

study and specific tariff proposals are submitted by the concession holder to the Ministry of Transport and Telecommunications and to the Ministry of Economics, Development and Reconstruction. If the Undersecretary of Telecommunications has no objections to the proposals, a decree is issued by the two Ministries. If the Undersecretary of Telecommunications objects to the proposed tariffs, the concession holder may either amend its proposed tariffs accordingly or retain its original proposals, subject to the approval of a committee of three experts - one nominated by the Undersecretary, another by the concession holder, and the third nominated by mutual agreement. In the latter case, the decision with respect to the tariffs is made by the two Ministries.

The tariffs specified in the tariff decree are maximum tariffs. Service providers cannot discriminate among users of the same service within a concession area. There is a different indexing mechanism for each regulated service to reflect the different theoretical cost components associated with each individual service subject to tariff regulation. All tariffs consider inflation (as one of the cost components) and are adjusted upon notice to the Undersecretary of Telecommunications according to the costs index included in the tariff structure.

Traditionally, domestic long distance telephone service has subsidized local service. The subsidy is provided by a surcharge on each long distance telephone call. As indicated below, however, the subsidy is being gradually eliminated as tariffs for local services are increasing and tariffs for domestic long distance services are decreasing. In addition, the ability of the Company to charge for the right to have a telephone line installed is being eliminated. After 1993, CTC will only be permitted to charge a price for installation of telephone lines based on the actual costs of installation. Management estimates that the loss of these subsidies will be approximately offset by the increase in the tariffs for local services.

Executive decrees published in Chile's Official Gazette on January 4, 1989, established the tariffs CTC can charge its customers until December 31, 1993. The decrees are predicated on an economic model, as referenced above, which currently assumes a 1987 cost of capital to CTC of 12%. The following tabular presentation sets forth tariff information expressed as percentages of CTC's charges as of September 1, 1989 for each of CTC's regulated services.