requires, we, us, our and the Company means Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) and its consolidated subsidiaries, and CANTV means Compañía Anónima Nacional Teléfonos de Venezuela (CANTV). Unless otherwise specified, all references in this Form 20-F to U.S. dollars, dollars, U.S.\$ or \$ are to United States ( U.S. ) dollars and references to bolivars or Bs. are to Venezuelan *bolívares*, the legal tender currency of the Bolivarian Republic of Venezuela ( Venezuela ). References to access lines in service are to lines billed. References to minutes of use are to billed or unbundled minutes of use excluding free minutes offered under certain calling plans, unless otherwise indicated.

The Company's consolidated financial statements comply in full and have been prepared in accordance with International Financial Reporting Standards ( IFRS ), issued by the International Accounting Standards Board ( IASB ), which include: (i) IFRS, (ii) International Accounting Standards ( IAS ) and (iii) International Financial Reporting Interpretations Committee ( IFRIC ) or the former Standing Interpretations Committee ( SIC ) rules, and under the historical cost convention.

Pursuant to Resolution No. 157-2004 published in the Official Gazette of Venezuela No. 38,085 dated December 13, 2004, the *Comisión Nacional de Valores* (the CNV ) (the Venezuelan National Securities Commission) resolved that companies making public securities offers under the Venezuelan Capital Markets Law must prepare and present their financial statements in accordance with IFRS beginning January 1, 2006, with IFRS becoming effective on January 1, 2005. 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. However, early adoption of IFRS is permitted upon compliance with certain requirements. Accordingly, the Company adopted IFRS for the preparation of consolidated financial statements as of and for the year ended December 31, 2005 for the first time.

There are important differences between IFRS and generally accepted accounting principles in the United States ( U.S. GAAP ). See Notes 26 and 27 to the Audited Consolidated Financial Statements of the Company as of December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006 (the Audited Consolidated Financial Statements ) also included in this Form 20-F for a description of the principal differences between IFRS and U.S. GAAP as they relate to the Company and a reconciliation to U.S. GAAP of net income reported under IFRS for the years ended December 31, 2004, 2005 and 2006, and total shareholders' equity as of December 31, 2004, 2005 and 2006. See Note 25 (a) to the Audited Consolidated Financial Statements included in this Form 20-F.

For the convenience of the reader, this Form 20-F contains the translations of certain bolivar amounts into U.S. dollars at the average daily exchange rate (the Bolivar Exchange Rate ) announced by the *Banco Central de Venezuela* (the Central Bank of Venezuela ) on December 31, 2006 (unless otherwise specified), which was Bs. 2,150.00 per U.S.\$1.00. No representation is made that the bolivar or U.S. dollar amounts shown in this Form 20-F either could have been or will be converted into U.S. dollars or bolivars, as the case may be, at such rate or at any other rate. The translation of amounts expressed in bolivars as of a specified date based upon the then prevailing exchange rate may result in presentation of dollar amounts that differ from the dollar amounts that would have been obtained by translating bolivars as of another specified date.

On January 21, 2003, the Government of Venezuela (the Government ) suspended the trading of foreign currency. On February 5, 2003, the Government approved initial rules governing foreign currency trading. Pursuant to the new exchange controls regime, the official selling exchange rate was fixed at Bs. 1,600 per U.S.\$1.00. On February 9, 2004, the Government changed the official exchange rate to Bs. 1,920 per U.S.\$1.00. On March 2, 2005, the Government changed the official exchange rate to Bs. 2,150 per U.S.\$1.00, which remains

as the current official exchange rate and may be subject to further revision and adjustment by the Central Bank of Venezuela. Since the implementation of the exchange controls regime, there exists a parallel unofficial market in which the exchange rate of bolivars per U.S. dollar has ranged from approximately Bs. 1,800 in February 2003 to the present rate of approximately Bs. 4,000, and reached Bs. 4,500 in January 2007. See Item 3. Key Information Risk Factors Risk Factors Relating to Venezuela Depreciation of the bolivar and the implementation of exchange controls could have an adverse effect on our financial condition and Item 10. Additional Information Exchange Controls.

Operational data regarding the Company contained in this Form 20-F are presented as of December 31, 2006, unless otherwise stated.

Neither the Government nor private independent sources publish definitive data regarding the telecommunications market in Venezuela. However, certain Government entities have published statistics on competitors, which the Company has used in presenting estimated market share data. Additional data, including population data, were obtained from third-party sources. The management of the Company believes that estimates based on this data, to the extent they are contained in this Form 20-F, are reliable, but it has not confirmed this data with independent sources.

