
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 20-F

(Mark One)

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, 2001

OR

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

For the transition period from _____ to _____

Commission file number 1-14656

Quiñenco S.A.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Republic of Chile

(Jurisdiction of incorporation or organization)

Enrique Foster Sur 20, 14th Floor, Las Condes, Santiago, Chile

(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>
American Depositary Shares representing Common Stock	New York Stock Exchange
Common Stock, without par value	New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares which are evidenced by American Depositary Receipts.

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

Not applicable

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

Not applicable

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.

Common stock, without par value 1,079,740,079

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 which financial statement item the registrant has elected to follow.

Item 17 Item 18

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INTRODUCTION

Quiñenco S.A. is a *sociedad anónima abierta* (open stock corporation) organized under the laws of the Republic of Chile (“Chile”). Unless the context otherwise requires, references herein to “Quiñenco” are to Quiñenco S.A. and references herein to the “Company” are to Quiñenco together with its consolidated subsidiaries and the companies in which Quiñenco holds significant non-consolidated equity interests. Unless the context otherwise requires:

- “Madeco” refers to Madeco S.A., a consolidated subsidiary 56.1%-owned by Quiñenco, together with Madeco’s consolidated subsidiaries.
- “VTR” refers to VTR S.A., a wholly-owned consolidated subsidiary of Quiñenco, together with VTR’s consolidated subsidiaries.
- “Telsur” refers to Compañía Nacional de Teléfonos, Telefónica del Sur S.A., a consolidated subsidiary, 73.6%-owned by Quiñenco through its subsidiary VTR, together with Telsur’s consolidated subsidiaries.
- “Lucchetti” refers to Empresas Lucchetti S.A., a 93.3%-owned consolidated subsidiary of Quiñenco, together with Lucchetti’s consolidated subsidiaries.
- “Hoteles Carrera” refers to Hoteles Carrera S.A., an 89.9%-owned consolidated subsidiary of Quiñenco.
- “CCU” refers to Compañía Cervecerías Unidas S.A., in which Quiñenco owns an indirect 30.8% non-consolidated equity interest, together with CCU’s consolidated subsidiaries.
- “Banco de Chile” refers to Banco de Chile, a 52.7%-owned non-consolidated subsidiary of Quiñenco, together with its consolidated subsidiaries.
- “Banco Edwards” refers to Banco de A. Edwards, a 51.2%-owned non-consolidated subsidiary of Quiñenco, together with its consolidated subsidiaries. Effective January 1, 2002, Banco Edwards was merged into Banco de Chile, which is the surviving entity.
- “Habitaria” refers to Habitaria S.A., in which Quiñenco owns a 50.0% non-consolidated equity interest, together with Habitaria’s consolidated subsidiaries.
- “Entel” refers to Empresa Nacional de Telecomunicaciones S.A., in which Quiñenco owned a 5.7% non-consolidated equity interest as of December 31, 2001.
- “Plava Laguna” refers to Plava Laguna d.d., in which Quiñenco owned a 39.4% non-consolidated equity interest until August 20, 2001. On that date, Quiñenco completed the divestiture of its 39.4% interest in Plava Laguna.
- “OHCH” refers to O’Higgins Central Hispanoamericano S.A., a holding company through which Quiñenco held interests in the financial services business, including a 21.7% non-consolidated interest in Banco Santiago and its consolidated subsidiaries (“Banco Santiago”) until May 3, 1999. On that date, Quiñenco completed the divestiture of its 50.0% interest in OHCH.

Unless otherwise indicated, references herein to Quiñenco’s percentage ownership of Madeco, VTR, Lucchetti, Hoteles Carrera, CCU, Banco Edwards, Habitaria, Entel and Plava Laguna are to the percentage of the effective economic interest owned by Quiñenco, and in certain cases, by intermediate holding companies of Quiñenco. References herein to Quiñenco’s percentage ownership of Banco de Chile are to the percentage of voting rights owned by Quiñenco, either directly or through intermediate holding companies. See “Item 5. Operating and Financial Review and Prospects”.

The condensed financial statements of VTR, Telsur, Lucchetti, Hoteles Carrera, Banco Edwards and Habitaria set forth in Item 4 of this Annual Report are derived from the financial statements of the respective companies which, as of and for the years ended December 31, 1999 and 2000, have been

audited by PricewaterhouseCoopers and, as of and for the year ended December 31, 2001 have been audited by Arthur Andersen.

The condensed financial statements of Madeco set forth in Item 4 of this Annual Report are derived from the financial statements of Madeco, which, as of and for the year ended December 31, 1999, have been audited by PricewaterhouseCoopers and, as of and for the years ended December 31, 2000 and 2001, have been audited by Deloitte & Touche.

The condensed financial statements of Banco de Chile set forth in Item 4 of this Annual Report are derived from the financial statements of Banco de Chile, which, as of and for the years ended December 31, 2000 and 2001, have been audited by Arthur Andersen.

The condensed financial statements of CCU set forth in Item 4 of this Annual Report are derived from the financial statements of CCU, which, as of and for the years ended December 31, 1999, 2000 and 2001 have been audited by PricewaterhouseCoopers.

The condensed financial statements of Entel set forth in Item 4 of this Annual Report are derived from Entel's Annual Report corresponding to the year 2001, the financial statements of which as of and for the years ended December 31, 2000 and 2001 have been audited by Deloitte & Touche.

REQUESTS FOR INFORMATION

Written requests for copies of this Annual Report should be directed to Quiñenco S.A., Enrique Foster Sur 20, 14th Floor, Las Condes, Santiago, Chile, Attention: Cindi Freeman, Investor Relations Officer. Facsimile requests may be sent to (56-2) 245-6241. Telephone requests may be directed to (56-2) 750-7221 or (56-2) 750-7100. Email requests may be directed to cfreeman@lq.cl. Additional information, including this Annual Report, may be found on the Company's website at www.quinenco.cl. The contents of the Company's website are not incorporated into this Annual Report.

INCORPORATION BY REFERENCE

The Company incorporates by reference in this Annual Report on Form 20-F (1) Banco Edwards' financial statements at December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001 which are included as Item 18 of Banco Edwards' Annual Report on Form 20-F ("Banco Edwards' Annual Report"), (2) Banco Edwards' Guide 3 Data which is included in Item 4 of Banco Edwards' Annual Report "Information on the Company — Selected Statistical Information", (3) Banco de Chile's financial statements at December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001 which are included as Item 18 of Banco de Chile's Annual Report on Form 20-F ("Banco de Chile's Annual Report) and (4) Banco de Chile's Guide 3 Data which is included in Item 4 of Banco de Chile's Annual Report "Information on the Company – Selected Statistical Information".

EXCHANGE RATES AND CURRENCY

Quiñenco prepares its financial statements in Chilean pesos and in conformity with Chilean generally accepted accounting principles, or GAAP. Chilean GAAP as applied to Quiñenco differs in certain important respects from U.S. GAAP. See Note 26 to the audited consolidated financial statements of the Company at December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001 (together with the notes thereto, the "Consolidated Financial Statements") contained elsewhere in this Annual Report for a description of the principal differences between Chilean GAAP

and U.S. GAAP as they relate to the Company and a reconciliation to U.S. GAAP of net income and total shareholders' equity for the periods and as of the dates therein indicated.

Unless otherwise indicated, financial data for all periods included in the Consolidated Financial Statements and elsewhere throughout this Annual Report have been restated in constant Chilean pesos as of December 31, 2001. See Notes 2(b) and 4 to the Consolidated Financial Statements. Transactions which are described herein and which have taken place during 2002 are stated in Chilean pesos as of the transaction date, unless otherwise indicated.

In this Annual Report, references to "U.S. dollars", "dollars", "\$" or "US\$" are to United States dollars, references to "pesos" or "Ch\$" are to Chilean pesos, and references to "UF" are to *Unidades de Fomento*, which are inflation-indexed, peso-denominated monetary units. The UF rate is set daily in advance based on changes in the previous month's inflation rate in Chile. See Note 2(b) to the Consolidated Financial Statements. Percentages and certain dollar and peso amounts contained herein have been rounded for ease of presentation. Due to the effects of rounding, certain totals may not appear to directly reflect the sums of their components. This Annual Report contains translations of certain peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the peso amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from pesos based on the *Dólar Observado* (the "Observed Exchange Rate") reported by the *Banco Central de Chile* (the "Central Bank of Chile" or "Central Bank") for December 31, 2001, which was Ch\$654.79 = US\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for pesos. The Observed Exchange Rate for June 14, 2002 was Ch\$ = 668.42 per US\$1.00.

On January 11, 2002, Argentina abandoned its decade-old fixed Argentine peso to U.S. dollar exchange rate of one Argentine peso to US\$1.00, allowing the peso to float at market rates. From that date to June 21, 2002, the Argentine peso experienced a 72.7% devaluation against the U.S. dollar; at June 21, 2002, the peso-dollar exchange rate was 3.66 Argentine pesos per US\$1.00.

PRESENTATION OF MARKET SHARE AND OTHER INFORMATION

The market share and other operating and statistical data contained in this Annual Report have been compiled by the Company based upon statistics and other information obtained from several third-party sources.

Market shares of bank loans, risk indexes and other operating and statistical data for the financial services industry in Chile are estimated by the Company based on information published by the *Superintendencia de Bancos* (the Chilean Superintendency of Banks).

With respect to CCU's beverage business in Chile, the Company bases its estimates as to market share, volume and consumption primarily on information provided by Nielsen Chile. Estimates for Chilean wine exports are based primarily on data provided by the Asociación de Viñas de Chile A.G. (Wineries of Chile). In addition, CCU conducts its own periodic surveys of customers' purchases and inventory levels. Market share, volume and consumption data concerning the Argentine beer market are obtained from the *Cámara de la Industria Cervecera Argentina* (Argentine Beer Industry Chamber, or "CICA"). CCU believes that the statistics provided by these sources in some cases do not completely reflect CCU's market. For instance, the Nielsen sampling base includes only the metropolitan regions of Chile and not the rural regions of the country (where CCU believes its market share is higher than in the metropolitan regions, due to the effectiveness of its distribution system). Likewise, the sales of two of

CCU's Argentine competitors are not reflected in CICA's figures because these two companies are not members of CICA. Thus, CCU has revised market share estimates for Chilean and Argentine beer to reflect what it believes is a more complete measure of market shares, taking into account (i) reports published by the *Instituto Nacional de Estadísticas* (Chilean National Institute of Statistics), (ii) CCU's internal sales data, (iii) sales information filed publicly by CCU's competitors and (iv) import reports made available by the Chilean and Argentine customs authorities.

Market share, volume and consumption data with respect to Lucchetti's food products business in Chile are based on data supplied by A.C. Nielsen Chile S.A. ("Nielsen Chile"). Because Nielsen Chile's reports primarily cover supermarket volume sales in the Santiago Metropolitan Region and urban centers in the remaining regions of Chile, the Company's estimates of market share for its food products in the country as a whole are based in part on information made public by the Company's competitors and on its own periodic analysis. Consumption and market share data for the Company's pasta businesses in Peru and Argentina are estimated by the Company on the basis of information supplied by Samimp S.A. and A.C. Nielsen Argentina S.A., respectively.

The Company estimates market share and other operating and statistical data with respect to its telecommunications business in Chile on the basis of information supplied by the Chilean Undersecretary of Telecommunications and on its own analysis of information provided by market participants, primarily Telefónica de Chile, the leading telephony provider in Chile.

The Company bases its estimates of market share and other operating and statistical data with respect to Madeco's manufacturing businesses on its own analysis of available information which includes: (i) Madeco's internal production and sales data; (ii) import and export reports made available by customs' authorities in each country in which Madeco operates; (iii) copper sales reports from the *Corporación Chilena del Cobre* (The Chilean Copper Corporation); (iv) production reports from Madeco's suppliers of copper rods; (v) import and export reports provided by the Central Bank of Chile; (vi) sales information filed publicly by some of Madeco's competitors; and (vii) information informally obtained from market participants and Madeco's suppliers. No third parties or other independent companies have provided estimates or confirmed Madeco's market share calculations and estimates. Sources that use methodologies which are not identical to Madeco's may produce different results.

Occupancy rates and market share data for the Company's hotel business are estimated by the Company on the basis of information collected from market participants.

Habitaria bases its market share estimates on figures provided by the *Cámara Chilena de la Construcción* (The Chilean Construction Commerce) and on reports and analysis generated internally.

Unless otherwise specified, per capita consumption data for countries in which the Company operates and all regions within them are based on relevant volume and consumption information provided by the sources described in this section and on data derived by the Company from the most recent public censuses of populations.

Sources other than the Company use methodologies which are not identical to the Company's and may produce results that differ from the Company's own estimates.

FORWARD-LOOKING STATEMENTS

This Annual Report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. They also relate to the Company’s future prospects, development and business strategies.

These forward-looking statements are identified by the use of terms and phrases such as “anticipate”, “believes”, “could”, “expects”, “intends”, “may”, “plans”, “predicts”, “projects”, “will” and similar terms and phrases. The Company cautions the reader that actual results could differ materially from those expected by the Company, depending on the outcome of certain factors, including, without limitation (1) adverse changes in the Chilean economy with respect to the rates of inflation and economic growth, currency devaluations and other factors, (2) adverse changes in the Chilean political situation, including, without limitation, the reversal of various market-oriented reforms or the failure of such reforms to achieve their goals, (3) adverse changes in the international markets for the Company’s products, including markets in other Latin American countries, such as Brazil and Argentina, as well as markets in Asia and (5) other factors discussed under “Item 4B. Business Overview”, “Item 5. Operating and Financial Review and Prospects” and “Item 7A. Major Shareholders” herein. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in the Company’s business strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

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

A. Selected Financial Data

The selected consolidated financial information for the Company included in the following table should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements of the Company, including the notes thereto, appearing elsewhere in this Annual Report. The summary financial data for the Company as of and for the years ended December 31, 1997, 1998, 1999 and 2000 are derived from the Consolidated Financial Statements of the Company appearing elsewhere in this Annual Report, which have been audited by PricewaterhouseCoopers, independent accountants. The summary financial data for the Company for the year ended December 31, 2001 is derived from the Consolidated Financial Statements of the Company, which have been audited by Arthur Andersen, independent accountants. The reports of Arthur Andersen and PricewaterhouseCoopers on the Consolidated Financial Statements of the Company appear elsewhere in this Annual Report.

The Consolidated Financial Statements of the Company have been prepared in accordance with Chilean GAAP, which differs in certain material respects from U.S. GAAP. Note 26 to the Consolidated Financial Statements provides a description of the principal differences between Chilean GAAP and U.S. GAAP as they relate to the Company and a reconciliation to U.S. GAAP of net income and shareholders' equity for the periods and as of the dates covered thereby.

In accordance with Chilean GAAP, financial data included in the Consolidated Financial Statements have been restated in constant Chilean pesos of December 31, 2001. See Notes 2(b) and 4 to the Consolidated Financial Statements.

At or for the Year Ended December 31.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2001</u>
	(in millions of constant Ch\$ or thousands of U.S. dollars, except per share amounts)					
QUINENCO CONSOLIDATED (1)						
Income Statement Data:						
Chilean GAAP:						
Net sales	Ch\$611,742	Ch\$596,926	Ch\$438,987	Ch\$465,771	Ch\$474,037	US\$723,953
Cost of sales	(441,984)	(430,142)	(357,164)	(371,848)	(376,604)	(575,152)
Administrative and selling expenses.....	<u>(120,951)</u>	<u>(116,912)</u>	<u>(103,494)</u>	<u>(77,762)</u>	<u>(79,918)</u>	<u>(122,051)</u>
Operating income (loss).....	48,807	49,872	(21,671)	16,161	17,515	26,750
Operating income (loss) per share	Ch\$45.20	Ch\$46.19	Ch\$(20.07)	Ch\$14.97	Ch\$16.22	US\$0.02
Interest income	10,934	20,823	20,971	8,778	7,939	12,125
Non-operating income	215,120	51,600	285,818	34,296	102,944	157,216
Interest expense	(46,261)	(50,800)	(43,136)	(38,099)	(59,009)	(90,119)
Non-operating expense	(24,539)	(14,495)	(54,913)	(35,087)	(69,792)	(106,587)
Price-level restatement gain (loss)	<u>(8,561)</u>	<u>(8,098)</u>	<u>13,581</u>	<u>(6,159)</u>	<u>(10,632)</u>	<u>(16,237)</u>
Non-operating results (2)(3)(4)(5).....	<u>146,693</u>	<u>(970)</u>	<u>222,321</u>	<u>(36,271)</u>	<u>(28,550)</u>	<u>(43,603)</u>
Income (loss) before taxes and minority interests	195,500	48,902	200,650	(20,110)	(11,035)	(16,852)
Income taxes.....	<u>(31,031)</u>	<u>(7,422)</u>	<u>(23,098)</u>	<u>7,322</u>	<u>4,750</u>	<u>7,254</u>
Income (loss) before minority interest	164,469	41,480	177,552	(12,788)	(6,285)	(9,598)
Minority interest.....	<u>(71,937)</u>	<u>(12,309)</u>	<u>(4,504)</u>	<u>6,965</u>	<u>21,794</u>	<u>33,284</u>
Net income (loss).....	<u>Ch\$92,532</u>	<u>Ch\$29,171</u>	<u>Ch\$173,048</u>	<u>Ch\$(5,823)</u>	<u>Ch\$15,509</u>	<u>US\$23,686</u>
Net income (loss) per share	Ch\$92.16	Ch\$27.01	Ch\$160.27	Ch\$(5.39)	Ch\$14.36	US\$0.02
Dividends per share	Ch\$10.27	Ch\$33.89	Ch\$8.05	Ch\$46.96	Ch\$-	US\$-
U.S. GAAP:						
Net sales (Non-financial services)	Ch\$611,741	Ch\$596,926	Ch\$438,987	Ch\$465,771	Ch\$474,037	US\$723,953
Net interest revenue and expenses (Financial services)(3)(5)	-	-	25,967	104,862	358,187	547,026
Net income (loss)	Ch\$80,577	Ch\$4,718	Ch\$183,891	Ch\$(19,896)	Ch\$10,916	US\$16,671
Net income (loss) per share	Ch\$80.26	Ch\$4.37	Ch\$170.31	Ch\$(18.43)	Ch\$10.11	US\$0.015
Balance Sheet Data: (at year end)						
Chilean GAAP:						
Cash and cash equivalents.....	Ch\$79,570	Ch\$161,180	Ch\$131,714	Ch\$135,435	Ch\$52,913	US\$80,809
Total current assets	398,243	439,217	414,697	383,919	265,751	405,857
Property, plant and equipment.....	525,875	536,697	454,601	422,123	417,784	638,043
Total assets	1,569,380	1,419,483	1,401,569	1,406,470	1,561,243	2,384,342
Current liabilities.....	325,256	278,216	317,961	338,128	255,964	390,910
Long-term liabilities	<u>360,059</u>	<u>365,340</u>	<u>262,339</u>	<u>306,080</u>	<u>538,029</u>	<u>821,682</u>
Total liabilities.....	685,315	643,556	580,300	644,208	793,993	1,212,592
Minority interest.....	323,344	228,661	107,358	105,499	89,869	137,249
Shareholders' equity	560,721	547,266	713,911	656,763	677,381	1,034,501
Number of shares	1,079,740,079	1,079,740,079	1,079,740,079	1,079,740,079	1,079,740,079	
U.S. GAAP:						
Total assets.....	Ch\$1,586,492	Ch\$1,419,273	Ch\$3,921,940	Ch\$4,275,966	Ch\$10,456,076	US\$15,968,594
Non-financial services long-term liabilities.....	366,858	377,818	257,838	309,674	768,257	1,187,289
Financial services borrowings.....	-	-	2,260,677	2,402,886	7,141,675	10,906,817
Shareholders' equity.....	529,546	517,083	700,701	721,303	673,142	1,028,027

(1) In January 1997 and February 1998, Madeco acquired 67% and 33% respectively, of the common stock of Ficap S.A. which had net sales of Ch\$144,491 million and Ch\$149,520 million and operating income of Ch\$19,426 million and Ch\$11,909 million in 1997 and 1998, respectively. To compare sales and operating income, the amounts for 1997 and 1998 should be decreased accordingly.

- (2) In 1997 and 1998, non-operating results included net gains on the sales of Startel (Ch\$149,276 million), and VTR Larga Distancia (Ch\$16,477 million), respectively. In 1999, non-operating results included net gains on the sales of VTR Hipercable (Ch\$77,492 million) and OHCH (Ch\$172,520 million). Non-operating results included net gains on the sales of shares of Entel of Ch\$7,606 in 2000 and Ch\$49,569 million in 2001.
- (3) In 1999, Quiñenco acquired a 51.2% interest in Banco Edwards. The consolidated financial statements of the Company do not include the financial statements of Banco Edwards because banking operations are generally not consolidated with non-financial businesses in Chile. Under U.S. GAAP, the financial statements of Banco Edwards are consolidated. The income statement information for Banco Edwards includes the operations of Banco Edwards for the last quarter of 1999, or since the date of acquisition.
- (4) During 2000, Lucchetti Argentina's balance sheet was deconsolidated and the investment was adjusted to net realizable value resulting in a loss of Ch\$7,323 million, which was included in the proportional share of net loss of equity-method investments.
- (5) In 2001, Quiñenco's interest in Banco de Chile reached 52.7%. The consolidated financial statements of the Company do not include the financial statements of Banco de Chile because banking operations are generally not consolidated with non-financial businesses in Chile. Under U.S. GAAP, the financial statements of Banco de Chile are consolidated. The income statement information for Banco de Chile includes the operations of Banco de Chile since January 1, 2001.

Dividends

The following table sets forth a five-year summary of dividends per share:

<u>Period (1)</u>	<u>Cash Dividend Per Share</u> (in constant Ch\$)	<u>Cash Dividend per Share</u> (U.S. dollars (2))
1998.....	33.89	0.06
1999.....	8.05	0.01
2000.....	46.96	0.08
2001.....	-	-
2002 (to June 14).....	5.75	0.01 (3)

- (1) Indicates year of payment. The dividend distribution correspond to the distribution of net income of the previous year.
- (2) Based on the exchange rate in effect on December 31 of each year.
- (3) Based on the exchange rate in effect on May 9, 2002.

Exchange Rates

Prior to 1989, Chilean law permitted the purchase and sale of foreign exchange only in those cases explicitly authorized by the Central Bank of Chile. The Central Bank Act, which was enacted in 1989, liberalized the rules that govern the ability to buy and sell foreign exchange. The Central Bank Act now empowers the Central Bank of Chile to determine that certain purchases and sales of foreign exchange specified by law must be carried out in the Formal Exchange Market. The Formal Exchange Market is formed by banks and other entities so authorized by the Central Bank. All payments and distributions with respect to the Company's American Depositary Shares ("ADSs") referred to in this Annual Report must be transacted in the Formal Exchange Market.

For purposes of the operation of the Formal Exchange Market, the Central Bank of Chile sets a reference exchange rate (*dólar acuerdo*) (the "Reference Exchange Rate"). The Reference Exchange Rate is reset monthly by the Central Bank of Chile, taking internal and external inflation into account, and is adjusted daily to reflect variations in parities between the Chilean peso and each of the U.S. dollar, the Japanese yen and the Euro. Authorized transactions by banks were generally conducted within a certain band above or below the Reference Exchange Rate. In January 1992, the Central Bank of Chile reduced the Reference Exchange Rate by 5% and widened the band for transactions in the Formal Exchange Market from 5% to 10%. In November 1994, the Central Bank of Chile reduced the Reference

Exchange Rate by approximately 10%. In November 1995, the Central Bank of Chile reduced the Reference Exchange Rate by approximately 2%. In January 1997, the Central Bank widened the band for transactions in the Formal Exchange Market to 12.5%. On June 25, 1998, the Central Bank of Chile reduced the band for transactions in the Formal Exchange Market to 2% above and 3.5% below the Reference Exchange Rate. At that time, the Central Bank also announced the elimination of a fixed 2% (peso re-valuing) factor which had hitherto been taken into account in the annual resetting of the Reference Exchange Rate. In September 1998, the Central Bank began a gradual widening of the exchange rate band from 3.5% to 5% above and below the Reference Exchange Rate. In December 1998, the Central Bank set the exchange band at 8% above and below the Reference Exchange Rate and provided from the gradual widening of the limits of the band at a daily rate of 0.01375%. In order to keep fluctuations in the average exchange rate within certain limits, the Central Bank of Chile intervened by buying or selling foreign exchange on the Formal Exchange Market. In September 1999, the Central Bank of Chile decided to suspend its formal commitment to intervene in the exchange market to maintain the limits of the band, and decided to intervene in the market only under extraordinary circumstances and with advance notification. The Central Bank of Chile also committed itself to provide periodic information about the levels of its international reserves. The Reference Exchange Rate was maintained as a medium-term reference for the market and to be used in contracts entered into using such rate. The Observed Exchange Rate is the average exchange rate at which commercial banks conduct authorized transactions on a given date in Chile, as determined by the Central Bank of Chile. The Central Bank of Chile generally carries out its transactions at the spot market rate. Before the suspension of the band, however, when commercial banks requested to buy U.S. dollars from the Central Bank of Chile, or requested to sell U.S. dollars to the Central Bank of Chile, the Central Bank of Chile made such sales up to 2% over the Reference Exchange Rate and carried out such purchases at 3.5% under the Reference Exchange Rate. Authorized transactions by banks are generally conducted at the spot market rate. Historically, such rate fluctuated within the band set by the Central Bank with respect to the Reference Exchange Rate. No assurances can be given that the Central Bank of Chile will not establish the band limits again.

Purchases and sales of foreign exchange effected outside the Formal Exchange Market are carried out in the *Mercado Cambiario Informal* (the “Informal Exchange Market”). The Informal Exchange Market reflects the supply and demand for foreign currency. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the Observed Exchange Rate. On June 14, 2002, the average exchange rate in the Informal Exchange Market was Ch\$669.25 per U.S. dollar and the U.S. dollar Observed Exchange Rate was Ch\$668.42 per U.S. dollar.

The following table sets forth the low, high, average and period-end Observed Exchange Rates for U.S. dollars for each of the indicated periods starting in 1997 as reported by the Central Bank the following day. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

**Daily Observed Exchange Rate
(Ch\$ per US\$)**

<u>Period</u>	<u>Low(1)</u>	<u>High(1)</u>	<u>Average(2)</u>	<u>Period – end</u>
1997	411.85	439.81	419.31	439.18
1998	439.58	475.41	460.29	472.41
1999	468.69	550.93	508.78	530.07
2000	501.04	580.37	539.49	573.65
2001	557.13	716.62	634.94	654.79
December 2001.....	654.79	682.11	669.14	654.79
January 2002.....	648.69	683.11	667.28	676.23
February 2002.....	671.86	688.98	678.84	672.30
March 2002.....	655.44	670.67	663.26	655.90
April 2002.....	641.75	662.78	650.82	646.44
May 2002.....	650.31	659.14	653.91	655.90
June 2002 (through June 14)....	657.39	668.42	662.45	668.42

Source: Central Bank of Chile

(1) Rates shown are the low and high exchange rates, on a day-by-day basis, for each period.

