

(b) Series B Common Stock Lawsuits

There are two suits pending against CTC, CORFO and BOND CHILE, one by two former Series B directors and the other by Series B minority shareholders, which assert that:

- A holder of shares of Series A can not also be a holder of shares of Series B.
- The 8,658,933 shares of Series B acquired by Bond Chile from the Company as residual shares unsubscribed for in an earlier rights offering were not acquired in accordance with Chilean corporate law.

The general basis for the lawsuits is an alleged procedural fault in the corporate action which allowed a holder of shares of Series A to also own shares of Series B. As such suits do not involve monetary damages, their ultimate outcome will not adversely impact the CTC Company's financial condition or business operations. Managements believe, nevertheless, that there are meritorious defenses to the claims asserted in these lawsuits. While Telefónica Chile is able to vote its shares of Series B, it did not vote such shares at the April 1990 and April 1992 Annual General Meetings of Shareholders.

(c) Joint Ownership by Telefónica of CTC and ENTEL

It should be noted that Telefónica had previously acquired a significant equity position in ENTEL at the time of ENTEL's privatization. Telefónica owns 20% of ENTEL's voting stock. Subsequent to the acquisition by Telefónica of its controlling interest in CTC, the Preventive Commission ruled that Telefónica can not maintain an equity interest in both CTC and ENTEL by reason of potential adverse consequences on free competition in the long distance market but must dispose completely of its equity interest in one of the two companies. Telefónica appealed this ruling asserting that the relevant factor to determine a monopolistic practice is the behavior of companies in the market place and not their equity structure.