On January 8, 2007, the President of Venezuela ( President Chávez ) announced Venezuela's intention to nationalize certain strategic sectors of the Venezuelan economy, including the telecommunications sector in which the Company participates. On February 12, 2007, the Government entered into a Memorandum of Understanding with Verizon Communications Inc. ( Verizon ) and Verizon's indirect wholly-owned subsidiary, GTE Venholdings B.V. ( GTE Venholdings ), to acquire, subject to the satisfaction of certain conditions, including a due diligence review and receipt of regulatory approvals, Verizon's equity stake in the Company, which represents approximately 28.51% of the outstanding equity share capital of the Company.

The Memorandum of Understanding contemplates that the consideration to be paid to GTE Venholdings by the Government would be the equivalent of U.S.\$2.55 per share held by Verizon, or U.S.\$17.85 per American Depositary Share ( ADS ) held by Verizon (each of which represents seven Class D shares) subject to downward adjustment to give effect to any dividend declared and paid by the Company with a record date after February 12, 2007 and prior to the closing of the Offers, as defined below. Among other things, GTE Venholdings has also agreed in the Memorandum of Understanding not to vote as a shareholder of the Company to approve any action or transaction of the Company outside of the ordinary course of business.

On March 30, 2007, the shareholders of the Company approved the payment of an ordinary dividend in the amount of Bs. 922.07 per share representing Bs. 6,454.49 per ADS, which is equivalent to U.S.\$3.003 per ADS (calculated at the Bolivar Exchange Rate of Bs. 2,150 per U.S.\$1.00), payable on April 18, 2007 to shareholders of record as of April 12, 2007. As a result of the dividend approved by shareholders of the Company on March 30, 2007, the price required to be paid under the terms of the Memorandum of Understanding has been reduced to U.S.\$14.84791 per ADS (each of which represents seven Class D shares), or the bolivar equivalent (based on the Bolivar Exchange Rate as of the settlement date of the Offers) of U.S.\$2.12113 per share.

On April 8, 2007, the Government announced a Tender Offer on Schedule TO (the Schedule TO ) related to the tender offers (each an Offer and collectively the Offers ) in the U.S. and Venezuela to purchase any and all of the issued and outstanding shares, and all shares underlying the ADSs, that are not owned by the Government. The U.S. Offer was for any and all outstanding ADSs and the Venezuelan Offer was for any and all outstanding shares. The purchase price to be paid in the U.S. Offer is U.S.\$14.84791 per ADS (each of which represents seven Class D shares). The purchase price to be paid in the Venezuelan Offer is the bolivar equivalent (based on the Bolivar Exchange Rate as of the settlement date of the Offers) of U.S.\$2.12113 per share (equivalent to Bs. 4,560.43 per share calculated at the Bolivar Exchange Rate in effect as of the day of the Offer of Bs. 2,150 per U.S.\$1.00). In each case, the purchase price is to be paid net to the seller in cash (less any amounts withheld under applicable tax laws), without interest, subject to downward adjustment to reflect any



dividends declared after March 30, 2007 and paid by the Company with a record date that is fixed as of a date prior to, in the case of the U.S. Offer, the Government's acceptance for payment of ADSs tendered into such Offer and, in the case of the Venezuelan Offer, the settlement date for such Offer. The Offers' expiration date was May 8, 2007.

According to the U.S. Offer, the Government expects that under the Company's new management, the Company's telecommunications and information technologies will be strategically positioned as human rights and developmental tools. In this sense, the Company will be positioned to promote the development of telecommunications services, taking advantage of new technologies, especially wireless technologies, and to deliver services to underserved sectors of the Venezuelan population.

On April 12, 2007, the Company's Board of Directors in an Extraordinary Meeting considered the Offers and unanimously determined to remain neutral and to make no recommendation with respect to the Offers. The Board of Directors' recommendation statement, filed on Schedule 14-D9, concluded that it is unable to take a position with respect to the Offers. The Board of Directors believed that it lacked sufficient information to evaluate the Offers in light of the unique circumstances of the Offers resulting from the stated plans of the Government to nationalize the Company, the absence of tangible alternatives to the Offers, the limited ability of Class C shareholders to participate in the Offers, the uncertainties with respect to the future liquidity and market value of the ADSs and shares, and the disparity in the economic value of the price offered in each of the Offers, which results from the exchange controls regime in Venezuela. The Board of Directors stated that it believed that each holder of ADSs and shares should make his or her own decision regarding participation in the Offers based on his or her own circumstances. Additionally, the Board of Directors urged the Government to resolve the disparity in the economic value of the price offered in each of the Offers.