(2) The average of monthly average rates during the period reported.

D. Risk Factors

Certain Considerations Relating to Chile and Other Countries in Latin America

The Company is predominantly engaged in business in Chile. Consequently, its results of operations and financial condition are to a large extent dependent on the overall level of economic activity in Chile. Although the Chilean economy experienced an average yearly growth of 7.7% between 1990 and 1997, it experienced growth rates of 3.2%, -1%, 4.4% and 2.8% for the years 1998, 1999, 2000 and 2001, respectively. There can be no assurance that economic growth will return to its prior levels. Factors that would be likely to have an adverse effect on the Company's business and results of operations include current or future downturns in the Chilean economy, a return to high inflation and further devaluation of the Chilean peso relative to the dollar.

In addition to their operations in Chile, some of the Company's businesses operate in and export to companies that operate in and export to Argentina, Brazil, Peru and other countries in Latin America that have at various times in the past been characterized by volatile and frequently unfavorable economic, political and social conditions. The Company's business, earnings and asset values may be materially and adversely affected by developments with respect to inflation, interest rates, currency fluctuations, government policies, price and wage controls, exchange control regulations, taxation, expropriation, social instability and other political, economic or diplomatic developments in or affecting the specific countries in which the Company operates and Latin America in general.

In recent years, Argentina has suffered a prolonged recession which recently culminated in the current economic crisis, driven by that country's economic and political instability. Argentina's economic activity has continued to contract as its government has imposed restrictions on bank deposits and withdrawals, exchange controls, suspension of payment of external debt and the abrogation of peso convertibility. The economic deterioration in Argentina has materially adversely affected and is expected to continue to materially adversely affect the operations of Quiñenco's 56.1%-owned subsidiary, Madeco, in Argentina. See "Item 4. Business Overview, Manufacturing—Madeco" and "Item 5. Trend Information".

As a consequence of the Argentine peso devaluation at the beginning of 2002, the Chilean Superintendency of Securities and Insurance (the “SVS”) required Chilean companies, to the extent possible, to register losses associated with the effects of the Argentine economic crisis and currency devaluation in their respective financial statements corresponding to the year 2001. For Madeco, this resulted in an estimated loss of Ch\$17,780 million in 2001. In addition, Quiñenco’s 30.8%-owned affiliate company, CCU, reported an estimated loss of Ch\$1,806 million in its 2001 financial statements related to the effect of the Argentine crisis on its operations in that country, and its subsidiary, Finca La Celia reported an estimated loss of Ch\$639 million.

There can be no assurance that the Argentine economy will recover or that a continued and prolonged crisis could not further materially adversely affect the Company’s operations in Argentina. Moreover, although the Argentine economic crisis to date has not significantly impacted the Chilean, Brazilian and Peruvian economies, there can be no assurance that it will not do so in the future.

The economies in which the Company operates and into which it exports the products it manufactures are also affected by social and political changes. For example, this year Brazil is expected to elect a new president whose policies could materially adversely affect the Company’s results of operations and financial position. There can be no assurance that political changes or political instability in the countries in which the Company operates or into which it exports its products will not materially adversely affect the Company in the future.

Certain Considerations Relating to the Company

Future Capital Needs

The Company’s operations to date have required substantial amounts of capital, and Quiñenco expects that the Company will be required to contribute substantial additional amounts of capital to support or expand existing businesses and to enter additional businesses in the future. In prior periods, the Company’s businesses have met capital needs through internally generated funds and issuances of debt and equity securities, including to Quiñenco. There can be no assurance that capital will be available in the future as needed on reasonable terms, and the inability to obtain capital would constrain the Company’s ability to support and/or expand its existing businesses and to maintain or enter new businesses. An unavailability of capital on reasonable terms could have a material adverse effect on the Company’s financial condition and results of operations.

Quiñenco’s manufacturing subsidiary, Madeco, is required by one of its loan facilities to increase its capital by at least US\$60 million by September 30, 2002, which is expected to be primarily used to pay certain of Madeco’s short- and long-term indebtedness. See “Item 4. Information on the Company—Manufacturing—Madeco.” If Madeco’s capital increase, among other refinancing requirements, is not achieved, Madeco may become in default on part or all of its indebtedness. Madeco has stated that it expects to increase its capital prior to its September deadline through a preemptive rights offering to existing shareholders. Quiñenco has not determined if and on what terms it would participate in such an offering. Quiñenco expects, however, that it would make a determination regarding such an offering based on the terms of the offering and based on certain of the terms of Madeco’s loan facilities. There can be no assurance that Quiñenco will or will not participate in Madeco’s expected preemptive rights offering, or, if Quiñenco participates, on what terms it would do so, or the total amount of capital Quiñenco would contribute through such an offering.

Holding Company Structure

As a holding company, the level of Quiñenco's income and its ability to pay debt service obligations and dividends depend primarily upon receipt of dividends and distributions from its subsidiaries, equity investments and related companies. The payment of dividends by such subsidiaries, equity investments and related companies is, in certain instances, subject to restrictions and is contingent upon their earnings and cash flows. In addition, Quiñenco's level of income has largely depended on the periodic sale of assets held for investment. There can be no assurance that Quiñenco will be able to continue to rely on certain subsidiaries' dividends and distributions nor that the Company will be able to generate the level of gains on the sale of investments that it has shown in the past.

Equity Price Risk

Many of the Company's businesses are publicly traded entities whose equity value may vary depending on market value fluctuations. The equity value of Quiñenco's investments could be affected by downturns in the Chilean securities markets and other securities markets, such as the New York Stock Exchange, where the equity securities of CCU, Madeco and Banco de Chile are also traded. Quiñenco and its businesses may also experience low trading volumes, which could negatively affect the stocks' share price and liquidity.

Additionally, Quiñenco's manufacturing subsidiary, Madeco, has stated that it expects to increase its capital through a preemptive rights offering to existing shareholders prior to September 30, 2002. See "Item 4. Information on the Company—Manufacturing—Madeco." It is expected that any Madeco capital increase would involve the issuance of its shares at a price substantially below the current net tangible book value per share, resulting in substantial dilution in net tangible book value per share to existing Madeco shareholders, including Quiñenco. There can be no assurance that there will not be such a substantial dilution in net tangible book value per share if Madeco increases its capital.

The Company's Businesses

Quiñenco's businesses face a high level of competition in the industries and countries in which they operate. This is generally reflected in prices, costs and sales volumes of the products and services produced and marketed by Quiñenco's businesses. The Company expects, based on its past experience and track record, that its businesses will be able to continue to compete within their industries.

Madeco S.A.

Quiñenco's manufacturing subsidiary, Madeco, is currently attempting to implement a refinancing plan that would restructure its financial liabilities and increase its equity by at least US\$60 million, as required by one of its loan facilities. See "Item 4. Information on the Company—Manufacturing—Madeco." If this plan is not substantially and timely consummated, Madeco may become in default on part or all of its indebtedness, which may then be subject to acceleration. An acceleration of Madeco's indebtedness would materially adversely affect Madeco's results of operations and financial condition, and would materially adversely affect Quiñenco's financial condition. There can be no assurance as to whether or when Madeco will reach agreement with the banks party to its loan facilities to restructure the related liabilities, nor as to the terms of any such restructuring. Further, none of Madeco's existing shareholders or any other person has committed to participate in a Madeco capital increase, and there can be no assurance that Madeco will be able to increase its share capital in a amount sufficient to avoid Madeco becoming in default on its indebtedness.

Lucchetti Peru

Lucchetti Peru, a subsidiary of Quiñenco's food and beverage subsidiary, Lucchetti, is currently a party to disputes in Peru which involve, among other issues, an attempt by the Municipality of Lima to close Lucchetti's Peruvian plant operations based on accusations that its plant's operations interfere with special characteristics of an adjacent wetlands area. See "Item 4. Information on the Company—Business Overview—Food and Beverage—Lucchetti" and "Item 8. Financial Information—Legal Proceedings." There can be no assurance that Lucchetti will prevail in this or related suits. If Lucchetti does not prevail, its results of operations and financial condition could be materially adversely affected, and Quiñenco's results of operations could be materially adversely affected.

Banking Regulation Restrictions

Banco de Chile is subject to regulation by the Chilean Superintendency of Banks ("SBIF"). In addition, it is subject to regulation by the Central Bank with regard to certain matters, including interest rates and foreign exchange. Pursuant to the Chilean General Banking Law, all Chilean banks may engage in additional businesses depending on the risk of the activity and the strength of the bank. The Banking Law also applies a modified version of the capital adequacy guidelines issued by the Basle Committee on Banking Regulation and Supervisory Practices to the Chilean banking system and limits the discretion of the SBIF to deny new banking licenses. There can be no assurance that regulators will not in the future impose more restrictive limitations on the activities of banks, including Banco de Chile, than those that are currently in effect. Any such change could have a material adverse effect on Banco de Chile's financial condition and results of operations.

Interest Rates and Foreign Currency Positions

A portion of the Company's debt is subject to variable interest rates, which could have an impact on the company in periods in which the variable rate rises. A risk also exists with respect to exchange rate fluctuations on debt instruments maintained in foreign currencies.

Certain Considerations Relating to the Company's Shares and ADSs

Majority Shareholder

As of the date of this Annual Report, the Luksic Group, which consists of Mr. Andrónico Luksic Sr., his sons, Andrónico Luksic Craig, Guillermo Luksic Craig and Jean Paul Luksic Fontbona, and companies they control, beneficially own approximately 82.4% of the shares of Quiñenco. As long as the Luksic Group beneficially owns a majority of the outstanding shares, they will be able to elect a majority of the Directors of Quiñenco and determine the outcome of the voting on substantially all actions that require shareholder approval. See "Item 6. Directors, Senior Management and Employees" and "Item 7. Major Shareholders and Related Party Transactions". There can be no assurance that the Luksic Group's interests will not differ from the interests of other holders of the Company's shares, which may be reflected in the Luksic Group's control of the Company.

Dividends Affected by Exchange Conditions

The Company's ADSs trade in U.S. dollars. Fluctuations in the exchange rate between certain Latin American currencies and the U.S. dollar are likely to affect the market price of the ADSs. For example, since Quiñenco's financial statements are reported in Chilean pesos, a decline in the value of the Chilean peso against the dollar would reduce the Company's earnings as reported in U.S. dollars. Any dividend the Company may pay in the future would be denominated in Chilean pesos. A decline in the value of the Chilean peso against the U.S. dollar would reduce the U.S. dollar equivalent of any such

dividend. A devaluation of the Brazilian, Argentine and/or Peruvian currency would also reduce the Company's earnings in Chilean pesos and therefore the earnings reported in U.S. dollars.

Holders of ADSs

Due to the fact that holders of ADSs do not hold their shares directly, they are subject to the following additional risks:

In the event of a dividend or other distribution, if exchange rates fluctuate during any period of time when the ADS depository cannot convert a foreign currency into dollars, the ADS holders may lose some or all of the value of the distribution. There can be no assurance that the ADS depository will be able to convert any currency at a specific exchange rate or sell any property, rights, shares or other securities at a specific price, or that any of such transactions can be completed within a specific time period.

In order to vote at shareholders' meetings, ADS holders not registered on the books of the ADS depository are required to transfer their ADSs for a certain number of days before a shareholders' meeting into a blocked account established for that purpose by the ADS depository. Any ADS transferred to this blocked account will not be available for transfer during that time. ADS holders who are registered on the books of the ADS depository must give instructions to the ADS depository not to transfer their ADSs during this period before the shareholders' meeting. ADS holders must therefore receive voting materials from the ADS depository sufficiently in advance in order to make these transfers or give these instructions. There can be no guarantee that ADS holders will receive voting materials in time to instruct the ADS depository how to vote. It is possible that ADS holders, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote at all.

ADS holders may not receive copies of all reports from the Company or the ADS depository. Holders may have to go to the ADS depository's offices to inspect any reports issued.

Item 4. Information on the Company

A. History and Development of the Company

Overview

The Company is one of the largest diversified companies engaged in the industrial and services sectors in Chile. It has invested in five main sectors of the economy: financial services; food and beverage; telecommunications; manufacturing; and real estate and hotel administration.

The Company, which is among the market leaders in each of its major businesses, provides:

- banking and other financial services through Banco de Chile and, until it was merged with Banco de Chile on January 1, 2002, through Banco Edwards;
- produces, bottles and distributes beer, wine, soft drinks and other beverages through CCU;
- processes and distributes food through Lucchetti;
- provides fixed telephony and other telecommunications services through VTR;

- manufactures copper and aluminum products and flexible product packaging through Madeco;
- provides hotel services through Hoteles Carrera and, until it was divested in August 2001, through Plava Laguna; and
- develops residential real estate through Habitaria.

In addition, the Company holds a financial investment in Entel, a leading Chilean telecommunications provider, which complements its existing investment in the telecommunications sector.

Until May 1999, banking and other financial services were also provided through Banco Santiago in Chile and through banks in Argentina, Peru and Paraguay. On May 3, 1999, these businesses were divested.

Quiñenco, an open stock corporation, operates under the laws of the Republic of Chile. It was founded in 1957 as Forestal Quiñenco S.A., a company engaged in logging and supplying wood to the Chilean coal mining industry. In the mid-1960s, Andrónico Luksic Sr. acquired a majority interest in the Company. The Company's registered office is at Enrique Foster Sur 20, 14th Floor, Las Condes, Santiago, Chile and its telephone number is (56-2) 750-7221.

The Company's current structure is a result of transfers and consolidations among Luksic Group companies at various times, principally in September 1996. Prior to September 1996, the Luksic Group held interests in the Company's businesses through several entities controlled by the Luksic family. During September 1996, these interests were combined within Quiñenco through a series of transactions in order to consolidate the holdings of the Luksic Group. As a result of these transactions, Quiñenco became the principal company through which the Luksic family is active in the industrial and financial sectors, except those related to mining and railways which continue to be held through another company controlled by the Luksic family. Although Quiñenco continues to be the principal company through which the Luksic Group participates in the industrial and financial sectors, individual members of the Luksic family are not restricted from carrying out investments in these sectors individually or through other Luksic family companies.

Companies controlled by Quiñenco include Lucchetti, which was acquired in 1965, Hoteles Carrera, acquired in 1979, Madeco, acquired in 1983, and VTR, acquired in 1987. The venture with Paulaner Salvator Beteiligungs A.G. ("Paulaner") was formed in 1986 to jointly control CCU. Habitaria, a joint venture with Ferrovial Inmobiliaria Chile Ltda., was established in 1998. The Company acquired control of Banco Edwards in 1999 and control of Banco de Chile in 2001. Banco Edwards merged into Banco de Chile in January 2002.

As of the date of this Annual Report, the Luksic Group, which consists of Mr. Andrónico Luksic Sr., his sons, Andrónico Luksic Craig, Guillermo Luksic Craig and Jean Paul Luksic Fontbona, and companies they control, beneficially own approximately 82.4% of the shares of Quiñenco. As long as the Luksic Group beneficially owns a majority of the outstanding shares, the Luksic Group will be able to elect a majority of the Directors of Quiñenco and to determine the outcome of the voting on substantially all actions that require shareholder approval. See "Item 6. Directors, Senior Management and Employees" and "Item 7. Major Shareholders and Related Party Transactions".

Summary of Developments during 2001

Quiñenco

During 2001, Quiñenco issued bonds in the Chilean market amounting to UF6.5 million. The bond issue consisted of two series. Series A, maturing in 2021, amounted to UF2.0 million, and Series B, maturing in 2008, amounted to UF4.5 million. Quiñenco's bond obligations related to this issue amounted to Ch\$106,836 million (equivalent to UF6.5 million plus accrued interest) as of December 31, 2001.

Financial Services – Banco de Chile

On February 6, 2001, the Company launched a tender offer on the Chilean Stock Exchanges to acquire 5% of the outstanding shares of SM Chile S.A. ("SM Chile"), the holding company which directly owned 28% of Banco de Chile, and indirectly held an additional 63.6% through its wholly-owned subsidiary, SAOS S.A. The tender offer was successfully concluded on February 28, 2001. The shares purchased included 28.4 million shares of SM Chile's Series A shares, 550 million shares of SM Chile's Series B shares, 21.5 million shares of SM Chile's Series D shares and 29.2 million shares of SM Chile's Series E shares. The shares acquired during the tender offer represented 5% of the outstanding shares of each series of SM Chile. The cost of the share acquisition in connection with the tender offer was Ch\$36,212 million (pesos as of March 31, 2001).

On March 27, 2001, Quiñenco, through its wholly-owned subsidiary, LQ Inversiones Financieras S.A. ("LQIF"), acquired an additional 35.8% interest in Banco de Chile, pursuant to a purchase agreement signed by Quiñenco and the controlling shareholder group of Banco de Chile on February 2, 2001. The interest in Banco de Chile was acquired through the purchase of shares of Banco de Chile and SM Chile S.A. The total purchase price was Ch\$304,128 million (pesos as of March 31, 2001).

The shares purchased included 1,466.8 million ordinary shares of Banco de Chile, which represented 3.3% of the outstanding shares of Banco de Chile, 79.5 million shares of SM Chile's Series A shares, which represented 14.0% of the outstanding shares of SM Chile, 4,144.1 million shares of SM Chile's Series B shares, which represented 37.7% of the outstanding shares of SM Chile, 90.7 million shares of SM Chile's Series D shares, which represented 21.1% of the outstanding shares of SM Chile and 18.6 million shares of SM Chile's Series E shares, which represented 3.2% of the outstanding shares of SM Chile.

Financing of the transaction in the amount of UF12,437,783 was made pursuant to an agreement for direct financing with the controlling shareholder group under a two-year interest-bearing note. Quiñenco obtained financing from local and international banks and a local bond issue for the remaining amount.

Combined with prior share purchases carried out in 1999 and 2000, the Company's aggregate interest in Banco de Chile as of March 27, 2001, reached 52.7%. As a consequence, Quiñenco, through LQIF, became the bank's largest shareholder. The carrying cost of the aggregate investment in Banco de Chile is Ch\$411,398 million (pesos as of March 31, 2001).

The dividend rights associated with Quiñenco's 52.7% interest in Banco de Chile represented 17.8% of the total dividend rights between March 27, 2001 and December 31, 2001. See "—Business Overview, Banco de Chile" for a description of the rights of the Central Bank over cash dividend distributions in connection with Banco de Chile's subordinated debt obligation to the Chilean Central Bank.

Since March 27, 2001, the investment in Banco de Chile has been accounted for as a non-consolidated equity-method investment, as authorized by the SVS. For further information regarding the results of Banco de Chile and Banco Edwards, whose results are not consolidated into the Company's financial statements, reference is made to Banco de Chile's and Banco Edwards' Annual Reports on Form 20-F for the fiscal year ended December 31, 2001.

Food and Beverage – CCU

On March 20, 2001, CCU announced that it had sold a 6.7% interest it held in Unión de Cervecerías Peruanas Backus y Johnston, S.A.A., the leading beer producer in Peru. The pre-tax gain on sale associated with the disposal of the shares was Ch\$16,227 million (value on the transaction date), of which 30.8% corresponded to Quiñenco's proportionate share.

Food and Beverage – Lucchetti

On June 25, 2001, Lucchetti completed the sale of its subsidiary, Lucchetti Argentina S.A. to Molinos Rio de la Plata S.A. ("Molinos"), an Argentine-based food producer, for US\$29.7 million (value on the transaction date, net of debt). Lucchetti made a provision for the accounting loss it expected to incur upon the closing of the sale of Ch\$7,323 million in its 2000 year-end financial statements.

On April 26, 2001, as part of the effort to reduce indebtedness, Lucchetti's Board of Directors approved a capital increase of Ch\$21,000 million through the issuance of 1,000,000,000 new shares. The capital increase was carried out in the second half of 2001 and as of December 31, 2001, Lucchetti had issued 871,242,195 new shares for Ch\$18,294 million. Quiñenco subscribed to 869,708,297 shares for Ch\$18,264 million. Quiñenco's economic interest in Lucchetti increased from 87.0% to 93.3% following the capital increase.

During 2001, Lucchetti carried out a financial restructuring aimed at reducing the company's overall indebtedness level, and reprogramming remaining debt maturities in line with Lucchetti's future expected cash flow. As of December 31, 2001, Lucchetti had reduced its interest bearing debt by 46% to Ch\$56,432 million. Proceeds from the above-referenced sale of Lucchetti Argentina and the 2001 capital increase were used to reduce indebtedness. The debt restructuring mainly involved a refinancing of short-term debt into a seven-year syndicated credit facility of Ch\$36,066 million. As of December 31, 2001, 82.5% of Lucchetti's interest bearing debt was in long-term facilities.

Telecommunications – Entel

On May 18, 2001 and subsequently on August 1 2001, in privately negotiated transactions carried out with a group of Chilean pension funds and insurance companies, Quiñenco sold an 8% interest in Entel (4% in each transaction). Proceeds from the sale amounted to Ch\$88,821 million and the pre-tax gain on sale was Ch\$49,569 million. Proceeds were used to reduce a portion of Quiñenco's indebtedness incurred in connection with the Banco de Chile share acquisition in March 2001. Following the sale of shares, Quiñenco's aggregate interest in Entel was approximately 5.7%.

Telecommunications – VTR

In May 2001, VTR's 73.6%-owned subsidiary, Telsur, issued bonds in the Chilean market in the amount of UF1,000,000. The bond issue consisted of two series. Series G, which amounted to UF400,000, matures in 2005, and Series H, which amounted to UF600,000, matures in 2021.

Manufacturing – Madeco

Madeco announced on March 27, 2001 that it had sold a 25% interest in Ficap Optel Ltda. (“Optel”) to Corning International Corporation (“Corning”), for US\$20 million (value on the transaction date). After the sale, Madeco retained a 50% interest in Ficap Optel Ltda. The pre-tax gain on the sale of its interest was Ch\$3,138 million.

On August 3, 2001, Madeco issued bonds in the Chilean market for UF1,500,000 (equivalent to US\$35.5 million on the transaction date). The bond issue consisted of one series maturing in 2004. The proceeds from the bond issue were used to refinance existing debt.

Real Estate and Hotel Administration – Hoteles Carrera

On May 17, 2001, Hoteles Carrera’s Board of Directors approved a capital increase of Ch\$4,287 million through the issuance of 5,358,920 new shares. The capital increase was carried out in the last quarter of 2001 and as of December 31, 2001, Carrera had issued 2,827,221 new shares for Ch\$2,261 million. Quiñenco, through its 96.2%-owned subsidiary, Agrícola El Peñon, subscribed to 2,825,264 shares for Ch\$2,260 million. Quiñenco’s economic interest in Carrera increased from 87.2% to 89.9% following the capital increase. Proceeds from the capital increase were used to reduce liabilities.

Real Estate and Hotel Administration – Plava Laguna

On August 20, 2001, Quiñenco announced that it had sold its 39.4% interest in Plava Laguna to Sutivan Investments Establishment (“Sutivan”), a Luksic Group company, for US\$29.6 million (value on the transaction date). The pre-tax gain on the sale of its interest was Ch\$1,280 million. Under the terms of the sale agreement, Quiñenco has an option to purchase 50% of Sutivan in 2004. For additional information, see “Item 7B. Related Party Transactions”.

Developments during 2002

Quiñenco

On March 13, 2002, Quiñenco reported the estimated effects of the Argentine economic crisis and currency devaluation on its financial results as of December 31, 2001, in accordance with directives from the SVS. Quiñenco, as a holding company, is exposed to the continuing economic crisis and currency devaluation in Argentina principally through its 56.1%-owned subsidiary, Madeco and its 30.8%-owned affiliate company, CCU.

Madeco reported an estimated loss in connection with its business in Argentina of Ch\$17,780 million (pesos as of December 31, 2001), to be included in results for the twelve months ended December 31, 2001. The loss corresponding to Quiñenco’s participation in Madeco of 56.1% was approximately Ch\$9,975 million. CCU reported in its consolidated 2001 financial statements losses amounting to Ch\$1,806 million in relation to its operations in Argentina. The loss corresponding to Quiñenco’s participation in CCU of 30.8% was approximately Ch\$556 million.

Financial Services – LQIF

On January 3, 2002, LQIF’s Board of Directors approved a capital increase of Ch\$484,000 million through the issuance of 500,000,000 new shares. On January 22, 2002, Quiñenco subscribed to 273,768,064 shares for Ch\$265,007 million. Proceeds from the capital increase were used to reduce a portion of the indebtedness incurred with the Banco de Chile acquisition.

On June 3, 2002, Quiñenco announced that its wholly-owned subsidiary, LQIF, had prepaid a two-year note that had been granted by the ex-controlling shareholders of Banco de Chile, as part of the Banco de Chile share acquisition in March of 2001. The obligation, which was originally scheduled to become due in March of 2003, had an initial face value of UF12,437,783. The note was prepaid with long-term financing obtained from national and international banks, the proceeds from Quiñenco's bond offering in 2001, dividend income received from Quiñenco's main operating companies and a US\$70 million loan granted by Quiñenco's controlling shareholder, the Luksic Group.

Financial Services – Banco de Chile

Pursuant to authorizations from the Chilean Superintendency of Banks (the "SBIF") and a majority of the shareholders from both banks, Banco de Chile, a 52.7%-owned subsidiary of the Company, and Banco Edwards, a 51.2%-owned subsidiary of the Company, merged their operations effective January 1, 2002. As a consequence of the merger, Banco Edwards was absorbed by Banco de Chile, the surviving entity and legal successor.

Under the terms of the merger, Banco Edwards constituted 34% of the surviving entity and Banco de Chile, 66% of the assets, liabilities and equity of the surviving entity. On January 4, 2002, holders of Banco Edwards common stock received 3.135826295 Banco de Chile F shares for each Banco Edwards common share and received 0.862352231125 Banco de Chile F ADSs for each Banco Edwards ADS. Accordingly, an aggregate of 23,147,126,425 Banco de Chile F shares were issued to shareholders of Banco Edwards, including 11,845,494,384 F shares issued to the Company, representing its 51.2% interest, equivalent to 17.4% of Banco de Chile's 68,079,783,605 common shares. The F shares had all the same rights as the Banco de Chile common stock except that they entitled holders to receive dividends in 2002 with respect to Banco Edwards' 2001 net income. These dividends were declared and paid on March 21, 2002, and the F shares were automatically converted on a one-to-one basis into Banco de Chile common stock.

Following the merger, the Company has a 52.2% interest in the voting rights of Banco de Chile and a 29.2% economic interest corresponding to dividend rights. Its interest is held through its wholly-owned subsidiary LQIF, and includes 13,762.3 million ordinary shares of Banco de Chile, which represent 20.2% of the outstanding shares of Banco de Chile, 377.5 million shares of SM Chile's Series A shares, which represented 66.5% of the outstanding shares of SM Chile Series A, 5,811.6 million shares of SM Chile's Series B shares, which represented 52.8% of the outstanding shares of SM Chile Series B, 223.4 million shares of SM Chile's Series D shares, which represented 52.0% of the outstanding shares of SM Chile Series D and 47.9 million shares of SM Chile's Series E shares, which represented 8.2% of the outstanding shares of SM Chile Series E.

