

The Company provides local public telephony throughout Chile except in two regions located in southern Chile, Regions X and XI. Additionally, the Company operates a cellular telephone network in each of the two principal metropolitan areas of Chile, Santiago and Valparaíso, where approximately 50% of Chile's population is concentrated. CTC also operates a microwave radio-link between Valparaíso and Santiago. While CTC has applications pending to permit it to operate a satellite and a fiber optic cable long distance transmission system, these applications have been contested on antitrust grounds by Chile's principal long distance telephone provider, Entel.

The local telephony and long distance services that CTC provides are subject to tariff regulations under the telecommunications law of Chile. Currently, tariffs for the rest of the services provided by CTC, including cellular and public telephones, are determined by market forces. Tariffs for the regulated services are determined by applying an economic model that is based on certain assumptions as to cost, efficiency and growth of a hypothetical company providing regulated services and on a rate of return commensurate with the providing company's assumed cost of capital. For 1991, services subject to tariff regulations accounted for approximately 77% of CTC's operating revenues (38% from local services, 28% from long distance services and 11% from lines sales and connections). The balance of CTC's 1991 revenues were derived from services not currently subject to tariff regulations. Subtel is the regulator of the economic model mentioned above.

A.2. Historical Background

Telephony in Chile commenced in 1880, only four years after the invention of the telephone by Alexander Graham Bell, with the formation of Compañía de Teléfonos de Edison, in Valparaíso. In 1927, the International Telephone and Telegraph Corporation ("ITT") acquired the Chile Telephone Company, which had 26,205 telephones in operation at the time. In 1930, the Compañía de Teléfonos de Chile S.A. was formed as a stock company. In 1971, The Chilean Government intervened to take management control of the Company, and in 1974, the Corporation de Fomento de la Producción (Corporation for the Promotion of Production) ("CORFO") acquired 80% of the total shares issued by CTC, which were then held by ITT. CTC