The Offers in the U.S and Venezuela to purchase for cash any and all outstanding ADS and common shares, respectively, expired at 5:00 p.m. New York City time and Caracas time, on Tuesday, May 8, 2007. The Government announced on May 16, 2007 that 61,257,605 ADSs (representing an aggregate of 428,803,235 common shares) were tendered in the U.S. Offer and not withdrawn, and 197,949,721 common shares were tendered in the Venezuelan Offer and not withdrawn. The tendered common shares and ADSs include all common shares and ADSs held by Verizon's subsidiary, GTE Venholdings, and together with the 51,900,000 common shares held by the *Banco de Desarrollo Económico y Social de Venezuela* (BANDES) (the Venezuelan Economic and Social Development Fund Bank) and the *Ministerio del Poder Popular para Infraestructura* (the Ministry of the Popular Power for Infrastructure), represent an aggregate of 678,652,956 common shares, or approximately 86.2% of the outstanding common shares of CANTV. According to the Bank of New York (the Depository), the depository for the ADS facility, as of May 9, 2007, there were 66,107,637 ADSs outstanding.

The Government announced on May 16, 2007, that settlement for the common shares tendered into the Venezuelan Offer took place at a special session of the *Bolsa de Valores de Caracas* (Caracas Stock Exchange) held on May 15, 2007, and the ADSs tendered into the U.S. Offer were accepted for payment on the same date in accordance with the procedures described in the U.S. Offer and the Venezuelan Offer. The Government also announced that payment for the common shares and ADSs will be made no later than May 22, 2007, the tenth (10th) Caracas Stock Exchange trading day following the expiration date of the Offers.

On May 11, 2007, the New York Stock Exchange (the NYSE) informed CANTV that it suspended its ADS immediately from trading on the exchange. The NYSE indicated that it was of the view that the ADSs are no longer suitable for continued listing in light of all the current circumstances following the completion of the Offers by the Government and commenced its procedure for delisting the ADSs on the NYSE. CANTV has not arranged for listing the ADSs on another U.S. securities exchange or for quotation of CANTV's securities on any other quotation medium in the United States. Investors that wish to effect a trade in the ADSs or the underlying Class D shares should contact their brokers for information on the availability of effecting trades in the ADSs or Class D shares in the over-the-counter market or exchanging their ADSs for underlying Class D shares and effecting a trade in such shares on the Caracas Stock Exchange where such shares are listed.



The ADSs and the underlying Class D shares remain registered under the Securities Exchange Act of 1934, as amended (the Exchange Act ), and the suspension and termination of listing of the ADSs by the NYSE does not automatically suspend or terminate CANTV's reporting obligations under the Exchange Act. The registration of the ADSs could be terminated upon application of CANTV to the Securities and Exchange Commission ( SEC ) if the ADSs are no longer listed on the NYSE and there are fewer than three hundred holders of record of the ADSs and Class D shares resident in the United States. As a result, CANTV will be required to continue to comply with its reporting obligations with the SEC until such time as it may take action to deregister such shares under the Exchange Act. If CANTV is no longer required to comply with its reporting obligations under the Exchange Act, the information CANTV would be required to furnish to holders of ADSs and to the SEC would be substantially reduced.

All the information presented in this Form 20-F with respect to business strategy, plans and trends, as well as the consolidated financial statements, have been prepared based on the Company's current strategic business plan (2007-2011) which was approved in 2006. The Company's current strategic business plan may change. The consolidated financial statements as of December 31, 2006 have been prepared on the basis of events known, and estimates and assumptions made, on or before February 15, 2007, the date on which the Board of Directors approved their issuance.

**PART I**

**Item 1. *Identity of Directors, Senior Management and Advisers***

Not applicable.

**Item 2. *Offer Statistics and Expected Timetable***

Not applicable.