The investment is currently being accounted for as a non-consolidated equity-method investment, as authorized by the SVS. See "—Business Overview, Banco de Chile" for a description of the rights of the Central Bank over cash dividend distributions in connection with the subordinated debt obligation Banco de Chile maintains with the Chilean Central Bank. For further information regarding the results of Banco de Chile and Banco Edwards, whose results are not consolidated into the Company's financial statements, reference is made to Banco de Chile's and Banco Edwards' Annual Reports on Form 20-F for the fiscal year ended December 31, 2001.

Food and Beverage – CCU

On May 10, 2002, CCU announced that it had acquired a 50% interest in Kunstmann, a small premium microbrewery in the south of Chile. The purchase price of the brewery was undisclosed by CCU on the announcement date.

Food and Beverage – Lucchetti

On January 23, 2002, Lucchetti completed a capital increase approved and partially carried out in 2001. On that date, Lucchetti issued 128,757,805 new shares for Ch\$2,706 million. Quiñenco subscribed to 128,610,448 shares for Ch\$2,701 million. Quiñenco's economic interest in Lucchetti increased from 93.3% to 93.7% following the capital increase. Proceeds were used to reduce indebtedness.

Manufacturing – Madeco

At the beginning of the year 2002, as a consequence of Argentina's severe economic crisis and political instability, Madeco temporarily halted its business activities related to wire and cable and brass mills in that country. Currently, Madeco's subsidiary, Decker-Indelqui, has been closed although it is maintaining a minimal staff, primarily to oversee closing activities, liquidate product inventory and ensure the security of varied production facilities. In conjunction with its joint venture partner, Corning, Madeco also decided to minimize its optical fiber cable operation in Argentina.

The deep economic recession in Argentina as well as other adverse economic developments in Madeco's main markets in 2001, principally Brazil, has had a material adverse effect on Madeco's operations and financial condition. In order to develop a plan to restructure its financial liabilities and improve its capital structure, Madeco announced on January 14, 2002 that it had retained Salomon Smith Barney (Chile) S.A to advise it in this process. Madeco is currently negotiating with a group of banks to obtain more favorable terms on its existing bank credit facilities. The successful renegotiation of these facilities is expected to be contingent on an increase in the Company's share capital of up to US\$70 million, which is planned to take the form of a preemptive rights offering to existing shareholders, the proceeds of which would be used to reduce outstanding short-term and long-term debt. For additional information, see "Item 4. Information on the Company—Business Overview—Manufacturing Sector—Madeco" and "Item 5. Operating and Financial Review and Prospects—Operating Results of the Company".

On June 27, 2002, Madeco announced that it had been notified by Corning Inc., Madeco's joint venture partner in Optel, which produces optical fiber cable in Brazil and Argentina, that it planned to liquidate the joint venture. Madeco disagrees with Corning's position and intends to file an arbitration suit to resolve this dispute. Madeco's management does not believe that the outcome of this issue will have a material effect on Madeco's financial position.

On July 1, 2002, the Comisión Clasificadora de Riesgo (the "Risk Classification Commission"), which regulates the investment activities of the pension funds in Chile, ruled that, as a consequence of the deterioration of Madeco's financial situation, Chilean pension funds may no longer purchase the debt securities or common shares of Madeco and, depending on the particular situation of each pension fund, some of these funds could be required to dispose of part or all of their current holdings over time. Madeco's common shares could be eligible to be purchased by the pension funds again if the Chilean SVS certifies to the Risk Classification Commission that Madeco has complied with certain financial conditions. Both Madeco's common shares and debt securities could be eligible to be purchased by the pension funds if the Risk Classification Commission changes its resolution based on an improved financial situation of Madeco.

B. Business Overview

Financial Services Sector

The Company's investments in the Financial Services Sector are held by a wholly-owned intermediate holding company of Quiñenco, LQIF. LQIF was formed on August 15, 2000 with initial capital of Ch\$10 million (historic value). Since its creation, it has served as the Company's investment vehicle for its investments in Banco Edwards and Banco de Chile. As of December 31, 2001, LQIF had an economic interest in Banco Edwards and Banco de Chile of 51.2% and 52.7%, respectively. Quiñenco's interest in Banco de Chile is currently being accounted for as a non-consolidated equity-method interest, in accordance with authorization from the SVS. For further information regarding the results of Banco de Chile and Banco Edwards, whose results are not consolidated into the Company's financial statements, reference is made to Banco de Chile's and Banco Edwards' Annual Reports on Form 20-F for the fiscal year ended December 31, 2001.

At December 31, 2001, as a percentage of Quiñenco's total investments, the investments in Banco Edwards and Banco de Chile represented approximately 65% of total investments, and as a percentage of total consolidated assets, the investments, both of which are accounted for on an equity-method investment basis, represented 40% of total consolidated assets.

Merger of Banco Edwards with Banco de Chile. Pursuant to authorizations from the Chilean Superintendency of Banks (SBIF) and a majority of the shareholders from both banks, Banco de Chile, a 52.7%-owned subsidiary of the Company and Banco Edwards, a 51.2%-owned subsidiary of the Company, merged operations effective January 1, 2002. As a consequence of the merger, Banco Edwards was absorbed by Banco de Chile, the surviving entity and legal successor.

Under the terms of exchange, Banco Edwards constituted 34% of the surviving entity and Banco de Chile, 66% of the assets, liabilities and equity of the surviving entity. Each Banco Edwards share was exchanged for 3.135826295 shares of Banco de Chile common stock. Following the merger, Banco de Chile had 68,079,783,605 shares outstanding of common stock, all of the same series.

Following the merger, the Company, through LQIF, has a 52.2% interest in the voting rights of Banco de Chile and a 29.2% economic interest corresponding to dividend rights. Its interest includes 13,762.3 million ordinary shares of Banco de Chile, which represents 20.2% of the outstanding shares of Banco de Chile, 377.5 million shares of SM Chile's Series A shares, which represents 66.5% of the outstanding shares of SM Chile Series A, 5,811.6 million shares of SM Chile's Series B shares, which represents 52.8% of the outstanding shares of SM Chile Series B, 223.4 million shares of SM Chile's Series D shares, which represents 52.0% of the outstanding shares of SM Chile Series D and 47.9 million shares of SM Chile's Series E shares, which represents 8.2% of the outstanding shares of SM Chile Series E. As part of the merger agreement, the Central Bank of Chile has the rights to 42.8% of future cash distributions in connection with the subordinated debt obligation Banco de Chile maintains with the Chilean Central Bank. "See Overview, Banco de Chile" for a description of the subordinated debt obligation.

LQIF Capital Increase. On January 3, 2002, LQIF's Board of Directors approved a capital increase of Ch\$484,000 million through the issuance of 500,000,000 new shares. On January 22, 2002, Quiñenco subscribed to 273,768,064 shares for Ch\$265,007 million. Proceeds from the capital increase were used to reduce a portion of the indebtedness incurred as part of the Banco de Chile acquisition.

Prepayment of Obligation with Ex-Controlling Shareholders of Banco de Chile. On June 3, 2002, Quiñenco announced that its wholly-owned subsidiary, LQIF, had prepaid a two-year note that had been granted by the ex-controlling shareholders of Banco de Chile as part of the Banco de Chile share

acquisition in March of 2001. The obligation, which was originally scheduled to become due in March of 2003, had an initial face value of UF12,437,783. The note was prepaid with long-term financing obtained from national and international banks, the proceeds from Quiñenco's bond offering in 2001, dividend income received from Quiñenco's main operating companies and a US\$70 million loan granted by a company related to Quiñenco's controlling shareholder, the Luksic Group.

Financial Services – Banco de Chile

The Company had a 52.7% interest in Banco de Chile's voting rights and 17.8% of the corresponding dividend rights as of December 31, 2001. The Company does not consolidate Banco de Chile's results, which are accounted for on an equity-method investment basis in 2001. For further information regarding the results of Banco de Chile and Banco Edwards, whose results are not consolidated into the Company's financial statements, reference is made to Banco de Chile's and Banco Edwards' Annual Reports on Form 20-F for the fiscal year ended December 31, 2001.

Banco de Chile reported net income of Ch\$86,968 million, of which Ch\$15,527 million corresponded to Quiñenco's interest in 2001.

Quiñenco began acquiring shares of Banco de Chile in 1999, and as of December 31, 1999 it had an 8% interest, through shares held directly in Banco de Chile and through SM Chile, the holding company which, as of December 31, 2001, directly owned a 28% interest in Banco de Chile and indirectly owned an additional 63.6% through its subsidiary, SAOS S.A. Quiñenco continued to acquire shares during 2000, and at December 31, 2000 it had a 12.3% interest.

On December 14, 2000, Quiñenco announced that it had entered into an agreement with the controlling shareholder group of Banco de Chile, led by Empresas Penta, to acquire, through its wholly-owned subsidiary, LQIF, an additional 35.8% interest in Banco de Chile for UF19,766,052 (equivalent to US\$541.3 million on the announcement date). The acquisition was completed on March 27, 2001.

On February 6, 2001, the Company launched a tender offer on the Chilean Stock Exchanges to acquire 5% of the outstanding shares of SM Chile S.A. ("SM Chile"). The tender offer was successfully concluded on February 28, 2001. The shares purchased included 28.4 million shares of SM Chile's Series A shares, 550 million shares of SM Chile's Series B shares, 21.5 million shares of SM Chile's Series D shares and 29.2 million shares of SM Chile's Series E shares. The shares acquired during the tender offer represented 5% of the outstanding shares of each series of SM Chile. The cost of the share acquisition in connection with the tender offer was Ch\$36,212 million (pesos as of March 31, 2001).

On March 27, 2001, Quiñenco, through its wholly-owned subsidiary, LQIF, acquired an additional 35.8% interest in Banco de Chile, pursuant to a purchase agreement signed by Quiñenco and the controlling shareholder group of Banco de Chile on February 2, 2001. The interest in Banco de Chile was acquired through the purchase of shares of Banco de Chile and SM Chile S.A. The total purchase price was Ch\$304,128 million (pesos as of March 31, 2001).

The shares purchased included 1,466.8 million ordinary shares of Banco de Chile, which represented 3.3% of the outstanding shares of Banco de Chile, 79.5 million shares of SM Chile's Series A shares, which represented 14.0% of the outstanding shares of SM Chile, 4,144.1 million shares of SM Chile's Series B shares, which represented 37.7% of the outstanding shares of SM Chile, 90.7 million shares of SM Chile's Series D shares, which represented 21.1% of the outstanding shares of SM Chile and 18.6 million shares of SM Chile's Series E shares, which represented 3.2% of the outstanding shares of SM Chile.

The transaction was financed in part pursuant to a direct financing agreement with the controlling shareholder group for UF12,437,783. Quiñenco obtained financing from local and international banks for the remaining amount.

Combined with prior share purchases carried out in 1999 and 2000, the Company's aggregate interest in Banco de Chile, as of March 27, 2001, reached 52.7%. As a consequence, Quiñenco, through LQIF, became the bank's largest shareholder. The carrying cost of the aggregate investment in Banco de Chile was Ch\$411,398 million as of March 31, 2001 (historic value).

The dividend rights associated with Quiñenco's 52.7% interest in Banco de Chile represented 17.8% of the total dividend rights between March 27, 2001, and December 31, 2001. See "—Business Overview, Banco de Chile" for a description of the rights of the Central Bank over cash dividend distributions in connection with Banco de Chile's subordinated debt obligation to the Chilean Central Bank.

Founded in 1893, Banco de Chile is one of the largest and most profitable Chilean banks in terms of return on assets and shareholders' equity. It is a full-service financial institution engaged principally in commercial banking in Chile, providing general banking services to a diverse customer base through a wide variety of credit and non-credit products, servicing all segments of the Chilean financial market. Its operations are organized in five principal divisions - large corporations, middle market companies, retail banking, international banking, treasury and money market operations - and in five non-banking financial service subsidiaries. Banco de Chile offers international banking services through its branch in New York, its agency in Miami, representative offices in Buenos Aires, São Paulo and Mexico City and a worldwide network of roughly 1,000 correspondent banks. It also offers, through its subsidiaries, a variety of non-banking financial services including securities brokerage, mutual fund management, financial advisory services, factoring and insurance brokerage. According to information provided by the Chilean Superintendency of Banks, Banco de Chile was the second largest private bank in Chile in terms of total lending (excluding interbank loans), with a 12.1% market share as of December 31, 2001. According to the same source, Banco de Chile was the one of the most profitable banks in the Chilean financial system in 2001 with a return on equity ratio of 23.7%.

Subordinated debt. During the 1982-1983 economic crisis, the Chilean banking system experienced significant instability due to, among other things, a recession in most of the world's major economies accompanied by high international interest rates, an overvalued peso, a lack of stringent banking regulation and ineffective credit policies at most Chilean banking organizations. During this period, Banco de Chile experienced significant financial difficulties, and as a result, the Chilean government assumed administrative control. In 1985 and 1986, Banco de Chile increased its capital and sold shares representing 88% of its capital to more than 30,000 new shareholders. In 1987, the Chilean Superintendency of Banks returned control and administration of the bank to its shareholders.

Subsequent to the 1982-1983 economic crisis, Banco de Chile sold certain non-performing loans to the Chilean Central Bank at face value on terms that included a repurchase obligation. The repurchase obligation was exchanged for subordinated debt issued in favor of the Chilean Central Bank in November 1989, pursuant to Law No. 18,818, which permitted banks to repurchase the portfolio of non-performing loans previously sold to the Chilean Central Bank for a price equal to the economic value of such loans.

The repayment terms of Banco de Chile's Chilean Central Bank subordinated debt, which at June 30, 1989 equaled approximately US\$1.75 billion, required that a certain percentage of its income before provisions for the subordinated debt, be applied to repay the obligation. The Chilean Central Bank subordinated debt did not have a fixed maturity and payments were made only to the extent that the bank earned income before provisions for the subordinated debt. In 1993, 1994 and 1995 Banco de Chile

applied 72.9%, 67.6% and 65.8%, respectively, of its income before provisions for the Chilean Central Bank subordinated debt to the repayment of such debt.

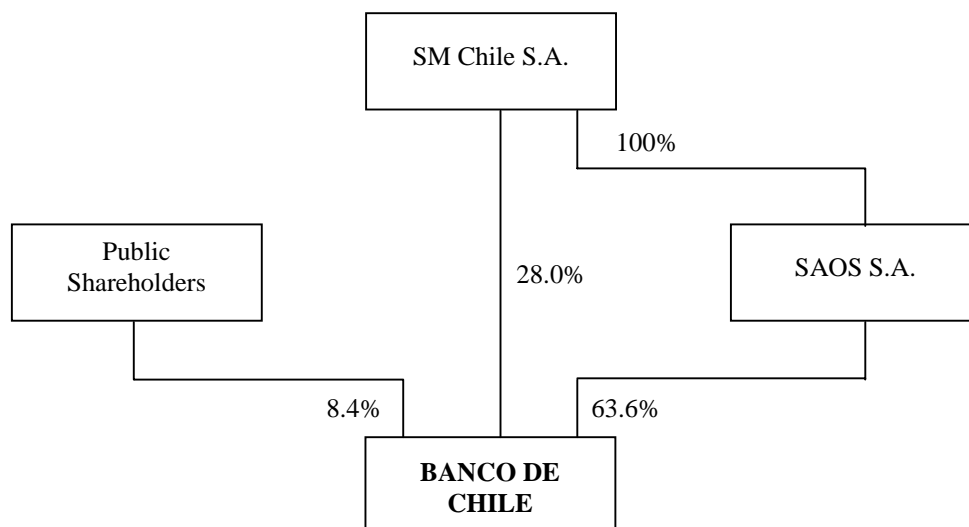
In November 1996, pursuant to Law 19,396, Banco de Chile's shareholders approved a reorganization by which Banco de Chile was converted to a holding company named SM Chile S.A. that in turn organized a new wholly-owned banking subsidiary named Banco de Chile to which it contributed all of its assets and liabilities other than the Chilean Central Bank subordinated debt. SM Chile then created a second wholly-owned subsidiary, Sociedad Administradora de la Obligación Subordinada S.A., or SAOS, that, pursuant to a prior agreement with the Chilean Central Bank, assumed a new repayment obligation in favor of the Chilean Central Bank which replaced the Central Bank subordinated debt in its entirety.

This Chilean Central Bank indebtedness, for which SAOS is solely responsible and for which there is no recourse to Banco de Chile or SM Chile, was equal to the unpaid principal of the Chilean Central Bank subordinated debt that it replaced but had terms that differed in certain respects, including a rescheduling of the debt for a term of 40 years providing for equal annual installments and a pledge of Banco de Chile shares as collateral for such debt. The Chilean Central Bank indebtedness bears interest at a rate of 5.0% per year and is denominated in UF. SAOS is not required to record the entire balance of the subordinated debt obligation as a liability, but instead accrues a liability equal to its share of dividends receivable from Banco de Chile. The balance of the subordinated debt as of December 31, 2001 was Ch\$880,134 million.

In exchange for assuming the Chilean Central Bank indebtedness, SAOS received from SM Chile 63.6% of the shares of Banco de Chile, which serve as collateral for the Chilean Central Bank indebtedness. Dividends received from Banco de Chile are the sole source of SAOS's revenue, which it must apply to repay the Chilean Central Bank indebtedness. However, under SAOS's agreement with the Chilean Central Bank, regarding SAOS's Chilean Central Bank indebtedness, Banco de Chile has no obligation to distribute dividends to shareholders. To the extent dividend revenues are not sufficient to pay the amount due on any installment, SAOS is permitted to maintain a cumulative deficit balance with the Chilean Central Bank that SAOS commits to pay with future dividends. In the event the cumulative deficit balance exceeds the equivalent amount by 20% of the total capital of Banco de Chile, SAOS will be required by the Chilean Central Bank to sell a sufficient number of shares of the stock owned by SAOS to pay the entire deficit amount accumulated. In the event of any such sale of shares, the shareholders of SM Chile have the right of first refusal with respect to those shares.

In the event that Banco de Chile's shareholders decide to retain and capitalize all or part of its annual net income, distributing stock dividends among its shareholders, the Chilean Central Bank has the option to require that the part of such net income corresponding to the shares owned by SAOS be paid in cash to SAOS. If Banco de Chile distributes stock dividends and the Chilean central Bank does not exercise the option to require cash, the resulting shares received by SAOS will be sold by SAOS in the following next 12 months. The shareholders of SAOS will have the right of first refusal with respect to those shares.

The following diagram presents in summary form the ownership structure of Banco de Chile that resulted from the reorganization in November 1996 described above:



Merger with Banco Edwards. As a result of Banco de Chile's merger with Banco Edwards on January 1, 2002, the percentage of shares held by SAOS decreased to 42.0%. Dividends received from Banco de Chile will continue to be SAOS's sole source of revenue, which it must apply to repay its indebtedness. However, under SAOS's agreement with the Central Bank regarding this indebtedness, Banco de Chile has no obligation to distribute dividends to its shareholders. To the extent distributed dividends are not sufficient to pay the amount due on its indebtedness, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of the bank's capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of Banco de Chile's stock owned by SAOS to pay the entire deficit amount accumulated. As of December 31, 2001, SAOS maintained a deficit balance with the Central Bank of Chile of Ch\$9,970 million, equivalent to 3.2% of Banco de Chile's capital and reserves. If from time to time, Banco de Chile's shareholders decide to retain and capitalize all or part of Banco de Chile's annual net income in order to finance future growth of the bank, and to distribute stock dividends among its shareholders, the Central Bank may require Banco de Chile to pay the portion of net income corresponding to shares owned by SAOS in cash to SAOS. If Banco de Chile distributes stock dividends and the Central Bank does not require Banco de Chile to pay that portion in cash, the shares received by SAOS must be sold by SAOS within the following twelve months. Any distribution of dividends by Banco de Chile to SAOS would be made pro rata to SAOS and all of its other shareholders according to their percentage interest in Banco de Chile. Following the merger with Banco Edwards, Banco de Chile's capital is divided in 68,079,783,605 registered common shares of a single series. Its property structure is: SAOS S.A. (42.0%), SM Chile S.A. (18.48%), and other shareholders (39.52%). 43.82% of future dividends paid by Banco de Chile will service SAOS's subordinated debt obligation with the Central Bank until it is fully repaid.

Strategy. Banco de Chile's long-term strategy is to maintain its position as a leading bank in Chile, providing a broad range of financial products and services to large corporations, small and mid-sized companies and individuals nationwide. The strategy focuses on: (i) delivering superior service that responds to the specific needs of its customers in each market segment; (ii) enhancing profitability by increasing revenues from fee-based services through development of new services and active cross-selling of such services to customers; (iii) continuing to focus on measures that control costs and otherwise enhance productivity to improve its existing efficiency standards; and (iv) further developing its international activities.

The following table shows selected financial information of Banco de Chile and its subsidiaries at or for the years ended December 31, 2000 and 2001:

Banco de Chile and subsidiaries	2000	2001
	(in millions of constant Ch\$, except percentages)	
Interest revenue	Ch\$565,595	Ch\$515,553
Interest expense	(355,321)	<u>(300,695)</u>
Net interest revenue.....	210,274	214,858
Net interest margin.....	4.2%	3.8%
Provisions for loan losses.....	(39,483)	(45,887)
Total fees and income from services, net.....	48,624	51,475
Total other operating income, net	11,269	6,211
Total Other income and expenses (net):		
Loan loss recoveries.....	9,083	9,646
Other income and expenses, net.....	1,684	3,344
Minority interest.....	(1)	(1)
Total operating expenses.....	(145,980)	(148,247)
Loss from price-level restatement.....	(9,422)	(5,777)
Income taxes.....	(1,550)	<u>1,346</u>
Net income	Ch\$84,498	<u>Ch\$86,968</u>
Total assets.....	Ch\$5,804,801	Ch\$6,087,452
Total liabilities	5,410,468	5,689,183
Shareholders' equity.....	394,333	398,269
Quiñenco's interest % (1)	12.3%	52.7%

(1) Corresponds to voting rights in Banco de Chile.

The following table provides information on the composition of Banco de Chile's loan portfolio and contribution to consolidated net income before tax by segment for the year ended December 31, 2001:

At December 31, 2001			
	Consolidated	Percentage of	Percent of
	Loans	Consolidated	Consolidated
		Loans	Net
			Income(1)
	(in millions of constant Ch\$, except percentages)		
Large corporations	Ch\$1,612,132	41.8%	8.8%
Middle market companies	980,269	25.4	31.9
Retail banking	958,767	24.8	21.1
International banking	275,828	7.2	10.4
Treasury and money market operations.....	12,357	0.3	35.5
Other financial services.....	19,467	0.5	12.9
Adjustments & eliminations	-	-	<u>(20.6)</u>
Total consolidated	<u>Ch\$3,858,820</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Consolidated net income before tax consists of the sum of net interest revenue and fees and income from services, net, and the deduction for operating expenses and provisions for loan losses.

Large Corporations

At December 31, 2001, Banco de Chile had approximately 2,256 large corporate customers. Loans to large corporations totaled approximately Ch\$1,612,132 million at December 31, 2001, representing 41.8% of total loans at that date. Approximately 8.8% of consolidated net income before tax for the year ended December 31, 2001 was accounted for by the Large Corporations Division.

In general, the Large Corporation Division services domestic companies with annual sales in excess of Ch\$12,000 million (approximately US\$18 million), multinational corporations, financial institutions, governmental entities and companies affiliated with Chile's largest conglomerates (regardless of size). The Large Corporation Division offers companies a broad range of products and services, including deposit-taking and lending in both pesos and foreign currency, trade and project financing, and various non-credit services, such as collection, supplier payments and payroll management. In addition, the Large Corporation Division offers a broad range of banking products and services including working capital financing, lines of credit, corporate financial services, foreign trade financing, letters of credit in domestic and foreign currencies, commercial mortgage loans, payment and asset management services, checking accounts and time deposits, and, through the bank's subsidiaries, factoring, brokerage, mutual funds and investment fund management services. All of the bank's branches except the Credichile branches provide services to the Large Corporation Division customers directly and indirectly.

Large corporate customers are engaged in a wide spectrum of industry sectors, including, among others, heavy industry (approximately 21.4% of all loans made by the division), financial institutions (approximately 12.2% of all loans made by the division), trade and commerce (approximately 12.0% of all loans made by the division), real estate and construction (approximately 15.6% of all loans made by the division), and agriculture (approximately 6.9% of all loans made by the division).

The following table sets forth the composition of Banco de Chile's portfolio of loans to large corporations as of December 31, 2001:

	At December 31, 2001	
	(in millions of constant Ch\$, except percentages)	
Commercial loans.....	Ch\$1,000,440	62.1%
Consumer loans.....	781	0.1
Foreign trade loans.....	226,336	14.0
Contingent loans.....	175,739	10.9
Mortgage loans.....	59,087	3.7
Leasing contracts.....	95,889	5.9
Other loans.....	<u>53,860</u>	<u>3.3</u>
Total.....	<u>Ch\$1,612,132</u>	<u>100.0%</u>

The Large Corporation Division's loan portfolio consists principally of unsecured loans with maturities between one and six months and of medium- and long-term loans to finance fixed assets, investment projects and infrastructure projects. In addition, the Large Corporation Division issues contingent credit obligations in the form of letters of credit, bank guarantees and similar obligations in support of the operations of its large corporate customers.

The market for loans to large corporations in Chile in recent years has been characterized by reduced profit margins, due in part to the greater direct access of such customers to domestic and international capital markets and other sources of funds. As a result, Banco de Chile has increasingly

focused on generating fee services, such as payroll processing, dividend payments and billing services as well as computer banking services.

Banco de Chile is party to approximately 471 payment service contracts and approximately 217 collection service contracts. Under collection contracts, the bank acts as a collection agent for its large corporate customers, providing centralized collection services for their accounts receivables and other similar payments.

Middle Market Companies

As of December 31, 2001, the Middle Market Banking Division maintained outstanding loans in the amount of Ch\$980,269 million, which represented 25.4% of the total loans granted by the bank. Approximately 31.9% of consolidated net income before tax for the year ended December 31, 2001 was accounted for by the Middle Market Banking Division.

Through the Middle Market Banking Division, Banco de Chile services small and medium-size Chilean companies. Medium-size companies are generally defined as those with annual sales of less than Ch\$12,000 million (US\$18 million) and small or emerging companies as those with sales of less than Ch\$300 million (approximately US\$500,000). The Middle Market Banking Division portfolio consists of approximately 47,968 customers, of which approximately 71% are small or emerging companies. In terms of loan amount, however, 62.8% of the Division's total loan portfolio is comprised of medium-size companies.

The Middle Market Banking Division offers a broad range of financial products, including project financing, working capital financing, mortgage loans and debt rescheduling, as well as other alternatives such as leasing operations and factoring (through the Banchile Factoring subsidiary). With respect to foreign trade, advisory services as well as comprehensive financing and service alternatives are offered. Other services, which include the payment of compensation, taxes and employee benefits, payments to suppliers, and automated bill payments, are mainly provided through remote service channels (Internet) and are made to approximately 20,000 customers. Through other subsidiaries, Banco de Chile offers customers full-range services in financial advisory, stock brokerage, mutual fund management, and general and life insurance brokerage.

The following table shows the composition of the middle market loan portfolio as of December 31, 2001:

	At December 31, 2001	
	(in millions of constant Ch\$, except percentages)	
Commercial loans	Ch\$458,325	46.8%
Consumer loans(1).....	7,048	0.7
Foreign trade loans	61,705	6.3
Contingent loans	52,442	5.3
Mortgage loans	250,544	25.6
Leasing contracts	69,006	7.0
Other loans.....	<u>81,199</u>	<u>8.3</u>
Total	<u>Ch\$980,269</u>	<u>100.0%</u>

(1) Certain commercial loans to individuals are classified as consumer loans.

International Banking

As of December 31, 2001 Banco de Chile had approximately Ch\$377,125 million in foreign trade loans (including foreign trade loans made to the International Banking Division for Ch\$275,828 million) and Ch\$45,438 million of letter of credit and other contingent obligation relative to foreign trade operations, representing 9.8% and 1.2% of its loan portfolio, respectively. Other contingent operations include related to loans the International related in foreign trade loans. Approximately 10.4% of consolidated net income before tax for the year ended December 31, 2001 was accounted for by the International Banking Division.

Banco de Chile offers all of its customers a wide range of international banking facilities, including those related to import and export financing, issuing letters of credit, guarantees and other forms of credit support, as well as currency swaps, banking and treasury services for corporate customers, both in Chile and abroad. The International Banking Division (DNI) has two main lines of business. The first is related to all banking products that involve foreign currency, including those related to foreign trade. The second main line of business is that of managing the Banco de Chile international network. This network is made up of two branches, one in New York and the second in Miami, U.S.A; three representative offices, located in Mexico City, Sao Paulo and Buenos Aires; 942 correspondent banks, of which 90 have established a credit relationship with Banco de Chile and 42 of which have established account relationships with the bank.

The following table sets forth the composition of Banco de Chile's portfolio of loans originated through its New York branch and Miami agency, as of December 31, 2001:

	At December 31, 2001	
	New York Branch	Miami Agency
	(in millions of constant Ch\$)	
Commercial loans.....	Ch\$82,679	Ch\$32,789
Foreign trade loans.....	64,055	21,877
Interbank loans.....	4,010	7,374
Contingent loans.....	14,031	11,506
Other loans.....	<u>583</u>	<u>498</u>
Total.....	<u>Ch\$165,358</u>	<u>Ch\$74,044</u>

Retail Banking

At December 31, 2001, loans made by the Retail Banking Division represented 24.8% of the total loan portfolio of Banco de Chile. Approximately 21.1% of consolidated net income before tax for the year ended December 31, 2001 was generated by the Retail Banking Division.

The following table sets forth information on the composition of the portfolio of loans of the Retail Banking Division for the year ended December 31, 2001:

At December 31, 2001		
(in millions of constant Ch\$, except percentages)		
Commercial loans	Ch\$44,718	4.7%
Consumer loans.....	200,404	20.9
Foreign trade loans.....	86	0.0
Contingent loans	938	0.1
Mortgage loans	498,312	52.0
Leasing contracts	2,262	0.2
Other loans.....	<u>212,047</u>	<u>22.1</u>
Total	<u>Ch\$958,767</u>	<u>100.0%</u>

High- and Middle-Income Individuals. High and middle-income individuals are offered a broad range of retail banking products, including residential mortgage loans, lines of credit and other consumer loans, credit cards, checking accounts, savings accounts and time deposits. Mutual funds and brokerage services are provided to individuals through subsidiaries. At December 31, 2001, Banco de Chile had outstanding extensions of credit to approximately 162,716 high- and middle-income individuals, including approximately 21,820 residential loans, 139,710 lines of credit, 56,790 other consumer loans and 155,760 credit card accounts. At the same date, 192,829 checking accounts, 28,964 savings accounts and 16,667 time deposits corresponded to this segment (the bank defines high- and middle-income individuals as those with annual income in excess of Ch\$5.2 million (approximately US\$8,000, compared to per capita annual income in Chile of approximately US\$4,287 in the year 2001).

Residential Mortgage Loans. Outstanding residential mortgage loans were Ch\$493,621 million as of December 31, 2001, which represented 51.5% of the high- and middle-income individuals division's total loans to individuals and 12.8% of total loans.

Residential mortgage loans generally have maturities between five and 30 years and are denominated in UF. To reduce exposure to interest rate fluctuations and inflation with respect to the residential loan portfolio, a majority of the residential loans are currently funded through the issuance of mortgage finance bonds, which are recourse obligations with payment terms that are matched to the residential loans and which bear a real market interest rate plus a fixed spread over the rate of change in the UF.

At December 31, 2001, Banco de Chile was Chile's second largest private sector bank in terms of residential mortgage loans and, based on information prepared by the Chilean Superintendency of Banks, accounted for approximately 13.3% of the residential mortgage loans in the Chilean banking system and approximately 17.1% of such loans made by Chilean private-sector banks.

Credit Cards. The product portfolio includes both personal and corporate cards. As of December 31, 2001, Banco de Chile had 198,779 valid usable accounts, with 305,587 cards. Total charges on credit cards during 2001 amounted to Ch\$204,405 million, with Ch\$163,017 million corresponding to purchases and service payments in Chile and abroad and Ch\$28,199 million corresponding to cash advances (both domestic and international). As of December 31, 2001, the Bank's credit card loans amounted to Ch\$35,724 million and represented 16.6% of the Bank's consumer loans.

The acquirer role processing service is provided by Transbank and the issuer role by Nexus S.A., both of which support the banking line of business, in accordance with current Chilean regulations. As of December 31, 2001, Transbank had 20 shareholders and Nexus had 8 shareholders. Banco de Chile's equity ownership in Transbank and Nexus was 8.72% and 12.9%, respectively.

Debit Card. Banco de Chile has different types of cards with debit options. According to the relative category, these can be used on the automated teller machines that operate on the local network (Redbanc S.A.), on the Visa International PLUS network, on the local network of merchants participating in the local Redcompra debit program and/or on international merchants associated with Electron.

Installment Loans. Consumer installment loans to individuals are generally incurred, up to a customer's approved credit limit, to finance the cost of goods or services, such as cars, travel and household furnishings. Consumer loans are denominated in both pesos and UF, bear interest at fixed or variable rates of interest and generally are repayable in installments of up to 36 months.

At December 31, 2001, outstanding installment loans were Ch\$119,480 million, accounting for 59.6% of the division's consumer loans. A majority of the installment loans are denominated in pesos and are payable monthly.

Lines of Credit. As of December 31, 2001, the bank had 142,682 approved lines of credit to customers and outstanding advances to 112,233 individuals under lines of credit. Individual lines of credit are generally available on a revolving basis, up to an approved credit limit, and may be used for any purpose. Advances under lines of credit are denominated in pesos and bear interest at a rate that is set monthly. At the customer's option, such loan may be renewed and re-priced for successive monthly periods, in each case subject to minimum monthly payments.

Deposit Products. The bank offers a broad range of checking accounts, time deposits and savings accounts to retail customers. Checking accounts are peso-denominated and non-interest bearing. Savings accounts are denominated in UF and bear interest at a fixed rate of interest. Time deposits are denominated in pesos, UF and U.S. dollars and most bear interest at a fixed rate with a term of 30 to 360 days. At December 31, 2001, 184,822 checking accounts for approximately 191,356 customers with an aggregate balance of Ch\$158,446 million were maintained with the bank. At such date, checking account balances totaled approximately Ch\$655,791 million and represented 11.5% of the bank's total liabilities.

Consumer Banking – Credichile. Products and services to the lower-middle to middle income segments of the Chilean population are offered through Consumer Banking which has a network of 29 Credichile branches and 13 other credit centers. Lower-middle income individuals are defined as persons with annual income between Ch\$1.2 million (US\$2,000) and Ch\$5.2 million (US\$8,000). Credichile offers its customers a range of products, including consumer loans, credit cards, auto loans and residential mortgage loans and a special demand deposit account targeted at low-income customers. At December 31, 2001, Credichile had 98,074 customers and total loans outstanding of Ch\$52,227 million. Credichile provides short to medium-term consumer loans and credit lines. Credichile had approximately 63,812 short to medium-term loans that totaled Ch\$42,429 million at December 31, 2001.

The Chilean Superintendency of Banks requires a greater level of reserves for loans with lower credit classifications, such as those of Credichile. Credichile has rigorous procedures for collection of past due loans. Collection services are provided by Procobro, an independent collection agency.

Bancuenta. The Bancuenta account is a non-interest bearing demand deposit account without checking privileges targeted at customers who want a secure and comfortable means of managing and accessing their money. The customer may use the ATM card linked to the Bancuenta account (which may include a revolving line of credit) to make deposits or automatic payments to other Credichile accounts through a network of ATMs available through the Redbanc system.

At December 31, 2001, Credichile had 448,416 Bancuenta accounts, each of which pays an annual fee, a fee each time the customer draws on the Bancuenta line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a Bancuenta account are

withdrawn automatically on a monthly basis from funds available in the account. Bancuenta also offers large corporate customers the ability to pay their employees by direct deposit of funds into the individual employee's account at Credichile.

Treasury and Money Market Operations. The Bank offers currency intermediation, instruments derived for currency and interest rate risk hedging, transactions under repurchase agreements and investment products based on bonds, mortgage notes and deposits. Also available through the bank's delivery channels are investments in mutual funds and stock brokerage. Other services are oriented towards managing currency, interest rate and maturity gaps and the intermediation of fixed-income instruments, currencies and derivatives.

Banco de Chile's portfolio as of December 31, 2001 amounted to Ch\$1,649,714 million, of which 63.3% corresponded to instruments issued by the Chilean Central Bank, approximately 22.4% to securities from international issues, and 8.4% to mortgage notes issued by the bank.

Distribution Channels and Electronic Banking. The bank's distribution network includes branches, ATMs, Call Centers and Internet banking. As of December 31, 2001, the bank's branch network consisted of 171 branches and it owned and operated 392 ATMs connected to Redbanc, the National Automated Teller Machine Network, covering more than 2,645 ATMs. A wide array of services are also provided by Banco de Chile's Internet-based service network. As of December 31, 2001, approximately 60,056 individual customers and 10,420 corporate customers performed close to 1.8 million transactions on a monthly basis. Together with other Chilean banks, Banco de Chile is a shareholder of the Sociedad Interbancaria de Transferencias Electrónicas S.A., a corporation that executes electronic transfer services and provides support to the operations performed by banks through the installation, operation, maintenance and development of the systems and equipment involved in automated electronic fund transfers.

Operations Through Subsidiaries. These products and services, which may not be offered directly by banks under Chilean Law, include financial advisory services, mutual funds, securities brokerage services, factoring and insurance brokerage services. Consolidated net income from securities brokerage services was Ch\$4,443 million, which represented 5.1% of the bank's consolidated net income in 2001 and net income from mutual funds services was Ch\$3,075 million, which represented 3.5% of consolidated net income for the same period.

Competition. The Chilean market for banking and other financial services is highly competitive, and the bank faces significant competition in each of its principal areas of operation. The Chilean financial services market consists of a number of distinct sectors. The most important sector, commercial banking, includes 25 privately owned banks and one public-sector bank, Banco del Estado. The privately owned banks have traditionally been divided between those that are principally Chilean-owned, of which there are nine, and those that are principally foreign-owned, of which there are 16. At December 31, 2001, three private-sector banks, Banco Santiago (16.1%), Banco Santander-Chile (11.7%) and Banco de Chile (12.1%) and the public-sector bank, Banco del Estado de Chile (11.9%), together accounted for 51.8% of all outstanding loans by Chilean financial institutions. All of the Chilean private owned banks together accounted for 54.4% of total loans outstanding while foreign-owned banks accounted for 45.0% of total loans outstanding. A single finance company accounted for 0.6% of total loans outstanding.

The bank considers other private sector banks to be its primary competitors, however it also faces competition to a lesser extent from Banco del Estado, which has a larger distribution network and larger customer base than Banco de Chile.

As a commercial bank offering a range of services to all types of businesses and individual customers, Banco de Chile faces a variety of competitors, ranging from other large, privately-owned

commercial banks to more specialized entities like finance companies and “niche” banks. The principal commercial banks in Chile include Banco Santiago, Banco Santander, Banco de Crédito e Inversiones, BBVA Banco Bhif, Corpbanca and Citibank.

In the large corporations and middle market sectors, the bank considers its strongest competitors to be Banco Santiago, Banco Santander and Banco de Crédito e Inversiones.

In the retail banking business, Banco de Chile competes with other private sector Chilean banks, Banco del Estado and finance companies. Among private Chilean banks, they consider their strongest competitors in the consumer retail market sector to be Banco Santiago, Banco Santander and Banco de Crédito e Inversiones. In the individual banking sector, particularly with respect to high income individuals, it competes with both private Chilean and foreign-owned banks and considers its strongest competitors in this market to be Banco Santiago and Citibank.

Commercial banks in Chile face growing competition from several sources; consolidation, economic conditions in Latin America, finance companies and department stores. The Chilean banking industry has experienced increased levels of competition in recent years, including from foreign banks, which has led to, among other things, greater consolidation in the industry. Banking industry strategies have, on an overall basis, been aimed at reducing costs and achieving internationally satisfactory efficiency standards. Banco de Chile believes that in the near future, small and medium-sized companies will see the benefits from the recent capital market reform, which created new financing alternatives for emerging companies. As a result of this competitive environment, Banco de Chile’s income may decrease as a result of the extent and intensity of competition.

Banco de Chile expects the trend of increased competition and consolidation to continue, particularly in connection with the formation of new large financial groups. In this regard, Banco Santiago and Banco Santander-Chile, which are now the second and third largest banks in Chile following Banco Edwards’ merger with Banco de Chile in January 2002, have announced their intention to merge. The merger would create Chile’s largest bank. Authorization for this merger was granted in May 2002 by the Chilean Superintendency of Banks. Although Banco de Chile believes it is large enough to compete effectively in its target market segments, any further consolidation of participants in the Chilean financial system may adversely affect its competitive position in the industry.

Traditionally, commercial banks in Chile have competed in the retail market against each other, with finance companies and with department stores, the two latter mainly having traditionally been focused on consumer loans to middle- and low-income segments. However, finance companies have gradually disappeared as they have been purchased by the largest banks. At December 31, 2001, there was only one finance company in the market with a market share of 7.6% of total consumer loans. Non-bank competition from large department stores has become increasingly significant, with estimates indicating that it represents around 35% of the banking system’s consumer loans.

The Chilean banking industry has experienced increased levels of competition in recent years which has led to, among other things, consolidation in the industry. We expect the trend of increased competition and consolidation to continue, particularly in connection with the formation of new large financial groups.

Loans

The following table sets forth Banco de Chile’s market share in terms of loans (excluding interbank loans), and that of its principal private-sector competitors in the Chilean financial system, in each case at December 31 in each of the last five years, according to information published by the Chilean Superintendency of Banks:

	Loans(1)					Ranking
	At December 31,					At December 31,
	1997	1998	1999	2000	2001	2001
Banco Santiago	17.2%	17.3%	16.1%	15.8%	16.1%	1
Banco de Chile.....	12.0	11.7	12.4	12.7	12.1	2
Banco Santander.....	12.3	11.7	12.3	11.5	11.7	3
Banco de Crédito e Inversiones.....	7.9	7.8	8.1	7.9	9.0	4
Banco Edwards (1).....	7.5	7.9	7.7	8.3	7.4	5
BBVA Banco Bhif.....	5.0	4.8	5.3	5.8	6.0	6
Total for six private banks.....	61.9%	61.2%	61.9%	62.0%	62.3%	

(1) Banco Edwards merged with Banco de Chile on January 1, 2002.

Risk Index. At October 31, 2001, Banco de Chile's unconsolidated risk index was 2.03%, compared to the financial system's risk index of 1.90%.

Credit Quality. At December 31, 2001, Banco de Chile had a ratio of past due loans of 1.29%, the lowest among the six largest private-sector banks in Chile.

Deposits. Banco de Chile had deposits of Ch\$3,306,373 million at December 31, 2001, with a 12.4% market share in unconsolidated terms, according to the Chilean Superintendency of Banks.

Shareholders' Equity. Banco de Chile's return on average shareholders' equity (not including net income for the year) for the year ended December 31, 2001 was 23.7%, ranking it second among the six largest private-sector banks in Chile.

Efficiency. For the year ended December 31, 2001, the bank's efficiency ratio was 56.3%, ranking it fourth of the six largest private-sector banks.

On January 1, 2002 Banco Edwards merged into Banco de Chile, with Banco de Chile continuing as the surviving entity. Quiñenco expects that with this merger, the newly-merged bank will strengthen its ability to participate in an increasingly competitive financial services market. Banco de Chile plans to maintain and improve the bank's existing infrastructure of branch offices, incorporate a common technology platform for the commercial and operation areas, and make any required capital expenditures related to the consolidation process.

Financial Services – Banco Edwards

In 1999, the Company acquired a 51.2% interest in Banco Edwards, a leading Chilean commercial bank, which until its merger with Banco de Chile on January 1, 2002, offered a broad range of financial services to corporate and individual customers on a nation-wide basis.

In 2001, Banco Edwards reported net income of Ch\$10,103 million, of which Ch\$5,170 million corresponded to Quiñenco's interest. In 2000, Banco Edwards reported net income of Ch\$3,276, of which Ch\$1,675 million corresponded to Quiñenco's interest. In 1999, Banco Edwards reported a net loss of Ch\$7,124 million, of which Ch\$2,051 million corresponded to Quiñenco's interest.

Quiñenco acquired its interest in Banco Edwards during the third quarter of 1999. On August 16, 1999, Quiñenco announced that it had agreed to acquire 43.5% of Banco Edwards through an agreement with Banco Edwards' controlling shareholders. Through subsequent purchases on the open market and in a private transaction, Quiñenco acquired an additional 7.7%. In December 1999, Quiñenco subscribed to a capital increase equivalent to its 51.2% interest. As of December 31, 1999, Quiñenco's total investment in Banco Edwards was Ch\$202,542 million.

Additionally, on October 26, 1999, Quiñenco entered into an option agreement with Inversiones Aspen S.A., Inversiones Ever S.A., and J. Ergas S.A. Asesorias (the “Ergas Group”), whereby the Ergas Group agreed to sell and assign to Quiñenco a portion of their preemptive rights with respect to a capital increase approved by the shareholders of Banco Edwards in October 1999. With respect to the capital increase, Quiñenco in turn agreed, among other things, (i) to subscribe and pay for the amount of shares corresponding to its equity percentage in Banco Edwards, plus the amount of shares corresponding to the Ergas Group, (ii) upon any re-offer of preemptive rights by Banco Edwards, to subscribe and pay for at least that number of shares which will enable Quiñenco to sell to the Ergas Group shares representing 33.33% of the total capital increase and (iii) to transfer to Mr. Jacob Ergas all of the shares corresponding to Quiñenco’s exercise of the preemptive rights assigned to it by the Ergas Group, plus those shares subscribed for and paid by Quiñenco pursuant to (ii) above. Mr. Jacob Ergas agreed to pay Quiñenco by March 31, 2003 the same purchase price to be paid by Quiñenco for the shares or tender the shares to Quiñenco. Interest on the purchase price accrues at an annual rate of 8.98%, beginning on March 31, 2000, and is paid annually. To guarantee the payment of the purchase price, the Ergas Group pledged the shares and is prohibited from encumbering or transferring them.

Effective January 1, 2002 and pursuant to an authorization from the Superintendency of Banks, a favorable opinion of the Central Bank of Chile with respect to the subordinated debt obligations Banco de Chile maintains with the Central Bank, and approval by a majority of the shareholders of Banco de Chile and Banco Edwards, Banco Edwards merged with Banco de Chile. As a consequence of the merger, Banco Edwards no longer exists. Banco de Chile continued as the surviving entity and legal successor for all purposes.

Upon completion of the merger, holders of Banco Edwards common stock received 3.135826295 Banco de Chile F shares for each Banco Edwards common share and received 0.862352231125 Banco de Chile F ADSs for each Banco Edwards ADS. Accordingly, an aggregate of 23,147,126,425 Banco de Chile F shares were issued to shareholders of Banco Edwards, including 11,845,494,384 F shares issued to the Company, representing its 51.2% interest, equivalent to 17.4% of Banco de Chile’s 68,079,783,605 common shares. The F shares had all the same rights as the Banco de Chile common stock except that they only entitled holders to receive dividends in 2002 with respect to Banco Edwards’ 2001 net income. These dividends were declared and paid on March 21, 2002, and the F shares were automatically converted on a one-to-one basis into Banco de Chile common stock.

Banco Edwards traced its roots to the founding of the first Chilean private bank in 1866. It was later nationalized and liquidated in 1972 under the government of President Allende. In 1980, the Edwards family and certain other investors acquired an interest in the Banco de Constitución, and changed the name to Banco Edwards. As of December 31, 2001, Banco Edwards was the fifth largest private bank in Chile in terms of total loans (excluding interbank loans) with a 7.4% market share according to the Superintendency of Banks. In addition to traditional banking services such as lending and deposits, Banco Edwards offered a wide array of credit and non-credit products including financial leasing, mutual funds, investment funds, securities brokerage, insurance brokerage, corporate advisory services, factoring and securitization services.

The following table shows selected financial information of Banco Edwards and its subsidiaries at or for the years ended December 31, 1999, 2000 and 2001:

Banco Edwards and subsidiaries	<u>1999</u>	<u>2000</u>	<u>2001</u>
(in millions of constant Ch\$, except percentages)			
Interest revenue	Ch\$276,836	Ch\$303,485	Ch\$276,362
Interest expense	<u>(166,894)</u>	<u>(195,471)</u>	<u>(155,720)</u>
Net interest revenue.....	Ch\$109,942	Ch\$108,014	Ch\$120,642
Net interest margin.....	4.9%	4.4%	4.6%
Provisions for loan losses.....	(68,962)	(36,427)	(44,661)
Other Income:.....			
Income from services, net	14,607	17,286	25,487
Other operating income, net.....	6,762	9,215	4,839
Other income and expenses	<u>1,708</u>	<u>(1,146)</u>	<u>7,075</u>
Total other income	Ch\$23,077	Ch\$25,355	Ch\$37,401
Operating expenses	(70,984)	(87,128)	(97,402)
Loss from price-level restatement.....	(2,526)	(7,199)	(4,173)
Minority interest in consolidated subsidiaries	(534)	(365)	-
Income taxes.....	<u>2,863</u>	<u>1,026</u>	<u>(1,704)</u>
Net income (loss)	<u>Ch\$(7,124)</u>	<u>Ch\$3,276</u>	<u>Ch\$10,103</u>
Total assets	Ch\$2,617,924	Ch\$2,914,576	Ch\$2,896,470
Total liabilities	2,390,265	2,683,629	2,657,099
Shareholders' equity.....	227,659	230,947	239,371
Quiñenco's effective economic interest % (1)....	51.2%	51.2%	51.2%

(1) Quiñenco's interest was acquired during the third quarter of 1999. Its proportional share of the net loss under the equity method corresponding to Banco Edwards was Ch\$2,051 million in 1999.

The following table provides information as to the composition of Banco Edwards' loan portfolio and contribution to consolidated operating income by segment for the year ended December 31, 2001:

At December 31, 2001			
	Consolidated loans	Percent of consolidated loans	Percent of consolidated operating income(1)
	(in millions of constant Ch\$, except percentages)		
Individual Banking			
High-income	Ch\$535,224	24.1%	30.0%
Lower middle income	<u>124,677</u>	<u>5.6</u>	<u>11.1</u>
Subtotal	<u>659,901</u>	<u>29.7</u>	<u>41.1</u>
Corporate Banking			
Middle-market.....	Ch\$1,121,789	50.6	30.1
Large corporations	<u>420,269</u>	<u>19.0</u>	<u>4.4</u>
Subtotal	<u>1,542,058</u>	<u>69.6</u>	<u>34.5</u>
Subsidiaries	<u>11,500</u>	<u>0.5</u>	<u>8.0</u>
Treasury	<u>5,049</u>	<u>0.2</u>	<u>16.4</u>
Total	<u>Ch\$2,218,508</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Consolidated operating income consists of the sum of net interest revenue, income from services, net, and other operating income, in each case prior to deduction for operating expenses.

At December 31, 2001, Banco Edwards had approximately 392,200 banking customers. Banco Edwards used traditional and non-traditional marketing channels which included account executives, an external sales force, Internet banking services, Bankdirect sites (24 hour service), Call Centers, Mobile Bank and Mobile ATM services and internet access to reach its customers, which included individuals, large corporations and small and medium-sized businesses.

Individual Banking

At December 31, 2001, Banco Edwards had approximately 373,500 banking customers. Loans to individuals represented approximately 29.7% of total loans at December 31, 2001. Approximately 41.1% of the consolidated operating income for the year ended December 31, 2001 was accounted for by the individual banking sector. According to statistics maintained by the Chilean Superintendency of Banks, Banco Edwards' market share of financial system loans to individuals (excluding standby letters of credit, mortgage loans, bank guarantees and past due loans) grew to 9.3% as of December 31, 2001 from 8.5% as of December 31, 1996.

The following table sets forth information as to the composition of Banco Edwards' individual banking loan portfolio for the year ended December 31, 2001:

	At December 31, 2001	
	Consolidated Loans	Percentage of consolidated loans
	(in millions of constant Ch\$, except percentages)	
High income individuals		
Residential loans	Ch\$256,656	11.6%
Lines of credit and consumer loans	136,245	6.1
Credit cards	18,259	0.8
Other loans	<u>124,064</u>	<u>5.6</u>
Subtotal	<u>535,224</u>	<u>24.1</u>
Lower and middle income individuals – Finandes Division		
Residential loans	58,859	2.7
Lines of credit and consumer loans	60,637	2.7
Credit cards	4,320	0.2
Other loans	<u>861</u>	<u>0.0</u>
Subtotal	<u>124,677</u>	<u>5.6</u>
Total	<u>Ch\$659,901</u>	<u>29.7%</u>

High Income Individuals. Banco Edwards' retail banking business was principally oriented towards high income individuals in Chile (defined as annual income in excess of US\$21,000, compared to per capita annual income in Chile of approximately US\$4,300). Banco Edwards had Ch\$535,224 million of outstanding loans to high income individuals at December 31, 2001, representing approximately 24.1% of its total loans at that date. High income individuals accounted for approximately 30.0% of Banco Edwards' consolidated operating income for the year ended December 31, 2001. Retail banking products to this segment include residential mortgage loans, lines of credit and other consumer loans, credit cards, checking accounts, saving accounts and time deposits. Through Banco Edwards' subsidiaries, mutual funds, brokerage services and insurance brokerage services were also offered. At December 31, 2001, Banco Edwards had outstanding extensions of credit to approximately 96,400 high income individuals, including approximately 8,800 residential loans, 83,900 lines of credit, 48,700 consumer loans and 94,700 credit card accounts. At the same date, Banco Edwards maintained approximately 91,200 checking accounts, 92,500 savings accounts, 70,700 time deposits and 21,600 mutual fund accounts for high income individuals.