**Item 3. *Key Information***

**Selected Financial Data**

The following table presents selected consolidated financial information of the Company and should be read in conjunction with, and is qualified in its entirety by reference to, the Audited Consolidated Financial Statements of the Company, including the Notes thereto, also included in this Form 20-F. The Company's Audited Consolidated Financial Statements have been prepared in accordance with IFRS, which differ in certain important respects from U.S. GAAP. See Item 5. Operating and Financial Review and Prospects Introduction and the Audited Consolidated Financial Statements for the basis of presentation of the consolidated financial statements. Notes 26 and 27 to the Audited Consolidated Financial Statements provide a description of the principal differences between IFRS and U.S. GAAP and a reconciliation to U.S. GAAP net income for the years ended December 31, 2004, 2005 and 2006 and total shareholders' equity as of December 31, 2005 and 2006. Periods prior to 2004, except for required U.S. GAAP information, have not been presented as such financial information was prepared in accordance with generally accepted accounting principles in Venezuela ( Venezuelan GAAP ) and, pursuant to SEC Release 33-8567, First Time Application of International Financial Reporting Standards , is not required to be included because it is not comparable to the IFRS information provided below.

	Year Ended December 31,			
	2004(1)	2005(1)	2006(1)	2006(2)
	(in millions, except per share and per ADS data)			
<b>IFRS:</b>				
<b>Income Statement Data:</b>				
Wireline services	Bs. 2,527,538	Bs. 2,916,155	Bs. 3,241,764	U.S.\$ 1,508
Wireless services	1,177,513	1,981,658	3,242,638	1,508
Other telecommunications-related services	130,608	190,579	313,265	146
Total operating revenues	3,835,659	5,088,392	6,797,667	3,162
Operating expenses	(3,624,503)	(5,174,551)	(5,898,282)	(2,744)
Operating income (loss)	211,156	(86,159)	899,385	418
Interest income and exchange gain, net	47,953	91,022	80,106	38
Income before income taxes	259,109	4,863	979,491	456
Income tax benefit	166,535	209,545	150,884	70
Net income	Bs. 425,644	Bs. 214,408	Bs. 1,130,375	U.S.\$ 526
Net income attributable to equity holders of the Company	423,463	213,929	1,127,420	525
Net income attributable to minority interest in subsidiary(3)	2,181	479	2,955	1
Net income	Bs. 425,644	Bs. 214,408	Bs. 1,130,375	U.S.\$ 526
Basic and diluted earnings per share(4)	549	276	1,457	0.68
Basic and diluted earnings per ADS(4)	3,840	1,934	10,197	4.74
Cash dividends declared per share(5)	550	505	700	0.33
Cash dividends declared per ADS(5)	3,850	3,535	4,900	2.31
Extraordinary cash dividends declared per share(5)	120		307	0.14
Extraordinary cash dividends declared per ADS(5)	840		2,150	1.00
Weighted average shares outstanding(6)	776	776	776	776
<b>Balance Sheet Data:</b>				
Working capital	Bs. 399,223	Bs. 155,545	Bs. (863,360)	U.S.\$ (402)
Property, plant and equipment, net	3,423,333	3,483,063	3,714,737	1,728
Total assets	6,396,585	7,290,111	8,922,207	4,150
Total indebtedness	262,442	104,330	58,245	27
Capital stock	2,151,299	2,151,299	2,151,299	1,001
Total shareholders equity(4)	3,960,470	3,669,069	3,289,654	1,530

## Year Ended December 31,

	2002(7)	2003(7)	2004(1)	2005(1)	2006(1)	2006(2)
(in millions, except per share and per ADS data)						
<b>U.S. GAAP:</b>						
<b>Income Statement Data:</b>						
Total operating revenues	Bs. 3,325,697	Bs. 3,144,992	Bs. 3,835,659	Bs. 5,088,392	Bs. 6,797,667	U.S.\$ 3,162
Operating income (loss)	132,539	100,638	205,513	(79,195)	902,310	420
Net income	128,688	9,948	424,728	218,525	1,129,351	525
Net income per share	166	13	547	282	1,455	0.68
Net income per ADS	1,161	90	3,831	1,971	10,187	4.74
Cash dividends declared per share(5)	243	71	550	505	700	0.33
Cash dividends declared per ADS(5)	1,699	497	3,850	3,535	4,900	2.31
Extraordinary cash dividends declared per share(5)	210	350	120		307	0.14
Extraordinary cash dividends declared per ADS(5)	1,468	2,450	840		2,150	1.00
Average shares outstanding(6)	776	776	776	776	776	776
<b>Balance Sheet Data:</b>						
Property, plant and equipment, net	Bs. 4,749,918					