Residential Loans. Outstanding residential loans to high income individuals totaled Ch\$256,656 million at December 31, 2001, which represented approximately 38.9% of total loans to individuals and 11.6% of the total loans of the Bank.

Residential loans generally have maturities between five and 20 years and are denominated in UF. To reduce exposure to interest rate fluctuations and inflation with respect to its residential loan portfolio, a majority of the residential loans are currently funded through Banco Edwards' issuance of mortgage finance bonds, which are recourse obligations with payment terms that are matched to the residential loans and which bear a fixed interest rate over the rate of change in the UF inflation index. Chilean banking regulations limit the amount of a residential mortgage loan that may be financed with mortgage finance bonds to the lesser of 75% of (i) the purchase price of the property securing the loan and (ii) the appraised value of such property. In addition, Banco Edwards generally required that the monthly payments on a residential mortgage loan not exceed 25% of the borrower's monthly household after-tax income.

Lines of Credit and Consumer Loans. Outstanding advances to high income individuals under lines of credit and other consumer loans were Ch\$136,245 million at December 31, 2001, which represented approximately 20.6% of total loans to individuals and 6.1% of the Bank's total loans.

Credit Cards. The bank issued Visa and MasterCard credit cards pursuant to non-exclusive agreements with Visa International Service Association (“Visa”) and MasterCard International Inc. (“MasterCard”). At December 31, 2001, the Bank had approximately 94,700 credit card accounts outstanding with high income individuals, which were estimated to represent approximately 4.9% of the total credit card accounts outstanding in the Chilean banking system at that date. At December 31, 2001, the total outstanding balance on Banco Edwards’ credit cards issued to high income individuals was Ch\$18,259 million, representing approximately 2.8% of its total loans to individuals.

Deposit Products. Banco Edwards offered a broad range of checking accounts, time deposits and savings accounts to individual customers. Checking accounts were peso-denominated, non-interest bearing accounts. Savings accounts were denominated in UF and bore interest at a fixed rate of interest. Time deposits were denominated in pesos, UF and U.S. dollars and most bore interest at a fixed rate with a term of 30 to 360 days. At December 31, 2001, the Bank’s checking account, time deposit and savings account balances with high income individuals totaled approximately Ch\$814,085 million and represented approximately 30.6% of the Bank’s total liabilities at that date.

Lower Middle-Income Individuals – Finandes Division. Improved economic conditions in Chile in the last decade and the growth of the Chilean middle class have led to increased demand for consumer credit by lower middle-income individuals. In order to respond to the consumer credit needs of lower middle-income customers (defined as individuals with annual income between US\$2,500 and US\$12,000), the Bank established the Finandes consumer credit division in 1992. The Finandes division operated under its own trade name through a network of 17 branches and 11 other points of sale and offers a variety of consumer credit products, including residential mortgage loans, consumer loans and credit cards. The Finandes division employed its own credit scoring system and other criteria to evaluate and monitor credit risk.

At December 31, 2001, the Finandes division had outstanding extensions of credit to approximately 106,000 customers, including approximately 91,200 consumer credit loans (generally denominated in pesos, with fixed interest rates and having maturities between 12 and 36 months) and outstanding balances on approximately 17,800 MasterCard credit card accounts. At the same date, Banco Edwards’ outstanding loans to lower middle-income individuals totaled Ch\$124,677 million, representing approximately 5.6% of Banco Edwards’ total loans at that date. At December 31, 2001, lower middle-income individuals accounted for approximately 11.1% of Banco Edwards’ consolidated operating income.

Corporate Banking

The Bank’s corporate banking business offered a broad range of products and services. Interest revenue was earned on extensions of credit to corporate customers, as well as fee income from payment services, corporate financial advisory services and the sale and purchase of currency forward products. Normally, corporate customers were engaged in a broad range of commercial activities including construction, trade, manufacturing and financial services. At December 31, 2001, the Bank had approximately 18,700 corporate banking customers with approximately 18,300 corporate banking checking accounts and 8,900 time deposit accounts, and loans outstanding to approximately 9,100 corporate borrowers. Loans to corporate borrowers represented 69.6% of the total loan portfolio. Approximately 34.5% of consolidated operating income for the year ended December 31, 2001 was accounted for by the corporate banking sector. According to statistics published by the Superintendency of Banks, Banco Edwards’ market share of loans to private corporate borrowers (excluding standby letters of credit, mortgage loans, bank guarantees and past due loans) decreased to 7.5% as of December 31, 2001 from 8.6% as of December 31, 1995.

The following table sets forth information as to the composition of Banco Edward’s corporate banking loan portfolio as of December 31, 2001:

	At December 31, 2001	
	Consolidated Loans	Percentage of consolidated loans
	(in millions of constant Ch\$, except percentages)	
Middle – market companies		
Working capital loans	Ch\$521,012	23.5%
Construction loans	159,729	7.2
Foreign trade loans.....	83,674	3.8
Other loans	<u>357,374</u>	<u>16.1</u>
Subtotal	<u>1,121,789</u>	<u>50.6</u>
Large corporations		
Working capital loans	308,333	13.9
Construction loans	10,594	0.5
Foreign trade loans.....	55,627	2.5
Other loans	<u>45,715</u>	<u>2.1</u>
Subtotal	<u>420,269</u>	<u>19.0</u>
Total	<u>Ch\$1,542,058</u>	<u>69.6%</u>

Middle – Market Companies. Corporate banking products and services were primarily oriented towards the needs of middle-market companies in Chile (defined as those with annual sales of less than US\$40 million). The Bank had Ch\$1,121,789 million of outstanding loans to middle-market companies at December 31, 2001, representing approximately 50.6% of its total loan portfolio at that date. Middle-market corporate customers accounted for approximately 30.1% of the Bank's consolidated operating income for the year ended December 31, 2001.

Middle-market corporate customers were offered a broad range of banking products and services including working capital financing, lines of credit, corporate financial advisory services, foreign trade financing, letters of credit in domestic and foreign currencies, commercial mortgage loans, payment and asset management services, checking accounts and time deposits, leasing, brokerage, mutual fund and investment funds management services. At December 31, 2001, extensions of credit were outstanding to approximately 9,600 middle market companies, and the Bank maintained approximately 18,000 checking accounts and 8,100 time deposits for such customers.

Working Capital Loans. Working capital loans were denominated in pesos or UFs, may have fixed or variable rates of interest, and generally have maturities between one and 36 months. At December 31, 2001, outstanding working capital loans were Ch\$521,012 million to middle-market companies, representing approximately 23.5% of total loans at that date.

Construction Loans. Construction loans were denominated both in pesos and UFs and generally had maturities between nine and 24 months. These loans typically were secured by the real property of the relevant project and were limited in amount to 80% of the anticipated construction cost of the project. At December 31, 2001, construction loans to middle-market companies totaled Ch\$159,729 million, representing approximately 7.2% of total loans at that date.

Foreign Trade and International Services. The bank had a network of more than 100 correspondent banks worldwide and offered various foreign trade and international services, including letters of credit from foreign banks, fund transfers and foreign exchange transactions. At December 31, 2001, outstanding foreign trade loans to middle-market companies were Ch\$83,674 million, representing approximately 3.8% of total loans.

Large Corporations. Large corporations (defined as those companies with annual sales in excess of US\$40 million) included domestic companies, multinational corporations, financial institutions and governmental entities. Large corporate customers were offered a broad range of products and services including deposit-taking and a broad range of banking products and services including working capital financing, lines of credit, corporate financial services, foreign trade financing, letters of credit and commercial mortgage loans. At December 31, 2001, outstanding loans to large corporations totaled approximately Ch\$420,269 million, representing approximately 19.0% of the bank's total loans. For the year ended December 31, 2001, large corporations accounted for approximately 4.4% of the bank's consolidated operating income.

Financial Services Subsidiaries. Prior to its amendment by Law No. 19,528, the Chilean General Banking Law restricted the ability of Chilean banks to provide non-banking financial services. In 1986, banks were permitted to offer, through subsidiaries, services deemed to be complementary to commercial banking activities. In accordance with the bank's strategy of providing financial services on a selective basis to certain market segments, it established seven subsidiaries that provided the full range of financial products and services that could indirectly be offered by Chilean banks under Chilean law. These products and services included stock brokerage services, financial advisory services, mutual funds services, investment funds services, insurance brokerage services, factoring services and securitization services. The net income related to financial services subsidiaries was Ch\$3,959 million in 2001.

Treasury and Money Market Operations. The treasury area bought and sold fixed-income instruments and related repurchase agreements, foreign currencies (in the spot and forward markets), negotiable mortgage instruments and other securities traded in the secondary markets. During 2001, an aggregate of US\$930 million was traded in money market securities and approximately US\$30,300 million of foreign currencies was purchased and sold. Treasury and money market operations accounted for approximately 16.4% of consolidated operating income for the year ended December 31, 2001.

Distribution Channels. Banco Edwards' distribution network included 86 branches, 290 ATMs and 142 own self-service terminals throughout the Santiago metropolitan area and Chile's other principal business centers. Included among the non-traditional channels were the Internet website, Bankdirect sites, Call Center, Edwards Mobile and Telephone banking.

Competition. The Chilean financial services market consisted of a number of distinct sectors. The most important sector, commercial banking, includes 25 privately owned banks and one public-sector bank, Banco del Estado. The privately owned banks have traditionally been divided between those that are principally Chilean-owned, of which there are nine, and those that are principally foreign-owned, of which there are 16.

At December 31, 2001, three private-sector banks, Banco Santiago (16.1%), Banco Santander-Chile (11.7%) and Banco de Chile (12.1%) and the public-sector bank, Banco del Estado de Chile (11.9%), together accounted for 51.8% of all outstanding loans by Chilean financial institutions. All of the Chilean privately owned banks, together, accounted for 54.4% of total loans outstanding while foreign-owned banks accounted for 45.0% of total loans outstanding. A single finance company accounted for 0.6% of total loans outstanding.

In the middle-market corporate business, the Bank's strongest competitors include Banco de Chile, Banco de Crédito e Inversiones, Banco Santiago and Banco Santander de Chile. In the individual banking sector, particularly with respect to high income individuals, the Bank competed with both private Chilean and foreign-owned banks, including Banco de Chile, Banco de Crédito e Inversiones and Banco Santiago.

At December 2001, commercial banks in Chile competed in the retail market with each other and with one finance company, which focused primarily on offering consumer loans to lower and middle income individuals. Chilean finance companies may engage in certain banking activities and are supervised by the same regulatory authorities as commercial banks, but are prohibited from engaging in foreign trade finance, offering checking accounts and engaging in foreign currency operations. Nevertheless, banks have begun to extend their credit services to these markets, as Banco Edwards has done through its subsidiary, Finandes.

The increase in competition within the Chilean banking industry in recent years has led to, among other things, consolidation in the industry. For example, in April 2002, Banco Santiago and Banco Santander-Chile, the second and third largest banks in Chile, respectively, announced their intention to merge. The merger would create Chile's largest bank. Authorization for this merger was granted in May 2002 by the Chilean Superintendency of Banks. It is expected that the current consolidation trend may continue, which could result in the creation of larger and stronger financial groups.

Loans

The following table sets forth Banco Edwards' market share in terms of loans (excluding interbank loans), and that of its principal private-sector competitors in the Chilean financial system for the last five years, according to information published by the Chilean Superintendency of Banks:

	Loans(1)					Ranking
	At December 31,					At December 31,
	1997	1998	1999	2000	2001	2001
Banco Santiago	17.2%	17.3%	16.1%	15.8%	16.1%	1
Banco de Chile (1)	12.0	11.7	12.4	12.7	12.1	2
Banco Santander.....	12.3	11.7	12.3	11.5	11.7	3
Banco de Crédito e Inversiones.....	7.9	7.8	8.1	7.9	9.0	4
Banco Edwards (1).....	7.5	7.9	7.7	8.3	7.4	5
BBVA Banco Bhif.....	5.0	4.8	5.3	5.8	6.0	6
Total for six private banks.....	61.9%	61.2%	61.9%	62.0%	62.3%	

(1) Banco Edwards merged with Banco de Chile on January 1, 2002.

Loan Portfolio. At December 31, 2001, Banco Edwards' unconsolidated loan portfolio (excluding interbank loans) was Ch\$2,205,170 million, ranking it fifth among Chilean private-sector banks. Between December 31, 1996 and December 31, 2001, the Bank's volume of outstanding loans (on an unconsolidated basis) grew at an average annual rate of 7.2%, compared to 6.2% for the Chilean financial system as a whole during the same period.

Risk Index. At October 31, 2001, Banco Edwards' unconsolidated risk index was 3.23%, compared to the financial system's risk index of 1.90%.

Credit Quality. At December 31, 2001, Banco Edwards had a ratio of past due loans of 3.30%.

Efficiency. For the year ended December 31, 2001, Banco Edwards' efficiency ratio was 65.3%, compared to the financial system's 57.7% efficiency ratio.

Return on Average Shareholders' Equity. Banco Edwards' return on average shareholders' equity (net income or loss divided by average shareholders' equity) for the year ended December 31, 2001 was 4.3%.

Regulation and Supervision. In Chile, only banks may maintain checking accounts for their customers, conduct foreign trade operations, and together with financial companies, accept time deposits. The principal authorities that regulate financial institutions in Chile are the Superintendency of Banks and the Central Bank. Chilean banks are primarily subject to the General Banking Law and, to the extent not inconsistent therewith, the *Ley Sobre Sociedades Anónimas No. 18,046* and the *Reglamento de Sociedades Anónimas* (collectively, the “Chilean Corporations Law”).

Chilean banks can only conduct activities allowed by the General Banking Law: making loans, accepting deposits and, subject to limitations, making investments and performing financial services. Investments are restricted to real estate for the bank’s own use, gold, foreign exchange and debt securities. Through subsidiaries, they may also engage in certain other specific financial service activities, such as securities brokerage services, mutual fund management, investment fund management, financial advisory and leasing activities. Since November 4, 1997, pursuant to Law No. 19,528, Chilean banks have been allowed to extend the scope of permissible activities to include factoring, securitization and insurance brokerage. Subject to certain limitations, Chilean banks may own majority or minority interests in foreign banks.

On January 1, 2002 Banco Edwards merged into Banco de Chile, with Banco de Chile continuing as the surviving entity. Quiñenco expects that with this merger the newly-merged bank will strengthen its ability to participate in an increasingly competitive financial services market. Banco de Chile plans to maintain and improve the bank’s existing infrastructure of branch offices, incorporate a common technology platform for the commercial and operation areas, and make any required capital expenditures related to the consolidation process.

Financial Services – OHCH

Until its divestiture in May 1999, the Company owned significant equity interests in banks in Chile, Argentina, Peru and Paraguay that constituted one of the largest private sector financial services groups in South America. Quiñenco’s interests in these banks were held through OHCH, a holding company in which Quiñenco and Banco Central Hispano (“BCH”) each owned a 50.0% interest. Through OHCH, the Company beneficially owned approximately 21.7% of the outstanding shares of common stock of Banco Santiago, which as of December 31, 1998 was the largest bank in Chile in terms of assets, loans and shareholders’ equity. The Company accounted for OHCH’s results under the equity method; OHCH’s results were therefore not consolidated into the Company’s financial statements.

Food and Beverage – CCU

The Company does not consolidate CCU’s results, which are accounted for on an equity-method investment basis. In 2001, CCU’s net income was Ch\$38,377 million, of which 30.8% corresponded to Quiñenco’s proportionate share, included in other non-operating income in its consolidated income statement. Quiñenco’s economic interest in CCU at December 31, 2000 and 1999 was 30.8%. The Company’s interest in CCU is held through a holding company, Inversiones y Rentas S.A. (“IRSA”), in which the Company and Paulaner-Salvator Beteiligungs A.G., each hold 50% interests. See “Item 8A. Financial Information—Legal Proceedings” for a description of the pending arbitration requested by the Company in connection with its interest in IRSA.

CCU, a diversified beverage company, was founded in 1902 and is now the largest Chilean brewer, the third largest brewer in Argentina, the second largest Chilean soft drink producer, the largest Chilean mineral water producer and the third largest Chilean wine producer. CCU had a domestic beer market share of approximately 88% in 2001, 89% in 2000 and 90% in 1999 and a market share in Argentina of approximately 12% in 2001, 13% in 2000 and 12% in 1999. In Chile, CCU produces, markets, sells and distributes proprietary brands, including Cristal, the country’s best-selling beer in 2001

which accounted for 58% of all beer sales by volume, as well as brands under license and distribution agreements, such as Budweiser, Paulaner and Guinness. CCU produces, markets, sells and distributes Budweiser brand beer as well as proprietary brands in Argentina. Through its subsidiary Embotelladoras Chilenas Unidas S.A. (“ECUSA”), CCU produces, markets, sells and distributes proprietary brands and PepsiCo, Schweppes Holdings Ltd. brand soft drinks and Watt’s nectars. In addition, CCU has proprietary brands of mineral water which it bottles and distributes in Chile. CCU also owns a majority interest in Viña San Pedro, Chile’s second-largest wine exporter and third-largest winery in the domestic market. CCU also produces plastic bottles and crates for use in its businesses.

Purchase of Kunstmann Microbrewery. On May 10, 2002, CCU announced that it had acquired a 50% interest in Kunstmann Brewery, a small premium brand producer in the south of Chile.

Effect of Argentine crisis on CCU Argentina and other investments in Argentina. In its 2001 financial statements, CCU reported losses in connection with its Argentine operations of Ch\$1,806 million, mainly incurred as a result of the currency devaluation. CCU’s subsidiary, Finca La Celia, a wine producer in Argentina currently in the start-up phase, also experienced a loss associated with the crisis of Ch\$639 million in 2001. CCU’s investment in CCU Argentina represented approximately 18.5% of CCU’s consolidated assets of Ch\$629,403 million as of December 31, 2001. Sales in Argentina amounted to Ch\$51,285 million representing 14.9% of CCU’s total consolidated sales in the same period. In 2002, the crisis has resulted in a dramatic reduction in the demand for goods and services in Argentina. CCU Argentina’s sales volume fell by 16.5% and its revenues by 54.7% in the first quarter of 2002, compared to the first quarter of 2001. CCU’s investment and presence in Argentina is consistent with its long-term strategy to further develop markets for its products. However, there can be no assurance that the Argentine economy will experience the growth levels achieved prior to the current crisis, or that it will recover at all in the near to medium term, which will continue to affect the results of CCU’s operations in Argentina.

Sale of 6.7% interest in Backus y Johnston. On March 20, 2001, CCU announced that it had sold a 6.7% interest it held in Unión de Cervecerías Peruanas Backus y Johnston S.A.A., the leading beer producer in Peru. The pre-tax gain on the sale associated with the disposal of shares was Ch\$16,698 million.

Acquisition of Cervecerías Austral. On November 2, 2000, CCU announced that it had acquired 45,000 shares of Cervecería Austral S.A. (“Austral”). On the same date, Austral carried out a capital increase of 1,000,000 shares, of which CCU purchased 878,916 shares. Following the acquisition and the capital increase, CCU had a 50% interest in Austral, acquired for Ch\$4,550 million. The purchase was financed by CCU’s internally generated resources.

Land purchase in Argentina for Wine Production. In January 2000, CCU’s 60.3%-owned subsidiary, Viña San Pedro S.A., acquired 200 hectares of land, near Mendoza, Argentina. In August 2000, it acquired an additional 411 hectares of adjoining land. CCU plans to produce high quality wines for the international export market.

Strategy. In 2001, CCU modified its strategic plan for 2002-2004, which is built on three fundamental pillars: (i) Profitability, through the optimization of expenses, margins and capital employed; (ii) Growth in the company’s current businesses and expansion into new businesses and product categories and; (iii) Sustainability, both internal, in the management of the company’s current brands, human resources and corporate image, and external, in relationships with the company’s customers, consumers, suppliers and society as a whole. From these pillars, the company focuses on six strategic objectives: (1) to make current businesses more profitable; (2) to grow and innovate in current businesses; (3) to achieve operational excellence in the sales and distribution processes; (4) to increase knowledge of general consumer habits and trends, along with those of the specific consumers in each of

the company's brands; (5) to implement strategic human resources management; and (6) to expand into new categories by incorporating new beverages or food products.

The following table shows selected financial information of CCU and its subsidiaries at or for the years ended December 31, 1999, 2000 and 2001:

CCU and subsidiaries	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$, except percentages)		
Net Sales:			
Beer (1)			
Chile.....	Ch\$123,051	Ch\$123,502	Ch\$123,614
Argentina	<u>48,799</u>	<u>48,794</u>	<u>51,285</u>
Total Beer.....	171,850	172,296	174,899
Soft drinks and mineral water (2).....	91,784	100,531	101,305
Wine (3).....	49,255	54,130	66,941
Other (4).....	<u>590</u>	<u>259</u>	<u>417</u>
Total net sales	<u>Ch\$313,479</u>	<u>Ch\$327,216</u>	<u>Ch\$343,562</u>
Operating Income:			
Beer (1)			
Chile.....	Ch\$28,623	Ch\$27,929	Ch\$28,389
Argentina.....	(552)	(5,614)	(6,807)
Soft drinks and mineral water (2).....	6,501	9,268	8,943
Wine (3).....	5,539	5,371	9,415
Other (4).....	<u>3,137</u>	<u>3,751</u>	<u>3,712</u>
Total operating income	<u>Ch\$43,248</u>	<u>Ch\$40,705</u>	<u>Ch\$43,652</u>
Non-operating results	13,097	(8,222)	3,708
Minority interest.....	(4,127)	(783)	(1,837)
Income taxes	<u>(7,764)</u>	<u>(5,175)</u>	<u>(7,146)</u>
Net income	<u>Ch\$44,454</u>	<u>Ch\$26,525</u>	<u>Ch\$38,377</u>
Total assets.....	Ch\$641,400	Ch\$643,733	Ch\$629,403
Bank debt and bond obligations.....	97,561	94,464	70,812
Other liabilities	134,520	134,853	147,016
Shareholders' equity	409,319	414,416	411,575
Quiñenco's effective economic interest %	30.8%	30.8%	30.8%

(1) Includes sales of beer, beer by-products and other products such as malt, barley and yeast.

(2) Includes sales of carbonated and non-carbonated soft drinks, nectars, mineral water, powdered juices and related merchandise.

(3) Includes sales of wine, wine by-products and other products such as labels and corks.

(4) Includes sales of crates and other packaging.

The following table shows certain operating and statistical data regarding CCU's beer segment at or for the years ended December 31, 1999, 2000 and 2001:

CCU – Beer Segment	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of liters, except per capita information and percentages)		
<i>Chile</i>			
Total Market Volume Sold	384	397	396
CCU Volume Sold	344	352	348
CCU Market Share.....	90%	89%	88%
Beer Consumption per Capita (liters).....	26	26	26
CCU Average Beer Production Capacity Utilization..	60%	53%	55%
<i>Argentina</i>			
Total Market Volume Sold	1,264	1,231	1,233
CCU Volume Sold	158	155	151
CCU Market Share	12%	13%	12%
Beer Consumption per Capita (liters).....	36	34	34
CCU Average Beer Production Capacity Utilization..	52%	53%	52%

Beer Business in Chile. CCU is the largest producer, bottler and distributor of beer in Chile, accounting for approximately 88% of all beer sales by volume in Chile during 2001. The production and marketing of beer in Chile is CCU's principal activity, generating net sales of Ch\$123,614 million, or 36% of CCU's total net sales in 2001.

CCU produces and markets super-premium, premium, medium-priced, and popular-priced beers. CCU's premium brand, Cristal, a premium-priced beer, is Chile's best selling brand, accounting for approximately 58% of all 2001 beer sales by volume in Chile. Royal Guard is CCU's proprietary super-premium brand. Royal Light is a light beer extension of the Royal Guard line, and contains a lower alcohol content. Escudo, a popular-priced beer, is CCU's high-alcohol content beer product and the second best selling beer in Chile. Morenita, a dark beer, and Dorada, a discount brand of lager beer, are popular-priced beers. CCU also produces, bottles and markets Paulaner brand beer and distributes other Paulaner products in Chile under an exclusive license from Paulaner Brauerei AG ("Paulaner"), renewable for successive five-year periods. Pursuant to a license agreement between CCU and Guinness Brewing Worldwide Limited ("Guinness"), CCU is the exclusive producer and distributor in Chile of Guinness brand beer. CCU also has long-standing exclusive rights to distribute Budweiser and a right of first refusal in favor of the Company with respect to the distribution of all other Anheuser-Busch beers in Chile, though in both cases these rights may be terminated by either party.

Distribution. CCU distributes beer directly throughout Chile to (i) small- and medium-sized retail outlets, which, in turn, sell beer to consumers for take-out consumption (representing 41% of total volume sold by CCU in Chile in 2001), (ii) retail establishments, such as restaurants, hotels and bars, for on-premises consumption (representing 19% of total volume sold by CCU in Chile in 2001), (iii) wholesalers (representing 22% of total volume sold by CCU in Chile in 2001) and (iv) supermarket chains (representing 18% of total volume sold by CCU in Chile in 2001). CCU had approximately 37,500 customers for its beer products in 2001, none of which accounted for more than 5% of its total beer sales by volume. CCU does not maintain any long-term contractual arrangements for the sale of beer with any of its customers.

Production Facilities. CCU centralizes its beer production in two plants. CCU also has a bottling facility in Antofagasta. The Santiago production facility, located on the outskirts of Santiago, has an annual production capacity of 46 million liters per month. The Temuco production facility in Temuco, Chile was completed during 1999, with a production capacity of 12 million liters per month.

Beer Business in Argentina. CCU is one of the largest beer producers in Argentina, with a 2001 market share of approximately 12%. In 2001, CCU's beer operations in Argentina generated net sales of Ch\$51,285 million, which represented 14.9% of CCU's consolidated net sales for the year.

CCU established CCU Argentina at the end of 1994, and in 1995, CCU Argentina acquired a 62.7% interest in CICSA, a brewer located in the city of Salta, and a 98.8% interest in Cervecería Santa Fe S.A. ("CSF"), located in the city of Santa Fe. In January 1998, CCU Argentina merged CICSA and CSF, and CCU Argentina currently holds a 99.2% interest in the combined entity.

In December 1995, CCU Argentina and Anheuser-Busch entered into a license agreement which provides for CCU Argentina's exclusive right to produce, market, sell and distribute Budweiser brand beer in Argentina. In connection with the license agreement, Anheuser-Busch acquired approximately 4.4% of CCU Argentina, with an option until 2005 to increase its aggregate ownership interest to 20%. In November 1999, Anheuser-Busch increased its ownership interest to 10.8% through a capital increase, and CCU reduced its participation to 89.2%. Since 1996, CCU and Anheuser-Busch have invested approximately US\$189 million and US\$23 million (historic values), respectively, in CCU Argentina. In April 1998, CCU paid approximately US\$8 million (historic value) to acquire the brands and certain other assets of Cervecería Córdoba, a regional brewer in Argentina, to further strengthen its presence and portfolio of brands.

In Argentina, CCU produces and markets premium-priced and medium-priced beers. The medium-priced beers are the Schneider, Salta, Santa Fe, Córdoba, Río Segundo and Rosario brands. Schneider is CCU's principal brand of beer in Argentina, comprising 38% of total sales volume by CCU's Argentine subsidiary in 2001. CCU began local production of Budweiser brand beer in December 1996, and sales of Budweiser brand beer have since grown to represent 22% of CCU's Argentine sales volume in 2001. In addition, during 1997, CCU began importing Guinness brand beer from Ireland. Export sales represented less than 1% of CCU Argentina's beer sales volume in 2001.

Distribution. During 2001, approximately 75% of CCU's beer volume in Argentina was sold through wholesalers, with supermarkets and retailers accounting for approximately 12% and 14%, respectively. In 2001, CCU sold its products to approximately 18,700 customers in Argentina, none of which individually accounted for more than 3% of its total beer sales by volume.

CCU estimates that total beer consumption in Argentina increased at a five-year compounded annual growth rate of 1.1% between 1997 and 2001. Beer consumption stagnated in Argentina in 2001 due to the depressed economic situation affecting Argentina since 1998 and the volatile political and social environment which produced in 2001 and continues to produce a high degree of instability in mass consumer product sales. Nonetheless, CCU believes that its position as one of the largest producers in the beer market in Argentina, its product portfolio (including its flagship Budweiser beer) and its marketing and distribution capabilities leaves it well positioned to benefit from future growth of beer consumption in Argentina, once the country recovers and begins to experience growth again.

Beer Business in Croatia. CCU also has an indirect interest in a Croatian brewery, Karlovacka Pivovara d.d. ("Karlovacka"), through Southern Breweries Establishment ("SBE"), which is owned 50% by CCU and 50% by another Luksic Group company. As of December 31, 2001, CCU's indirect ownership interest in Karlovacka was approximately 34.4%.

Karlovacka has been in operation since 1856, and its beer brands include Karlovacko Svijetlo, which is one of the two most popular brands in Croatia, and Rally (a non-alcoholic beer). Karlovacka's current annual production capacity amounts to approximately 198 million liters. In 2001, Karlovacka's sales amounted to 87 million liters, which represented approximately 23% of Croatia's total beer production by volume. SBE, which is not a consolidated subsidiary, contributed Ch\$959 million of

CCU's non-operating income in 2001. The brewery in Croatia has one production facility, located in the city of Karlovac, and nine distribution centers throughout the country.

Soft Drinks. CCU is the second-largest soft drink producer in Chile. CCU's line of soft drink and mineral water products includes its own proprietary brands of soft drinks in addition to brands produced under license from other beverage manufacturers. Under a licensing agreement with Watt's, a local fruit related products company, CCU has bottled and distributed Watt's nectar products in Chile since 1987. In 2001, CCU's soft drink, nectar and mineral water products business in Chile generated net sales of Ch\$101,305 million, representing 29.5% of CCU's total consolidated net sales.

The following table shows certain operating and statistical data regarding CCU's soft drink and mineral water segment at and for the years ended December 31, 1999, 2000 and 2001.

CCU – Soft Drinks and Mineral Water Segment

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of liters, except per capita information and percentages)		
<i>Soft Drinks</i>			
Total market volume sold(1).....	1,351	1,432	1,484
CCU volume sold.....	309	329	340
CCU market share(2)	26%	25%	24%
Chilean consumption per capita (liters)	90	94	96
CCU average production capacity utilization ..	32%	33%	34%
<i>Mineral Water</i>			
Total market volume sold(1).....	111	124	127
CCU volume sold.....	64	76	74
CCU market share(2)	63%	64%	62%
Chilean consumption per capita (liters)	7	8	8
CCU average production capacity utilization ..	29%	32%	28%

(1) CCU company estimates; includes nectars.

(2) Information provided by Nielsen Chile; does not include nectars.

ECUSA, CCU's wholly-owned subsidiary, is the exclusive producer, bottler and distributor in Chile of CCU's proprietary soft drink and mineral water brands, soft drink brands produced under license from PepsiCo and Cadbury Schweppes, and bottled fruit juice nectars produced under license from Watt's. ECUSA has two soft drink and nectar production facilities located in Chile and operates two mineral water bottling plants in the central region of Chile. In addition, CCU bottles soft drinks at one of its facilities in the northern city of Antofagasta. The two water sources for these products are owned by CCU.

Distribution. ECUSA operates its own distribution system in the central regions of Chile and uses CCU's beer distribution system in the northern and southern regions of the country. CCU distributes its soft drink and mineral water products throughout Chile to (i) small- and medium-sized retail establishments, that in turn sell the beverages to consumers for take-out consumption (54% of 2001 segment volume), (ii) restaurants, hotels and bars for on-premises consumption (9% of 2001 segment volume), (iii) wholesalers (10% of segment volume) and (iv) supermarkets (27% of segment volume).

Wine. CCU operates Viña San Pedro ("VSP"), the third-largest winery in Chile in terms of domestic sales, which in 2001 generated consolidated net sales of Ch\$66,941 million or 19.5% of CCU's total net sales.

CCU commenced its investment in Viña San Pedro in 1994 with the purchase of 48.4% of Viña San Pedro's equity for approximately US\$17.1 million (historic value). Through subsequent capital

increases and purchases of shares on the Santiago stock market, CCU's share in Viña San Pedro is 60.3% at December 31, 2001. Viña San Pedro is a publicly traded company, listed on Chile's principal stock exchanges.

The following table shows certain operating and statistical data regarding CCU's wine segment at and for the years ended December 31, 1999, 2000 and 2001.

CCU – Wine Segment	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of liters, except per capita information and percentages)		
Total domestic market volume sold	29	32	43
Total export market volume sold (1).....	28	34	40
Viña San Pedro domestic market share (2)	12%	11%	14%
Viña San Pedro share of total Chilean wine exports	12%	12%	13%
Chilean consumption per capita (liters).....	16	16	17

(1) Does not include sparkling wine.

(2) Information provided by Nielsen Chile.

Viña San Pedro is one of Chile's largest producers and distributors of wine in terms of volume and revenues. Viña San Pedro produces and markets a full range of wine products for both the domestic and export markets. Viña San Pedro's business includes operation of its own vineyards as well as mixing, packaging and reselling wines produced by independent Chilean vineyards. Viña San Pedro exports wine products to a total of 58 countries worldwide. Viña San Pedro's total export sales in 2001 were approximately Ch\$46,138 million. Its primary export markets included Europe (67% of total exports in 2001), Latin America (14% of total sales in 2001), North America (14% of total sales in 2001) and Asia (4% of total exports in 2001). According to industry sources, exports of Chilean wine (excluding champagne) increased from approximately 43 million liters in 1990 to 312 million liters in 2001, a compounded annual growth rate of 19.7%.

Viña San Pedro produces and markets premium, varietal and popular wine segments to domestic and foreign markets. Viña San Pedro's premium wines are produced using selected single-variety grapes. Viña San Pedro's premium red wines are derived from Cabernet Sauvignon grapes, and its premium white wines are produced from Sauvignon Blanc and Chardonnay grapes. Varietal wines are produced using a single-variety grape, and varietal blends are produced using a combination of grapes. Viña San Pedro uses both Cabernet Sauvignon and Merlot grapes for its red varietal wines, and Sauvignon Blanc, Chardonnay, Semillon, and Riesling grapes for its white varietal wines. Viña San Pedro's popular-priced wine products are derived from an assortment of grape types, and differ from the premium and varietal wine products in that the wines are not aged.

Distribution. Viña San Pedro distributes wines directly in the major cities of Chile and in the rest of the country through CCU's distribution system. In the domestic Chilean market in 2001, Viña San Pedro sold its wines through the following channels: retailers (33% of all domestic sales); wholesalers (20% of all domestic sales); supermarkets (39% of all domestic sales); and bars and restaurants (8% of all domestic sales).

Viña San Pedro has arrangements with 86 international agents, who facilitate the export of its wine to 58 countries. CCU has signed distribution agreements with Schenk, one of the largest distributors in Europe, Asahi Breweries, one of the largest beverage companies in Asia, and Shaw Ross International, a subsidiary of Southern Wines and Spirits and the main liquor wholesale distributor for the United States, as well as other distributors.

Raw Materials. The principal raw materials used in CCU's production of beer are barley (used to make malt), rice, water and hops. CCU obtains its supply of barley from local growers and in the international market. Rice is obtained from local and international suppliers in spot transactions and/or annual contract agreements. CCU imports hops mainly pursuant to contracts with international suppliers, primarily in the United States and Europe, which permit CCU to secure supplies for periods of up to four years. Although water does not represent a major raw material cost, it is nonetheless essential in the production of beer. CCU obtains all of its water from wells located at its plants, and/or from public utilities.

The principal raw materials in the production of soft drinks and nectars are water, sugar, flavoring concentrates, and carbon dioxide gas. Water is obtained from wells located at CCU's plants and/or public utilities in Chile. CCU generally purchases all of its sugar requirements from Empresas Iansa S.A., the sole producer of sugar in Chile. CCU purchases flavoring concentrates for the soft drink brands it produces under license from the respective licensing companies. The flavoring concentrates for CCU's proprietary brands are purchased from third party suppliers in Chile and Germany, which manufacture the concentrates under contract with CCU. CCU obtains carbon dioxide gas for the production of both its soft drinks and its mineral water from local suppliers in Chile. CCU owns two mineral water sources in Chile from which its branded mineral water products are obtained.

The principal raw materials that Viña San Pedro uses in its production process are grapes, wine and packaging. Viña San Pedro obtains 42% of the grapes used for export wines from its own vineyards. The majority of the wine sold in the domestic market is purchased from third parties.

Historically, CCU has not experienced difficulty in obtaining adequate supplies of raw materials at satisfactory prices and does not expect to in the near term.

Competition. The most important bases of competition in CCU's beer, soft drink and mineral water businesses are capacity, distribution, advertising, product image, pricing, packaging and the proprietary nature of returnable bottles in Chile, which creates a significant barrier to entry. The establishment and expansion of capacity and distribution and funding successful marketing campaigns requires significant capital and financial resources. CCU believes that these factors, together with import tariffs, provide significant barriers to large-scale entry of new competitors and large-scale expansion by existing competitors. There are currently no legal or regulatory barriers to enter the beer market in Chile. Substantial capital investment is required, however, to establish or acquire production and distribution facilities and market share. However, it is conceivable that other competitors may enter the beer market.

CCU's principal competitor in the Chilean beer business is Cervecería Chile, a subsidiary of Quilmes Industrial S.A. ("Quilmes"), the largest beer production company in Argentina. Due to the high cost of shipping beer to Chile and the competitive advantage inherent to domestic producers in Chile's proprietary returnable glass bottle system, imported beer is not a significant competitor in the Chilean market. CCU's beer brands also compete directly against other beverages, principally wine. Cervecería Chile is estimated to have approximately an 11% share of the Chilean beer market.

During 2001, CCU competed with four other brewing groups in Argentina: Quilmes, Companhia de Bebidas das Americas (Ambev), Warsteiner Braurei Hans Cramer GmbH & Co. ("Warsteiner") and Cervecería Estrella de Galicia S.A. ("Galicia"). Quilmes' estimated market share at December 2001 was 66%, followed by Ambev (16%), CCU Argentina (12%), Warsteiner (6%) and Galicia (less than 1%). Due to the high cost of shipping beer to Argentina and the competitive advantage inherent to domestic producers as a result of Argentina's returnable glass bottle system, imported beer is not a significant competitor in the Argentine market.

In recent years, the beer industry has experienced greater consolidation and is expected to continue to experience such consolidation in the future. On May 2, 2002, AmBev and Quilmes, announced that they had signed an agreement pursuant to which AmBev will transfer its beer assets in Argentina, Bolivia, Paraguay and Uruguay to Quilmes in exchange for 26.4 million new B shares of Quilmes. Additionally, AmBev will purchase 230.9 million class A shares from the controlling shareholders of Quilmes for US\$346.4 million. This transaction is pending, subject to the approval of antitrust authorities. Consolidation in the beer industry has resulted in larger and more competitive participants, which could change the current market conditions under which CCU operates.

CCU's principal competitors in the soft-drink business are companies which produce, bottle and distribute soft drinks in Chile under licenses from The Coca-Cola Company and its affiliates. The Coca-Cola Company's products are produced, bottled and distributed in Chile through three separate licensees which market soft drinks under the Coca-Cola, Coca-Cola Light, Quatro, Fanta, Sprite, Sprite Light, Manzana Lift, Nordic Mist, Andina nectars and juices, and Kapo juices brand names. According to store audits conducted by Nielsen Chile, Coca-Cola and related brands accounted for 67 % of total carbonated soft drink sales in Chile in 2001. However, figures calculated by CCU are higher than Nielsen Chile estimates. CCU expects that soft drinks marketed under private labels will grow in the future from the current 11% market share they have obtained as of 2001.

CCU is the largest producer of mineral water in Chile and the market leader. CCU's main competitor in the mineral water business is VITAL S.A. (a subsidiary of one of The Coca-Cola Company licensees). According to Nielsen estimates, CCU's mineral water products in 2001 accounted for approximately 62% of mineral water sales by volume, while VITAL accounted for approximately 32%.

The wine industry is very competitive, in both the domestic and the export markets. In the domestic market, Viña San Pedro competes directly against all other major Chilean wineries, including Concha y Toro and Santa Rita, the market leaders with 21% and 21% estimated market shares, respectively. VSP estimates, based on information supplied by Nielsen, that its market share in the Chilean market was approximately 14% in 2001. According to industry sources, in 2001, Viña San Pedro was the second-largest exporter of Chilean wines by volume with an estimated market share of 13%. Viña San Pedro competes internationally against other Chilean producers as well as with wine producers from other parts of the world.

Seasonality. CCU's beer, soft drink and mineral water business is seasonal, with sales and earnings being relatively lower during the Southern hemisphere winter season of June through August.

Food and Beverage – Lucchetti

At December 31, 2001, Lucchetti was a 93.3%-owned consolidated subsidiary of the Company. As of the same date, Quiñenco's ownership interest in Lucchetti was held through an intermediate holding company, Inversiones Rio Bravo Limitada in which Quiñenco had an effective economic interest as of December 31, 2001 of 100.0%. Quiñenco's economic interest in Lucchetti was approximately 87.0% and 86.2% at December 31, 2000 and 1999, respectively. Lucchetti and its subsidiaries accounted for 18.2% of Quiñenco's consolidated sales in 2001, 21.3% in 2000 and 22.3% in 1999.

Lucchetti is the second largest producer of pastas in Chile with an approximate 35.1% share of the domestic market, and the leading domestic producer of edible oils (principally sunflower and soy oils), with an approximate 27.8% market share. Lucchetti also produces packaged soups, creams and broths.

Lucchetti's main market is the Chilean market where it made 66.6% of its consolidated sales in 2001. The Company believes that, because of Lucchetti's strong market share and the strength of its major competitor in Chile, future growth in pasta sales in Chile will largely be dependent on growth in the overall market. To take advantage of growth opportunities in neighboring countries during the 1990s, Lucchetti developed additional production facilities and distribution channels for its products in Argentina and Peru. Lucchetti constructed a pasta plant in Argentina which was operational from 1997 until 2001 when it was sold to an Argentine competitor. Lucchetti also constructed a pasta plant on the outskirts of Lima, Peru, which has been operational since late 1998.

Sale of 100% of Lucchetti Argentina S.A. After several years of competing in the Argentine market with its pasta products, in 2001, Lucchetti decided to divest its Argentine-based operations in order to concentrate its efforts mainly in Chile where it has a strong brand recognition, significant market share, access to a critical mass of consumers which facilitates new product launches, and in-house distribution capabilities.

On June 25, 2001, Lucchetti sold its subsidiary, Lucchetti Argentina S.A, to Molinos Rio de la Plata S.A. ("Molinos"), an Argentina-based food producer for US\$29.7 million (value on transaction date, net of debt). The terms of the sale agreement also grants Molinos the right to use the Lucchetti trademark in Argentina and Uruguay for seven years. Lucchetti reported a loss on the sale of its subsidiary of Ch\$6,316 million. Proceeds from the sale were used to reduce Lucchetti's indebtedness.

Lucchetti Peru S.A. Lucchetti began to export its pasta products to the Peruvian market in 1995. In 1998, it constructed a state-of-the-art plant facility in Peru in order to develop further its position in the Peruvian pasta market. Between 1995 and 2001, Lucchetti gained a significant share of the pasta market in Peru, becoming the second leading pasta producer in the country. In addition, Lucchetti sells edible oils in the Peruvian market and distributes third party products.

The Lucchetti plant is located outside of Lima adjacent to a wetlands area which is, at present, considered to be of ecological significance. On August 16, 2001, the Municipal Council of Lima adopted an "Acuerdo de Consejo," purporting to revoke the Lucchetti operating license that had been previously granted by the Municipality of Chorrillos, and requiring Lucchetti to close the plant operations within 12 months, and dismantle and remove the plant facilities. The Municipal Council alleged that the operation of the plant interferes with the special characteristics of the wetlands area. Lucchetti Peru disagrees with this assessment, which conflicts with the findings of Peru's environmental authorities that the plant meets all applicable standards. Lucchetti believes that the actions of the Municipal Council violate both Peruvian law and various provisions of a bilateral investment treaty between Chile and Peru, including provisions forbidding expropriation of investments, discrimination against foreign investors, and unjust and inequitable treatment. As a result, Lucchetti has taken measures to protect its investment and interests in its plant and commercial operations in Peru.

On October 3, 2001, Lucchetti notified the Republic of Peru that it was invoking the dispute resolution procedures of the bilateral investment treaty between the two countries, which require a six-month period of consultations prior to the formal initiation of any legal proceedings. The consultation period ended on April 3, 2002 without a settlement. Lucchetti is currently considering submitting the dispute for resolution by an international arbitral tribunal under the auspices of the International Centre for Settlement of Investment Disputes in Washington, D.C. (Tribunal Arbitral Internacional del CIADI). Nonetheless, the outcome of this conflict cannot be foreseen, and Lucchetti may be obliged to close its plant operations in Peru in the future.

Lucchetti's Peruvian operations have suffered a significant deterioration in terms of sales, which declined by 15% in 2001, and a loss of market share, which fell from approximately 21% in December 2000 to an estimated 16% as of December 2001. The decline in sales has resulted in a deterioration of

Lucchetti Peru's financial position, and its future financial viability is not known. See "Item 8. Financial Information—Legal Proceedings" for more information regarding this dispute. There can be no assurance that Lucchetti will prevail in an ICSID or other proceeding. If Lucchetti does not prevail, its results of operations and financial condition could be materially adversely affected, and Quiñenco's results of operations could be materially adversely affected.

2002 Capital Increase. On January 23, 2002, Lucchetti completed a capital increase approved and partially carried out in 2001. On this date, Lucchetti issued 128,757,805 new shares for Ch\$2,706 million. Quiñenco subscribed to 128,610,448 shares for Ch\$2,701 million. Quiñenco's economic interest in Lucchetti increased from 93.3% to 93.7% following the capital increase. Proceeds were used to reduce indebtedness.

2001 Capital increase. During Lucchetti's expansion process during the 1990s, Lucchetti incurred significant indebtedness. As part of an effort to reduce indebtedness, on April 26, 2001, Lucchetti's Board of Directors approved a capital increase of Ch\$21,000 million through the issuance of 1,000,000,000 new shares. The capital increase was carried out in the second half of 2001 and as of December 31, 2001, Lucchetti had issued 871,242,195 new shares for Ch\$18,294 million. Quiñenco subscribed to 869,708,297 shares for Ch\$18,264 million. Quiñenco's economic interest in Lucchetti increased from 87.0% to 93.3% following the capital increase.

2001 Financial restructuring. During 2001, Lucchetti carried out a financial restructuring aimed at reducing the company's overall indebtedness level, and reprogramming remaining debt maturities in line with Lucchetti's future expected cash flow. As of December 31, 2001, Lucchetti had reduced its interest bearing debt by 46% to Ch\$56,432 million. Proceeds from the sale of the Argentine subsidiary and the aforementioned capital increases were used to reduce company indebtedness. The debt restructuring mainly corresponded to a refinancing of short-term debt into a seven-year syndicated credit facility with a group of banks for Ch\$36,066 million (UF2,369,359). As a result of the debt refinancing, as of December 31, 2001, 82.5% of Lucchetti's interest bearing debt was concentrated in long-term facilities.

1999 capital increase. On May 4, 1999, Lucchetti's Board of Directors approved a capital increase of Ch\$20,000 million through the issuance of 351,000,351 new shares, through a preferential share offering to existing shareholders. On September 9, 1999, Lucchetti carried out a capital increase of Ch\$17,149 million (value at transaction date) through the issuance of 290,665,340 new shares to which Quiñenco subscribed to 286,342,104 shares. Following the capital increase, Quiñenco's economic ownership interest in Lucchetti was 87.0%. Proceeds from the capital increase were used to reduce indebtedness incurred in connection with Lucchetti's expansion into Argentina and Peru.

Association with Findim and subsequent sale of Findim's interest to the Company. On February 3, 1998, Lucchetti, together with Quiñenco and its 99.1%-owned subsidiary, Inversiones Nacionales Limitada ("INL"), entered into an Association Agreement with Findim, a subsidiary of the Findim Group, an Italian producer of tomato sauces, soups, and creams. Under the Association Agreement, Findim agreed to increase its ownership in Lucchetti to at least 10%, with the right to increase its ownership to 35%. Prior to signing the agreement, Findim owned 1.9% of Lucchetti's ordinary shares through purchases in the open market. In addition, Findim was granted the option to sell its shares in Lucchetti to Quiñenco (through INL) at any time before March 31, 1999 under certain circumstances, or at any time after March 31, 1999 with no restrictions.

On April 23, 1999, Findim informed Quiñenco and Lucchetti of its intention to exercise its option to sell its 10.2% stake in Lucchetti to Quiñenco. On June 7, 1999, Quiñenco (through INL) purchased Findim's interest in Lucchetti for Ch\$6,163 million.

Sale of tomato paste operations. On April 1, 1999, Lucchetti divested its tomato paste and pulp operations in an effort to reduce indebtedness incurred in connection with the construction of new facilities in Argentina and Peru. The tomato paste operations, which consisted of Lucchetti's 63.0% interest in Nieto S.A., was sold for Ch\$3,290 million. Lucchetti recognized a loss of Ch\$1,783 million in connection with the transaction.

Strategy. Lucchetti's strategy is: (i) to expand its market share in the Chilean pasta, edible oils and soups and broths markets by capitalizing on its strong brand recognition, mainly through introductions of higher-value-added products and further development of its distribution channels, including possible commercial associations with other companies which participate in the local food industry, and improve gross and operating margins by developing greater production and operating efficiencies (ii) to increase its market share and product margins in the Peruvian pasta market through continued commercial efforts which include the introduction of new products and further development of Lucchetti's brand image.

The following table shows net sales for each of Lucchetti's principal business segments for the years ended December 31, 1999, 2000 and 2001:

Lucchetti and subsidiaries	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$)		
Net sales:			
Pasta.....	Ch\$58,964	Ch\$58,850	Ch\$44,849
Edible oils	31,303	28,207	34,176
Soups and broths	1,344	1,547	1,696
Other (1)	<u>6,408</u>	<u>10,752</u>	<u>5,534</u>
Total.....	<u>Ch\$98,019</u>	<u>Ch\$99,356</u>	<u>Ch\$86,255</u>

(1) Other includes the sale of wheat by-products, soups and broths, third party manufacturing and third party distribution.

The following table shows selected consolidated financial information for Lucchetti and its subsidiaries at and for the years ended December 31, 1999, 2000 and 2001:

Lucchetti and subsidiaries (1)

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$, except percentages)		
Net sales (2):			
Chile.....	Ch\$61,229	Ch\$55,701	Ch\$57,407
Argentina	16,091	16,521	6,464
Peru.....	<u>20,699</u>	<u>27,134</u>	<u>22,384</u>
Total net sales	<u>Ch\$98,019</u>	<u>Ch\$99,356</u>	<u>Ch\$86,255</u>
Gross margin	Ch\$26,765	Ch\$31,082	Ch\$25,778
Operating income (loss)	(1,900)	3,532	2,647
Non-operating income (loss).....	(10,910)	(20,480)	(11,839)
Minority interest	-	-	-
Income taxes	(348)	6,650	2,785
Net income (loss)	<u>Ch\$(13,158)</u>	<u>Ch\$(10,298)</u>	<u>Ch\$(6,407)</u>
Total assets.....	Ch\$153,836	Ch\$138,764	Ch\$119,230
Bank debt.....	90,648	73,046	48,335
Other liabilities	16,266	28,717	23,771
Shareholders equity.....	46,922	37,001	47,124
Quiñenco's effective economic interest % ...	86.2%	87.0%	93.3%

- (1) Lucchetti's consolidated income statement in 2000 includes results from Lucchetti Argentina S.A. Lucchetti's consolidated balance sheet as of December 31, 2000 accounted for Lucchetti Argentina S.A. under the equity method and did not consolidate Lucchetti Argentina line by line, in accordance with instructions from the Chilean Superintendency of Securities and Insurance.
- (2) Export sales accounted for 4%, 2% and 2% of consolidated net sales in 1999, 2000 and 2001, respectively.

The following table shows selected statistical data for Lucchetti at and for the years ended December 31, 1999, 2000 and 2001:

Lucchetti and subsidiaries

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in thousands of metric tons)		
Production Volumes:			
Pasta (1)	112.8	120.3	95.5
Edible Oils	46.0	39.2	50.5
Soups, Creams and Broths	1.0	1.2	1.2
Production Capacity: (2)			
Pasta	150.0	164.0	128.0
Edible Oils	72.0	87.0	85.0
Soups, Creams and Broths	5.2	6.8	8.9

- (1) Includes Lucchetti Argentina's 15 thousand metric ton production in 2001.
- (2) Based on three shifts of eight hours per day for a 360-day year.

Chile

Chile is Lucchetti's main market, where approximately 66.6% of its consolidated sales were made during 2001. In Chile, Lucchetti principally manufactures and sells pastas, edible oils, soups and broths.

Pasta. Chile is one of the largest markets in South America for dry pasta on a per capita basis with an estimated consumer market size of 110,000 tons per year and estimated market value of US\$113 million as of December 31, 2001. The production and marketing of pasta in Chile generated sales of Ch\$25,711 million, or 44.8% of Lucchetti Chile's total net sales in 2001 (including export pasta sales).

Lucchetti produces and markets premium, medium-priced, and popular-priced pasta under the brands Talliani, Lucchetti, Napoli and Romano. Among these brands, Lucchetti is Chile's second best-selling pasta brand, accounting for approximately 35.1% of all 2001 sales by volume in Chile. Talliani is Lucchetti's premium pasta, which is made entirely from higher-quality durum wheat. Napoli and Romano are medium-priced and popular-priced pastas, which are made of a mix of durum wheat and wheat flour.

Edible Oils. Lucchetti is the largest Chilean producer of edible oils, principally sunflower and soy oils, with a market share of approximately 27.8% for the year ended December 31, 2001. Lucchetti's edible oils business in Chile generated Ch\$29,044 million, or 50.6% of Lucchetti Chile's total net sales in 2001.

Lucchetti produces and sells four types of edible oils: olive oil, sunflower, vegetable and mixed oils under the brands Talliani Oliva, Miraflores, Oro Vegetal, Doña Flor, Doña Sofia, Eldorado and Protal. Among these brands, Protal, a mixed oil, is Chile's best selling edible oil, accounting for approximately 10.6% of all 2001 sales by volume in Chile. Talliani is Lucchetti's leading premium brand for sales of olive oil. The Protal, Doña Flor, Doña Sofia, Eldorado and Oro Vegetal brands are vegetable oils targeted at the medium-income and low-income markets. The bulk edible oil market in Chile is mainly comprised of supply to producers of the mass consumption products such as mayonnaise and fried potatoes as well as paints. Lucchetti estimates that its market share in the bulk edible oil market is 50%.

Packaged Soups, Creams and Broths. Lucchetti is the second-largest producer of packaged soups, creams and broths in Chile, with a market share of approximately 11.8% in soups and creams. Lucchetti's packaged soups, creams and broths business generated Ch\$1,696 million, or 3.0% of Lucchetti's total net sales in 2001.

Customers. Lucchetti's principal customers in Chile are supermarkets, distributors and other retailers, representing 49%, 31% and 20% of 2001 net sales, respectively.

Competition. Lucchetti's principal competitor in the Chilean pasta business is Carozzi. Carozzi has approximately 38% of the pasta market share, compared to Lucchetti's 35.1%. Lucchetti does not face significant competition in the Chilean pasta market from foreign manufacturers.

Lucchetti is the largest producer of edible oils in the Chilean market. Lucchetti's principal competitors in the edible oils business are Malloa and Watts with estimated market shares of 18% and 21.9%, respectively. Lucchetti estimates that its sales accounted for approximately 27.8% of total Chilean sales of edible oils for the year ended December 31, 2001. Foreign competition mainly comes from Argentine producers although the economic crisis in that country has recently affected the ability of many Argentine producers to capitalize on opportunities in the Chilean market.

Lucchetti's principal competitor in the dry soup and cream business is Maggi, a brand associated with Nestlé, with an estimated market share of 78.8%. Lucchetti estimates that its net sales accounted for approximately 11.8% of total Chilean sales of packaged soups, creams and broths in 2001.

Manufacturing facilities. Lucchetti manufactures pasta products for domestic and export sales at its plant in Santiago. The Santiago pasta and mill facilities consist of storage silos, a production and

packaging plant and a finished products warehouse. Pasta is produced in eleven lines: four dedicated to long pasta products and seven dedicated to cut products. Pasta production capacity is approximately 80,000 metric tons per year. Capacity utilization was 62% in 2001.

Lucchetti's edible oil plant is located in Maipu, near Santiago. The plant consists of installations for crushing, solvent extraction, oil refining and bottling. This plant includes the only crushing facility currently operating in Chile. Lucchetti offers its competitors the use of this facility on a fee basis. During the second half of 1999, Lucchetti entered into a joint production arrangement with a local manufacturer to improve production efficiency and reduce production costs. Oil production capacity is approximately 85,000 metric tons per year. Capacity utilization was 59% for the Company's own products and 28% in connection with third party production in 2001.

Lucchetti's plant for the production of soups, creams and broths is located in Santiago. The plant consists of installations for dehydration and packaging. Soup, cream and broth production capacity is approximately 8,933 metric tons per year. Capacity utilization was 14% in 2001.

Raw Materials. The principal raw material that Lucchetti uses in the production of pasta is wheat, which represents approximately 63% of production costs. Lucchetti purchases approximately 40%-60% of its durum wheat from Canada, principally through a joint venture with Carozzi which was formed to procure wheat for the venture owners under mutually advantageous terms. The remainder of Lucchetti's wheat requirements have been satisfied in recent years through domestic purchases pursuant to annual contracts under which, in some cases, Lucchetti provides working capital to local farmers to encourage a continuing local source for raw materials. Lucchetti has never experienced significant difficulties in obtaining adequate supplies of wheat on satisfactory terms. Lucchetti has facilities in its Santiago pasta plant for the storage of up to 29,700 tons of unprocessed wheat.

For the production of edible oils, Lucchetti purchases 75% of its crude oil requirements from suppliers in Argentina and 25% of its oleaginous seed requirements from Promosol S.A., a joint venture between Lucchetti and Coprona S.A. ("Coprona"), a subsidiary of Unilever formed to procure and distribute oleaginous seeds and to promote the local industry. Lucchetti has facilities in its Santiago oil plant for the storage of up to 2,700 tons of seeds, 4,800 tons of crude oils and 1,000 tons of refined oil.

The principal materials that Lucchetti uses in the production and distribution of its soups, creams and broths are flour, fat and packaging materials. Lucchetti purchases all these raw materials from local suppliers. Historically, Lucchetti has not experienced any difficulty in obtaining raw materials at satisfactory prices and does not expect to in the near term.

Peru

In Peru, Lucchetti manufactures and sells pasta products and imports and sells edible oils. It also distributes third party products to the Peruvian market. Approximately 25.9% of Lucchetti's consolidated sales are made in Peru (as of December 31, 2001).

Lucchetti's subsidiary in Peru began local distribution of Lucchetti's pasta products in 1995, and in 1998 began local production. Packaged pasta had historically accounted for a relatively small proportion of total Peruvian pasta consumption, with pasta sold in bulk accounting for approximately 95% of all Peruvian pasta sales prior to 1993. By year-end 2001, the packaged segment had grown to account for approximately 82% of total market sales in Peru. The estimated consumer market size is 230,914 tons per year, and the estimated market size is US\$210 million. As of December 2001, Lucchetti's pasta products ranked third in terms of net sales by volume in Peru, with a market share of approximately 16%.

Lucchetti's Peruvian operation generated sales of Ch\$22,384 million in 2001, of which 56.6% corresponded to pasta sales, 22.9% to sales of edible oils and the remaining 20.5% to sales of third party products.

When Lucchetti's Peruvian pasta manufacturing operations were initiated in 1998, important decreases in cost of sales were generated. Nonetheless, because of the pricing strategies of the leading pasta producer in Peru, management believes that pasta prices in Peru are currently substantially below those required by Lucchetti to maintain a profitable operation. Average pasta prices in Peru decreased by 5% in 2001, significantly below pasta prices in other countries in the region. In addition, Lucchetti Peru's sales were affected in 2001 as a consequence of negative ad campaigns related to its plant location by government officials and ecology support groups. Under the current situation, management has made considerable effort to minimize its working capital by maintaining strict control on its accounts receivables and stock levels of raw materials and finished products, although there can be no assurance that pricing and sales volume will significantly improve nor can the timing of such improvements be predicted, should they occur.

Customers. Lucchetti's principal customers in Peru are major distributors, representing 56% of 2001 net sales and small distributors who represented approximately 39% of net sales. Supermarkets represented only 5% of 2001 net sales. This is substantially different from the Chilean market, where customer channels are much more developed and where supermarkets account for an important percentage of total sales. Lucchetti expects the customer channel structure in Peru to change over time, becoming more like that of Chile, and Lucchetti believes that, as a producer in Peru, it could benefit from such a shift. In 1999, Lucchetti decided to replace Rocsa, a distributor that previously accounted for 100% of its total distribution and initiated an in-house distribution system in an effort to reduce costs and improve its national distribution coverage. Lucchetti also decided to offer third-party products in order to expand the breadth of its product offerings. During 2001, sales of third party products were Ch\$4,577 million, accounting for 20.5% of Lucchetti's Peruvian sales.

Competition. Lucchetti's main competitors in the Peruvian packaged pasta market are Alicorp S.A. (formed from the merger of Consorcio de Alimentos Fabril-Pacífico S.A. and Nicolini S.A. in October 1996) with a market share of approximately 40.4% at December 2001, and Molitalia S.A., with a market share of approximately 17.4% at December 2001.

Manufacturing facilities. Lucchetti manufactures pasta products and edible oils for the Peruvian market at its plant on the outskirts of Lima. The Peruvian facilities consist of a mill, storage silos, a production and packaging plant and a finished products warehouse. Pasta is produced in three lines. Pasta production capacity is approximately 48,000 metric tons. The capacity utilization rate of the plant in Peru was 65% in 2001.

Raw materials. Lucchetti Peru purchases all of its wheat from the main supplier in the Peruvian market, Cargill U.S.A, who imports wheat from Canada and the United States. Raw oil is imported from one main supplier in Argentina. Lucchetti has not experienced difficulty in obtaining adequate supplies of wheat at satisfactory prices and does not expect to in the near term.

Argentina

After several years of competing in the Argentine market with its pasta products, Lucchetti decided to divest its Argentine-based operations, mainly associated with its limited in-house distribution capability which resulted in less profitable operations than originally expected. As a consequence, Lucchetti entered into an agreement to sell its operations in Argentina to its largest competitor in the Argentine market in early 2001. The sale was concluded on June 25, 2001, following the approval of the Argentine antitrust authorities.

In 2001, approximately 7.5% of Lucchetti's 2001 consolidated sales were made in Argentina.

In 1993, Lucchetti began distributing and marketing its pasta products in Argentina, and in October 1997 began to produce locally. Until June 2001 when Lucchetti divested its operations in Argentina, its products ranked third in net sales by volume in Argentina, with a market share of approximately 11.3% in 2001, compared to a market share of approximately 26% for Argentina's largest domestic pasta producer. Lucchetti's Argentine pasta business generated sales of Ch\$6,464 million in 2001.

Customers. Lucchetti distributed its products to its principal customers in Argentina through a major wholesaler who sold the products on a consignment basis. This distributor, in turn, sold Lucchetti's pasta products to supermarkets and minimarket chains, who accounted for approximately 90% of sales, and the remaining to small wholesalers and retailers.

Competition. Lucchetti's principal competitors in the Argentine pasta market were Molinos Río de la Plata S.A., the competitor that acquired Lucchetti Argentina in 2001, and Terrabussi S.A., a subsidiary of Nabisco.

Manufacturing facilities. Between 1997 and 2001, Lucchetti manufactured pasta products for the Argentine market at its plant in Buenos Aires. The Argentine facilities consisted of a mill, storage silos, a production and packaging plant and a finished products warehouse. Pasta was produced in three production lines. Pasta production capacity was approximately 36,000 metric tons per year. Capacity utilization was 42% in 2001.

Raw materials. The principal raw material that Lucchetti Argentina used in the production of pasta was wheat. Lucchetti purchased 100% of its durum wheat from national Argentine suppliers and has not experienced significant difficulty in obtaining adequate supplies at satisfactory prices.

Legal Proceedings

For a discussion of material legal proceedings involving Lucchetti, see "Item 8. Financial Information—Legal Proceedings".

Financial Leverage

At December 31, 2001, Lucchetti had bank debt obligations of approximately Ch\$56,432 million, which represented 120% of its net worth. During 2001 Lucchetti reduced its level of indebtedness by selling non-profitable assets and capital increases. In addition, it carried out a financial restructuring with a group of banks in order to reprogram debt maturities. Nonetheless, Lucchetti's current levels of debt increase the sensitivity of net income to a downturn in sales and operating results and limits Lucchetti's financial flexibility and ability to make new investments in its businesses.

Telecommunications – VTR

At December 31, 2001, VTR was a wholly-owned consolidated subsidiary of the Company. Through its 73.6% interest in Compañía Nacional de Teléfonos, Telefónica del Sur S.A. ("Telsur"), VTR is the principal provider of local telephone service in Regions X and XI and the second largest provider of telephone services in Region IX, in the south of Chile. Since the year 2000, VTR also provides local telephone service in some cities of Region VIII of Chile, including the city of Concepción, the third largest city in the country. In addition to local telephone service, VTR is also a provider through Telsur of nationwide domestic and international long distance telephone service, Internet services and other non-regulated telecommunications services. Quiñenco's economic interest in VTR was 100.0% at

December 31, 2001, 2000 and 1999, respectively. VTR's net sales as a percentage of Quiñenco's total consolidated net sales was 9.6% in 2001, 9.2% in 2000 and 13.5% in 1999.

Prior to June 1999, and for the year ended December 31, 1998, VTR was a 51.7%-owned subsidiary of the Company, and it was managed pursuant to a shareholders' agreement between Quiñenco and SBC International Inc. ("SBCI"), a subsidiary of SBC Communications Inc., which owned 44.1% of the common stock of VTR. VTR's main business activities included a 45% interest in Startel, a cellular telephony provider, a 93.6% interest in VTR Larga Distancia, a nationwide non-facility long distance service provider and a 66% interest in VTR Hipercable, a cable television service provider, in addition to its 73.6% interest in Telsur described above.

In 1997, Quiñenco and SBCI sold their 45% ownership in the cellular telephony business. In 1998, they divested the 45% interest held in the long distance service provider. In 1998, VTR divested its 93.6% interest in VTR Larga Distancia and in 1999, VTR sold its 58.5% direct interest in Hipercable and its 7.5% indirect interest held through Telsur.

As a result of these divestitures, Quiñenco agreed to purchase SBCI's participation in VTR pursuant to a Share Purchase Promissory Agreement previously entered into by Quiñenco and SBCI. In June 1999, the Company purchased SBCI's 44.1% interest in VTR. Following the transaction, the Company's equity interest in VTR was 100% and its effective economic interest was 95.8% since approximately 9.6% of VTR was held by another Luksic Group company, Madeco. In December 1999, Quiñenco purchased Madeco's participation in VTR and the Company's economic interest in VTR was increased to 100%.

2001 Bond Issue in the Chilean market. In May 2001, Telsur issued bonds in the Chilean market for UF1,000,000. The bond issue consisted of two series. Series G, which amounted to UF400,000, matures in 2005, and Series H, which amounted to UF600,000, matures in 2021.

2001 Capital Increase. On September 25, 2001, VTR's shareholders increased capital by Ch\$20,000 million through the issuance of 38,863,336 new shares. Quiñenco subscribed to 100% of the capital increase.

Sale of cable television business unit. In April 1999, VTR completed the sale of its cable television business unit. It was paid Ch\$135,365 for its 58.5% direct equity interest in VTR Hipercable and Ch\$15,420 million for Telsur's 7.5% direct equity interest in VTR Hipercable. In 1999, VTR recognized a gain on the sale of its interest of Ch\$78,440 million.

Capital distribution. In January 1999 and in October 2000, VTR effected a distribution of capital in the amount of Ch\$51,015 million and Ch\$92,790 million, respectively, to its shareholders in 1999 and 2000. As a result of the distribution, Quiñenco received Ch\$23,620 million corresponding to the 1999 distribution, and Madeco received Ch\$4,897 million in 1999. In 2000, Quiñenco received Ch\$92,790 million, corresponding to its 100% ownership. The capital distributions were funded with proceeds received from the sale of several business units, including proceeds received between 1998 and 2000 in connection with the sale of the cellular telephony business unit, long distance unit and cable television unit.

Strategy. VTR's businesses and strategy have changed significantly over the last years, from that of an integrated provider of long-distance, local and mobile telecommunications and cable television and telephony services to that of a regional telephony services provider focused on the southern regions of Chile. These divestitures were consistent with the Company's strategy of evaluating the sale of certain of its businesses, when the Company believes that the opportunity to divest creates more value for shareholders than retaining the business.

Following the divestiture of its other business units, VTR's strategy has been to expand local exchange telephony, maintaining leadership through Telsur in Chile's Regions X and XI while expanding into Region IX and most recently, to the VIII region. In addition, Telsur intends to continue to expand the availability of value-added non-regulated services, such as Internet provider services (ISP), call waiting, caller ID and call center services. In the long term, Telsur believes that growth will be based on the exploitation of emergent technologies and regulatory changes such as the unbundling of the Telefónica de Chile network.

The following table shows selected financial information for VTR at or for the years ended December 31, 1999, 2000 and 2001:

VTR and subsidiaries	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$, except percentages)		
Net sales:			
Cable Television (1).....	Ch\$14,598	-	-
Telsur Local Telephony (2).....	44,634	42,878	45,341
Consolidating eliminations and other.....	<u>118</u>	<u>36</u>	<u>-</u>
Total net sales	<u>Ch\$59,350</u>	<u>Ch\$42,914</u>	<u>Ch\$45,341</u>
Gross margin	Ch\$29,287	Ch\$24,123	Ch\$26,965
Operating income	5,075	11,473	13,179
Non-operating results	80,284	4,796	(6,000)
Minority interest.....	(1,828)	(2,150)	(2,403)
Income taxes	<u>(8,488)</u>	<u>(2,108)</u>	<u>(1,347)</u>
Net income	<u>Ch\$75,043</u>	<u>Ch\$12,011</u>	<u>Ch\$3,429</u>
Total assets.....	Ch\$289,139	Ch\$149,823	Ch\$224,719
Bank debt & bond obligations.....	54,260	70,599	77,744
Other liabilities.....	44,889	45,497	91,295
Shareholders' equity.....	189,990	33,727	55,680
Quiñenco's effective economic interest %	100.0%	100%	100%

(1) Corresponds to revenues earned in 1999 prior to the divestiture of the cable TV business unit in April 1999.

(2) Includes 100% of Telsur's revenues and operating income.

Local Exchange Telephony. Telsur is the leading provider of local telephone service in the X and XI Regions which include the cities of Puerto Montt, Valdivia, Osorno, Chiloé and Coyhaique, in the south of Chile. Telsur began providing telephone service in the IX Region which includes the city of Temuco, during the first quarter of 1997 and is currently the region's second-largest provider. In addition, Telsur expanded to the VIII Region which includes Chile's second largest city, Concepción, in November 2000. Telsur is a facility carrier in Regions X and XI (where it operates over its own network); in the rest of Chile it is a non-facility carrier, renting capacity from other networks.

The following table shows selected financial information of Telsur and its subsidiaries at or for the years ended December 31, 1999, 2000 and 2001:

Telsur and subsidiaries	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$)		
Net Revenues.....	Ch\$44,614	Ch\$42,878	Ch\$45,341
Gross margin.....	21,253	24,091	26,965
Operating income.....	6,637	12,278	13,441
Non-operating results.....	5,140	(2,901)	(3,008)
Minority interest.....	(208)	(124)	(161)
Income taxes.....	<u>(387)</u>	<u>(1,588)</u>	<u>(1,790)</u>
Net income.....	<u>Ch\$11,182</u>	<u>Ch\$7,665</u>	<u>Ch\$8,482</u>
Total assets.....	Ch\$115,215	Ch\$117,685	Ch\$131,731
Bank debt & bond obligations.....	54,237	51,038	65,462
Other liabilities.....	8,133	12,930	11,273
Shareholders' equity.....	52,845	53,717	54,996

Tariff Structure. On December 20, 1999 and April 27, 2000, the Ministry of Economy in conjunction with the Ministry of Transportation and Telecommunications, published in the Official Gazette, the decree which sets forth the rates for the regulated services of Telsur and Telcoy, a wholly-owned subsidiary of Telsur, for the period December 1999-December 2004. The effect of the new tariff structure on Telsur was to reduce access charges by approximately 47% and alter the structure of per minute charges to per second charges for basic telephony usage.

Revenue from Telsur's local exchange telephony business is generated principally by fixed monthly fees, per minute charges, the price of which depends on the time of the day in which calls are made (utilizing peak and off-peak rates), and access charges from other carriers.

The following table shows certain statistical data for Telsur's local exchange telephone operations at or for the years ended December 31, 1999, 2000 and 2001:

Telsur and subsidiaries	<u>1999</u>	<u>2000</u>	<u>2001</u>
Lines in Service.....	149,503	162,233	177,281
% Growth from prior period	5.7%	8.5%	9.3%
Lines in service per 100 inhabitants.....	14.8	14.0	15.3
Lines installed	162,014	178,035	194,842
% Growth from prior period	3.7%	9.9%	9.4%
Employees per 1000 lines in service.....	3.4	3.1	2.7
Utilization Ratio(1)	0.92	0.91	0.91
Digitalization (2).....	100%	100%	100%
Automation (3).....	100%	100%	100%

(1) Ratio of lines in service at the end of the period to lines installed at the end of the period.

(2) Percentage of lines in service connected to digital exchanges at the end of the period.

(3) Percentage of lines installed connected to automatic exchanges at the end of the period.

Telsur owns approximately 84.9% of the telephone lines in service in the X and XI Regions, 42.5% of the telephone lines in service in Temuco and 7.5% of the telephone lines in service in Concepción, with a total of 177,281 lines in service as of December 31, 2001. Approximately 66% of its lines are residential, 32.4% are commercial, and 1.6% are public telephones. During 2001, 16,807 new

lines were installed, representing a 9.4% growth from the prior year. Telsur's local telephone system penetration in recent years has increased to 15.3 lines per 100 inhabitants at December 31, 2001, from 3.5 lines per 100 inhabitants at December 31, 1991. These penetration levels are lower than those of Chile as a whole (22.7 lines per 100 inhabitants at December 31, 2001), reflecting the rural character of Telsur's concession area, but also indicate a potential for growth.

As a result of its extensive addition of digital exchange technology in the last decade, Telsur achieved full digitalization of its network, with all of its lines connected to digital exchanges. The digitalization of its network has allowed Telsur to provide additional non-regulated services, including ISP, web hosting, call waiting, voice mail, call transfer, conference calling and call blocking. Digitalization also allows for more efficient utilization and maintenance of the network through automatic testing and traffic control. Non-regulated services accounted for 25% of Telsur's revenues as of December 31, 2001.

In order to more fully develop business opportunities associated with Internet related services, Telsur formed a new subsidiary, Telsur Net S.A., in March 2000. This subsidiary is in the process of implementing a nationwide IP network, which offers high speed access to Internet, network connections and video conferencing services, among others. As of December 31, 2001, Telsur had 8,521 Internet subscribers and 4,754 subscribers of high-speed wide band services with revenues of Ch\$2,304 million in connection with this business.

Telsur's concession requires it to provide telephone service to any requesting party within areas designated as "mandatory service areas" in the Technical Plan prepared by the Chilean Sub secretary of Telecommunications every five years. Outside of these "mandatory service areas", parties requesting new telephone line installation must pay for the cost of extending the network to the point of connection to their premises.

Long Distance Telephony. Through CNT Carrier, a wholly-owned subsidiary of Telsur, Telsur provides domestic long distance and international long distance services. In 2001, Telsur's subsidiary, CNT Carrier, reported net revenues of Ch\$8,322 million.

On March 10, 1994, an amendment to Chile's Telecommunications Law was enacted, establishing a multiple long distance carrier system in Chile. The multicarrier system was fully implemented in October 1994, permitting customers in Chile to select long distance carriers for provision of both international long distance and domestic long distance telephone services. The multicarrier system (i) requires local telephone companies to install switches and equipment and to provide any licensed long distance carrier equal access to the local telephone system; (ii) requires local telephone companies that provide long distance services to do so only through subsidiaries constituted as open-stock (publicly traded) corporations, in order to prevent cross-subsidies; and (iii) imposes temporary market limitations for the first few years of the system's operation to prevent any single carrier from establishing immediate dominance in the market.

Competition. Telsur has faced and continues to face intense competition in every aspect of its business activities. In local telephony, Telsur faces competition from CTC, which entered Telsur's concession area in Regions X and XI in 1996 and is the incumbent competitor in the VIII and IX Regions. CTC, which operates approximately 77.5% of installed local service telephone lines in Chile, is expected to continue as a strong competitor. In long distance telephony, Telsur competes with other national carriers, including Entel, CTC Mundo, Chilesat and Bellsouth, among others.

Subsidiaries in Start-Up Phase. In connection with the expansion of its business, Telsur formed Telefónica del Sur Net S.A., an internet service provider and Telefónica del Sur Seguridad S.A., a telecommunications company, which provides phone related security services in 2000. In 2001, Telsur

formed Telsur Call Center S.A., a company that provides integral phone and web services. These companies are still in the start-up phase of their development. The losses incurred by Telsur in relation to these subsidiaries amounted to Ch\$1,244 million in 2000 and Ch\$2,422 million in 2001. The losses are recorded as a charge to Telsur's net worth in 2000 and 2001 and do not affect Telsur's results from operations.

Regulatory Factors. Substantially all of Telsur's telecommunications business is conducted pursuant to non-exclusive concessions granted by the Chilean government or its instrumentalities. Obtaining the requisite government concessions and licenses is not considered a significant barrier to entry under Chile's current telecommunications regulatory regime. In addition, the telecommunications industry as a whole has traditionally been, and is likely to continue to be, subject to rapid and significant changes in technology. Although Telsur does not generally view the requirement to obtain necessary concessions and licenses as presenting significant risks, and does not believe that the current regulatory environment poses significant restrictions on its prospects, there can be no assurance that it will be able to obtain or maintain all required concessions and licenses, or that amendments to the applicable laws or regulations will not occur that could adversely affect its business, results of operations, financial conditions or prospects.

Telecommunications – Entel

As of December 31, 2001, Quiñenco owns a 5.7% interest in Entel, a leading telecommunications provider in Chile. The interest in Entel is held through wholly-owned intermediate holding companies, VTR S.A. and Hidrosur S.A. In 2001, the Company's share of Entel's net income was Ch\$3,081 million.

During 1999, through privately negotiated transactions and purchases on the open market, Quiñenco acquired a 14.3% equity interest in Entel, one of the leading providers in the telecommunications sector of long distance, cellular telephony, internet and other telecommunications services in Chile. During the first half of 2000, additional purchases were carried out on the open market and the Company's interest in Entel reached 14.5%. In August 2000, the Company sold a portion of its interest in Entel for Ch\$11,650 million. The pre-tax gain on the sale amounted to Ch\$7,606 million in 2000. During 2001, the Company sold an additional 8% interest in Entel for Ch\$88,821 million. The pre-tax gain on the sale amounted to Ch\$49,569 million in 2001. Quiñenco does not consolidate Entel's results, which are accounted for as an equity-method investment. Entel is traded on the Chilean stock exchanges.

Founded in 1964, Entel is a leader in Chile in the two areas that have represented the highest growth in past years in the telecommunications industry, Internet services and PCS wireless technology. In addition, since commencing its multicarrier services, Entel has been a leading company in this area. Entel's digital network allows it to offer integrated telecommunications services which include national and international long distance multi-carrier services, Internet services, cellular telephony and voice, data and video communication services. It also operates public telephones and call centers throughout the country. Entel's subsidiary, Americatel in the United States offers specialized long distance services oriented to Spanish speaking customers in that country.

The following table contains selected financial information, which was derived from Entel's 2001 Annual Report and relates to Entel and its subsidiaries at or for the years ended December 2000 and 2001:

Entel and subsidiaries	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$, except percentages)	
Net Sales	Ch\$537,666	Ch\$709,807
Gross margin	251,520	303,623
Operating income	71,187	83,166
Non-operating results	(37,639)	(47,297)
Minority interests	(796)	(888)
Income taxes	<u>(4,528)</u>	(777)
Net income	<u>Ch\$28,224</u>	<u>Ch\$34,204</u>
Total assets	Ch\$1,074,257	Ch\$1,197,902
Bank debt & bond obligations	244,273	318,433
Other liabilities	355,578	377,588
Shareholders' equity	474,406	501,881
Quiñenco's effective economic interest %	13.7%	5.7%

The following table shows the composition of Entel's consolidated sales and certain statistical data pertaining to Entel's telecommunications operations at or for the year ended December 31, 2000 and 2001:

Entel and subsidiaries	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$)	
Net Sales:		
Telephony services (including long distance & Internet)	Ch\$146,816	Ch\$150,775
Private business network services	57,474	68,613
Wireless telephony services	182,852	254,851
Local telephony services	22,204	26,059
International subsidiaries	<u>128,320</u>	<u>209,509</u>
Total net sales	<u>Ch\$537,666</u>	<u>Ch\$709,807</u>
National multicarrier traffic (millions of minutes)	869.0	793.2
International multicarrier traffic (millions of minutes)	89.4	91.8
Americatel multicarrier national & international traffic (millions of minutes)	510	987
Internet traffic (millions of minutes)	2,035.8	2,849.2
Number of cellular telephone subscribers	1,273,977	1,938,846

Manufacturing – Madeco

Madeco was a 56.1%-owned consolidated subsidiary of the Company for the years ended December 31, 2001 and 2000 and a 56.5%-owned subsidiary for the year ended December 31, 1999. Madeco's net consolidated sales as a percentage of the Company's consolidated net sales was 70.0% in 2001, 67.0% in 2000 and 61.8% in 1999.

Madeco is a leading diversified manufacturer of finished and semi-finished non-ferrous products based on copper, copper alloys and aluminum. Additionally, Madeco is also a leading producer of

flexible packaging products for large consumer industries. Madeco has a significant presence throughout Chile, Brazil, Argentina and Peru with productive and sales activities in these countries.

The prices for copper, aluminum and plastic, the principal raw materials used by Madeco, historically have fluctuated greatly. Madeco's price policy is to sell based on the quantity of metal contained in a product, valued at the London Metals Exchange, or "LME", prices. The ability to modify selling prices in response to fluctuations in the cost of raw materials does not insulate Madeco from non-operating, non-cash accounting losses which may arise as a result of recording copper and aluminum inventories at the lower of restated cost or market value in a declining price environment. However, Madeco generally has been able to increase its selling prices in response to increases in costs of copper and/or aluminum. There can be no assurance, however, that Madeco will be able to recover increases in the cost of copper and/or aluminum in the future. Further, while Madeco has not experienced significant difficulty in obtaining raw materials in the past, there can be no assurance that the materials it uses will remain available in the future.

Madeco's principal activity, which accounted for 57.6% of consolidated sales in 2001, is the wire and cable business. Since 1997, Madeco has participated in the wire and cable business in Brazil, through its subsidiaries, Ficap, which produces copper and aluminum cables, and Optel, which produces optical fiber cable. For the year 2001, sales in Brazil generated approximately 35.4% of Madeco's consolidated revenue. Madeco's revenues are dependent on the overall level of economic activity and investment in Brazil and demand from its main customers, telecommunications companies and energy transmission and distribution companies. From the second half of 2000 through the first half of 2001, Madeco experienced significant demand from Brazil for copper and optical fiber telecom cable, due mainly to the expansion of two optical fiber telecom network back-bones in Brazil and investments in copper telecom cable pursuant to the concession agreement between Brazil's telecommunications agency and various telecommunications companies. However, by the third quarter of 2001, when most of these companies had reached their targets, demand for telecom equipment in Brazil all but halted. This sudden decrease in demand was exacerbated by a global downturn in demand for telecom cable. Madeco does not expect telecommunications industry demand for these products to recover in the foreseeable future and there can be no assurance that the demand for these products will increase to previous levels or at all.

In addition, Madeco's businesses in Argentina, which in 2001 generated sales of Ch\$48,823 million, equivalent to 14.7% of Madeco's consolidated sales, were deeply affected by the economic deterioration in Argentina in 2001. Argentina's economic activity has continued to contract as its government has imposed restrictions on bank deposits and withdrawals, exchange controls, suspension of payment of external debt and the abrogation of Argentine peso convertibility. At the beginning of the year 2002, as a consequence of Argentina's tumultuous economic environment and political instability, Madeco temporarily suspended its Argentine wire and cable and brass mills operations. Currently, Madeco's subsidiary, Decker-Indelqui, has been temporarily closed and maintains a minimal staff in Argentina, primarily to sell Madeco's existing product inventory in Argentina, market products imported from related companies and ensure the security and maintenance of its five production facilities. In conjunction with its joint venture partner, Corning, Madeco also decided to minimize its optical fiber cable operation in Argentina.

As a result of the material adverse effect on Madeco of the deep economic recession in Argentina and other adverse economic developments in the markets in which it operates, Madeco announced on January 14, 2002 that it has retained Salomon Smith Barney (Chile) S.A. to advise it in developing a refinancing plan. Under this plan, Madeco would increase its capital by US\$70 million, principally to pay certain of its indebtedness. Madeco is required to increase its capital by at least \$60 million, by September 30, 2002, as required by one of its loan facilities. The plan also calls for Madeco to restructure its ongoing loan facilities. Madeco is currently negotiating with the banks party to its loan

facilities to revise financial covenants, maturity dates and certain other terms of those facilities. The successful renegotiation of Madeco's facilities is expected to be contingent on Madeco increasing its share capital by at least US\$60 million.

Madeco has stated that it expects to increase its capital prior to the September deadline through a preemptive rights offering to existing shareholders. To date, none of Madeco's existing shareholders has committed to participate in a capital increase. Quiñenco has not determined if and on what terms it would participate in such an offering. Quiñenco expects, however, that it would make a determination regarding such an offering based on the terms of the offering and based on certain of the terms of Madeco's loan facilities. It is expected that any capital increase would involve the issuance of shares at a price substantially below the current net tangible book value per share of Madeco, resulting in substantial dilution in net tangible book value per share to existing shareholders, including Quiñenco.

The successful implementation of its refinancing plan is important to Madeco. If its plan is not substantially and timely consummated, Madeco may become in default on part or all of its indebtedness, which may then be subject to acceleration, which could have a material adverse effect on Madeco's financial condition and operations. There can be no assurance as to whether or when Madeco will reach an agreement with the banks party to its loan facilities to restructure those facilities (or as to the terms of any such restructuring), or that Madeco will be able to increase its share capital in a sufficient amount through a preemptive rights offering or otherwise.

Also, on June 27, 2002, Madeco announced that it had been notified by Corning Inc., Madeco's joint venture partner in Optel which produces optical fiber cable in Brazil and Argentina, of its desire to liquidate the joint venture. Madeco does not agree and intends to file an arbitration suit against its partner to resolve this dispute. Madeco's management does not believe that the outcome of this issue will have a material effect on Madeco's financial position.

Madeco's business and results of operations in all of its lines of businesses are also to a large extent dependent on the overall level of economic activity and growth in Chile, Peru and Brazil, and specifically on the level of growth in the telecommunications, electricity, mining and general construction sectors, as well as levels of economic activity in its principal export markets. Because Madeco's businesses, in large part, depend on capital planning and capital expenditures, its sales and financial results are sensitive to economic cycles, particularly downturns in economic activity.

Sale of 25% Interest of Ficap Optel. On March 27, 2001, Madeco announced that it had sold a 25% interest in Ficap Optel Ltda. ("Optel") to Corning International Corporation ("Corning"), for US\$20 million (historic value). The pre-tax gain on the sale of its interest was Ch\$3,138 million. Following the sale of this interest, Madeco and Corning both own a 50% interest in Optel. Also, as part of the joint venture arrangement, Optel purchased 99.9% of Corning Argentina for US\$10 million (historic value) and expanded its optical fiber business into Argentina.

2001 Bond Issue. On August 3, 2001, Madeco issued bonds in the Chilean market for UF1,500,000 (equivalent to US\$35.5 million on the transaction date). The bond issue consisted of one series maturing in 2004. The proceeds from the bond issue were used to refinance existing debt.

Sale of interest in VTR. In December 1999, Madeco sold its 9.6% interest in VTR to Quiñenco for Ch\$18,440 million. Madeco's stake in VTR was offered through an open auction conducted on the Santiago Stock Exchange. The gain on sale of its interest in VTR amounted to Ch\$215 million. Proceeds were used to reduce Madeco's indebtedness.

In 2001, Madeco's consolidated net sales were Ch\$331,912 million, of which 57.6% corresponded to sales of wire and cable products, 21.0% to brass mills products, 8.6% to aluminum

profile products, and 12.8% to flexible packaging products. Export sales amounted to Ch\$67,606 million, accounting for 20.4% of consolidated sales in 2001. Export sales volume amounted to 41,387 equivalent tons, which represented 23.8% of the total 173,657 equivalent tons sold in 2001.

The following table shows selected financial information of Madeco and its subsidiaries at or for the years ended December 31, 1999, 2000 and 2001:

Madeco and subsidiaries	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$, except percentages)		
Net sales:			
Wire and Cable	Ch\$147,934	Ch\$174,389	Ch\$191,050
Brass Mills	57,141	71,987	69,819
Aluminum Profiles	22,273	23,327	28,723
Flexible Packaging	<u>43,867</u>	<u>42,590</u>	<u>42,320</u>
Total net sales	<u>Ch\$271,215</u>	<u>Ch\$312,293</u>	<u>Ch\$331,912</u>
Operating income (loss):			
Wire and Cable	Ch\$(4,770)	Ch\$3,150	Ch\$9,563
Brass Mills	(4,392)	5,322	641
Aluminum Profiles	(5,797)	48	488
Flexible Packaging	<u>1,312</u>	<u>1,778</u>	<u>(26)</u>
Total operating income (loss)	Ch\$(13,647)	Ch\$10,298	Ch\$10,666
Non-operating results	(40,853)	(28,989)	(61,627)
Income taxes	(2,880)	1,501	(418)
Minority interest	<u>1,204</u>	<u>(117)</u>	<u>1,283</u>
Net income (loss)	<u>Ch\$(56,176)</u>	<u>Ch\$(17,307)</u>	<u>Ch\$(50,096)</u>
Total assets	Ch\$436,499	Ch\$451,207	Ch\$404,699
Bank debt & bond obligations	135,419	205,119	209,826
Other liabilities	138,348	85,887	71,530
Shareholders' equity	162,732	160,201	123,343
Quiñenco's effective economic interest %	56.5%	56.1%	56.1%

The following table shows selected information regarding Madeco's plant facilities, installed capacity, and average utilization in 2001:

<u>Production facility</u>	<u>Plant size (in square meters)</u>	<u>Installed Production Capacity (in tons per year)</u>	<u>Avg. Capacity Utilization in 2001(1)</u>
Wire and Cable:			
San Miguel, Chile	27,650	15,100	59%
Quilmes, Argentina (3).....	39,850	6,890	39%
Llavallol, Argentina (3).....	18,162	10,800	64%
Buenos Aires, Argentina (2)	3,500	420,000	38%
Lima, Peru	49,150	18,000	66%
Rio de Janeiro, Brazil.....	58,000	19,600	27%
Rio de Janeiro, Brazil (2)	4,400	1,000,000	40%
Sao Paulo, Brazil.....	28,300	28,500	73%
Bahía, Brazil.....	19,000	24,240	41%
Brass Mills:			
San Miguel, Chile	32,400	38,530	72%
Lo Espejo, Chile.....	21,500	78,200	63%
Quilpué, Chile	12,100	9,000	61%
Llavallol, Argentina (3).....	31,887	6,883	60%
Barracas, Argentina (3)	15,800	8,400	7%
San Luis, Argentina (3)	3,450	3,700	20%
Flexible Packaging:			
Santiago, Chile	16,600	13,000	86%
San Luis, Argentina.....	7,500	6,500	65%
Aluminum Profiles:			
Santiago, Chile	33,200	16,800	60%

- (1) Average Capacity Utilization: total real production output as a percentage of 2001 installed annual production capacity.
- (2) Production capacity is in kilometers.
- (3) This plant facility has been temporarily closed as a consequence of the current Argentine economic crisis.

The following table shows Madeco's sales volumes, in tons, by business segment, in 1999, 2000 and 2001:

Sales Volume (in tons) (1):	<u>1999</u>	<u>2000</u>	<u>2001</u>
Wire & Cable	89,739	95,717	99,935
Brass Mills	36,055	39,868	36,833
Flexible Packaging	14,483	14,426	14,013
Aluminum Profiles	<u>6,771</u>	<u>9,052</u>	<u>10,258</u>
Total	<u>147,048</u>	<u>159,063</u>	<u>161,039</u>
Optical Fiber cables (in kms) (2)	<u>269,295</u>	<u>425,138</u>	<u>555,202</u>
Total equivalent tons	<u>153,168</u>	<u>168,725</u>	<u>173,657</u>

- (1) Sales volume figures include metal and insulating materials.
- (2) Optical fiber cables in kilometers are converted to equivalent tons by dividing the optical fiber cables in kilometers by 44.

Wire and Cable Business Unit

Madeco's principal activity is its wire and cable business, which accounted for 57.6% of consolidated sales in 2001. Madeco's wire and cable business expanded from Chile to Argentina in 1990, to Peru in 1994, and to Brazil in 1997. The Brazilian wire and cable operation, which includes the production and commercialization of copper, aluminum and optical fiber cables, is Madeco's largest operation in this business segment with sales in 2001 of Ch\$117,524 million, representing 61.5% of the total wire and cable segment sales of Ch\$191,050 million in 2001.

Madeco produces a wide variety of wire and cable products for the telecommunications, energy, mining, industry and construction sectors, the most generalized characteristics being: singular strand (wire) versus multiple, twisted strands (cable), bare or insulated and non-magnetic or magnetic. In addition to production facilities for the manufacturing of copper and/or aluminum wire and cable products in Chile, Brazil, Peru and Argentina, Madeco also has a facility in Brazil and Argentina for the production of optical fiber cables, although the Argentine production is being kept to a minimal level as a consequence of the ongoing economic crisis in that country. Madeco supplies the telecommunications, energy transmission, mining, general industry and construction sectors.

Sales of the wire and cable business unit increased in 2001 mainly as a result of higher sales of telecom and, to a lesser extent, energy cables in Brazil during the first half of the year. Export sales accounted for 11.3% of the wire and cable unit's revenue in 2001.

Madeco and subsidiaries	Wire and Cable Unit	
	2000	2001
Revenues (in millions of constant Ch\$):		
Chile.....	Ch\$18,431	Ch\$18,985
Brazil	108,312	117,524
Argentina	13,366	14,827
Peru.....	14,696	18,123
Exports (1)	<u>19,584</u>	<u>21,591</u>
Total	<u>Ch\$174,389</u>	<u>Ch\$191,050</u>
Sales Volume of Copper & Aluminum Cable (in tons)		
Chile.....	9,113	10,608
Brazil	56,399	59,664
Argentina	5,651	4,663
Peru.....	8,143	9,356
Exports (1)	<u>16,411</u>	<u>15,644</u>
Total	<u>95,717</u>	<u>99,935</u>
Sales Volume of Optical Fiber Cable (in kms)		
Chile.....	10,341	253
Brazil	356,025	473,779
Argentina	58,772	32,377
Peru.....	-	6,346
Exports (1)	<u>-</u>	<u>42,447</u>
Total	<u>425,138</u>	<u>555,202</u>

(1) Exports for the wire and cable unit are considered to be all sales to customers in any country other than Chile, Brazil, Argentina and Peru.

Wire and Cable – Chile

Madeco produces copper wires and cables in Chile. Operations are carried out through Madeco's subsidiary, Madeco Chile. The Chilean operations accounted for 9.9% of the total wire and cable segment sales in 2001.

Customers. Madeco has approximately 390 clients in Chile. Products are sold to retailers (13%), durable goods manufacturers (39%), mining businesses (12%), energy producers (14%), telecom operators (20%) and others (2%). There was no significant concentration of sales made to any one client in 2001.

Competition. The total market size of the wire and cable industry (metal estimates only) in Chile is estimated to be 23,400 tons as of December 31, 2001. Madeco estimates that its market share in Chile was 32% in 2001. Madeco has two main competitors in the Chilean wire and cable industry, Cocesa, a 66% subsidiary of Phelps Dodge Corporation with an estimated market share of 26%, and Covisa, a local producer with an estimated market share of 15%. In addition, there are other domestic and international competitors in the Chilean market with market shares of 7% and 20%, respectively.

Manufacturing facilities. Production is carried out in Madeco's plant facilities located near Santiago. Manufacturing activities are dedicated to the production of copper wire and cable products. The Chilean facility does not currently produce aluminum or optical fiber wire and cables.

Raw materials. Madeco purchases its copper supplies for its wire and cable operations in Chile from two large Chilean mining companies, Codelco and Enami. Madeco has many suppliers for both plastic and rubber materials, and believes it is currently not dependent on any one supplier.

Wire and Cable – Argentina

Madeco manufactures a wide variety of copper, aluminum and optical fiber wire and cable products in Argentina. The Argentine operations accounted for 7.8% of wire and cable segment sales in 2001. Madeco's Argentine wire and cable operation is operated through its wholly-owned subsidiary Decker-Indelqui. Madeco's wire and cable business subsidiary in Argentina has been temporarily closed as a result of the ongoing economic and political crisis in Argentina. Plant production has been halted and Madeco is maintaining a minimal staff for plant security reasons as well as to manage the inventory liquidation process. Since early 2001, Madeco also produces optical fiber cables in Argentina through a joint venture agreement with Corning. These optical fiber cable operations have also been operating at a minimal level in response to the ongoing Argentine economic crisis.

Customers. Madeco's copper and aluminum wire and cable operation has approximately 180 clients in Argentina. Products are sold to retailers (30%), durable goods manufacturers (6%), energy producers (34%), telecom operators (11%) and exports and others (19%). There was no significant concentration of sales made to any one client in 2001. Madeco's optical fiber cable operation has approximately 19 customers in Argentina.

Competition. The total market size of the wire and cable industry in Argentina (metal estimates only) is estimated to be 37,900 tons as of December 31, 2001, although the market size is estimated to have declined by 38.6% since 1998 as a result of the economic problems the country is suffering. Madeco estimates that its market share in Argentina was 8% in 2001. Madeco's main competitors in the Argentine wire and cable industry are Pirelli (26%), Imsa (18%) and Cimet (11%). In addition, there are other domestic and international competitors in Argentina which have estimated market shares of 25% and 12%, respectively. Madeco does not have information regarding the Argentine optical fiber cable market.

Manufacturing facilities. Production facilities for copper and aluminum cables are located in Quilmes and Llavallol, on the outskirts of Buenos Aires. Production for optical fiber cables is carried out in plant facilities located in Buenos Aires. Due to the ongoing economic crisis in Argentina, production for cable and aluminum wire and cables has been temporarily ceased. Optical fiber cable is presently being manufactured at minimal levels.

Raw materials. Madeco purchases its copper supplies for the Argentine operations from two large Chilean mining companies, Codelco and Enami. Aluminum is purchased for Argentina's wire and cable operation from the sole Argentine supplier, Aluminios Argentinos. Madeco has many suppliers for both plastic and rubber materials, and believes it is currently not dependent on any one supplier. Optical fiber is supplied by Corning according to the terms established in the joint venture agreement with Madeco.

Wire and Cable – Brazil

Madeco produces copper and aluminum wire and cable products as well as optical fiber products in Brazil. The Brazilian operations accounted for 61.5% of wire and cable segment sales in 2001. In Brazil, Madeco operates in the copper and aluminum wire and cable segment through its wholly-owned subsidiary, Ficap and since 1999, through a joint venture with Corning Incorporated (Optel Ltda.) for the production and sales of optical fiber cables.

Customers. Madeco's copper and aluminum wire and cable operation has approximately 4,000 clients in Brazil. Products are sold to energy producers (63%), durable goods manufacturers (19%) and telecom operators (18%). The largest customer in Brazil, a telecom operator, accounted for 10.1% of total wire and cable segment sales in 2001. Madeco's optical fiber cable operation has approximately 14 customers in Brazil. In 2001, Madeco's main customer for optical fiber cable was a telecom company and sales to this client accounted for 34% of total optical fiber cable sales in 2001. 75% of total optical fiber sales in Brazil in 2001 were concentrated in three clients.

Competition. The total market size of the wire and cable industry in Brazil (metal estimates only) is estimated to be 316,200 tons as of December 31, 2001. Madeco estimates that its market share in Brazil was 12% in 2001. Madeco's main competitors in the Brazilian wire and cable industry are Pirelli (15%), Alcoa/Phelps Dodge (5%) and Furukawa (5%). In addition, there are many other domestic and international competitors in Brazil, which have estimated market shares of 38% and 25%, respectively. The total size of the optical fiber cable market in Brazil is estimated to be 2,100,000 kms. As of December 31, 2001. Madeco estimates that its market share in optical fiber cable in Brazil was 12% in 2001. Madeco's main competitors in the optical fiber cable market in Brazil in 2001 are Pirelli (15%), Furukawa (5%) and Alcatel (2%). In addition, there are many other domestic and international competitors in the optical fiber cable market, which are estimated to have market shares of 41% and 25%, respectively.

Manufacturing facilities. Madeco has four plant facilities in Brazil, a copper cable and an optical fiber cable plant in Rio de Janeiro, a copper cable plant in Sao Paulo and an aluminum plant in Bahia.

Raw materials. 67% of the Brazilian operations' copper requirements are purchased from Caraiba Metais, the main local supplier, and the remainder is supplied by Madeco's suppliers in Chile. Optical fiber is supplied by Corning according to terms established in the joint venture agreement. Aluminum is purchased from Billiton Metais, a large local supplier in Brazil.

Wire and Cable – Peru

In Peru, Madeco produces a variety of copper and aluminum wire and cable products, excluding plastic insulated aluminum products. The Peruvian operations of the wire and cable segment accounted for 9.5% of wire and cable segment sales in 2001. In Peru, Madeco operates in the copper and aluminum wire and cable segment through its subsidiary, Indeco.

Customers. Madeco's copper and aluminum wire and cable operation has approximately 760 clients in Peru. Products are sold to Distributors (25%), energy producers (15%), mining businesses (4%), retailers (4%), durable goods manufacturers (2%), telecom companies (2%) and exports and others (48%). There was no significant concentration of sales made to any one client in 2001.

Competition. The total market size of the wire and cable industry in Peru (metal estimates only) is estimated to be 17,830 tons as of December 31, 2001. Madeco estimates that its market share in Peru was 48% in 2001. Madeco's main competitors in the Peruvian wire and cable industry are Ceper (19%), Celsa (6%), and BICC (3%). In addition, there are other domestic and international competitors in Argentina which have estimated market shares of 5% and 19%, respectively.

Manufacturing facilities. Manufacturing activities of copper and aluminum wire and cable products are carried out in Indeco's plant, located in Lima.

Raw materials. The main raw material, copper, is purchased from two main suppliers, Southern Peru and Cerro Verde. Aluminum is purchased from three suppliers, Pianmeca and Conductores de Aluminio del Caroni. Madeco has many suppliers for both plastic and rubber materials, and believes it is not dependent on any one supplier.

Brass Mills Business Unit

Sales of the brass mills segment amounted to Ch\$69,819 million, accounting for 21.0% of Madeco's consolidated sales in 2001. Madeco has been operating in the brass mills business in Chile since 1944. Business expanded from Chile to Argentina in 1994 and brass mill operations in Argentina are conducted through Madeco's subsidiary, Decker-Indelqui. As a consequence of Argentina's unstable economic and political environment, Madeco has temporarily halted its brass mills operations in Argentina. At present, a minimal staff is being maintained to oversee plant security and to liquidate inventory.

Madeco's brass mills business unit is composed of: (1) pipes, bars and sheets and (2) coin blanks and minted coins. Pipes, bars and sheets are manufactured in Chile and, until recently, in Argentina from copper, copper alloys, brass and aluminum and are used by other industrial firms and in the construction sector. Madeco, through its Chilean subsidiary, Armat, also produces coin blanks and minted coins in Chile.

Sales of the brass mills business unit increased in 2001 as a result of higher export sales, which are made to 36 countries around the world. Export sales accounted for 64.9% of the total sales by volume of the brass mills business unit in 2001.

Madeco and subsidiaries	Brass Mills Unit	
	<u>2000</u>	<u>2001</u>
Revenues (in millions of constant Ch\$):		
Pipes, Bars and Sheets		
Chile.....	Ch\$19,617	Ch\$18,259
Argentina	11,372	8,199
Exports (1)	<u>26,668</u>	<u>29,779</u>
Total Pipes, Bars and Sheets	Ch\$57,657	Ch\$56,237
Coins		
Chile.....	Ch\$1,045	Ch\$1,036
Exports (2)	<u>13,285</u>	<u>12,546</u>
Total Coins	Ch\$14,330	Ch\$13,582
Total Brass Mills Unit	<u>Ch\$71,987</u>	<u>Ch\$69,819</u>
Sales Volume of Pipes, Bars and Sheets (in tons)		
Chile.....	10,022	8,978
Argentina	5,255	3,927
Exports (1)	<u>18,306</u>	<u>19,236</u>
Total	<u>33,583</u>	<u>32,141</u>
Sales Volume of Coins (in tons)		
Chile.....	447	39
Exports (2)	<u>5,838</u>	<u>4,653</u>
Total	<u>6,285</u>	<u>4,692</u>

(1) Exports for the pipes, bars and sheets sub-unit are considered to be all sales to customers in any country other than Chile and Argentina.

(2) Exports for the coins sub-unit are considered to be all sales to customers in any country other than Chile.

Brass Mills – Pipes, Bars and Sheets

Sales of the pipes, bars and sheets sub-unit which includes the manufacturing of pipes, bars, bus bars and sheets in copper, copper alloy, brass, aluminum and aluminum alloy amounted to Ch\$56,237 million in 2001, accounting for 80.5% of the total brass mills business unit's sales in 2001. Sales in Chile accounted for 32.5% of pipes, bars and sheets revenue in 2001, sales in Argentina accounted for 14.6%, and exports accounted for 52.9%.

Customers. Madeco has 470 customers in Chile, 241 in Argentina and 260 customers in its export markets. In 2001, the largest customer, a brass mill products distributor in the United States, accounted for 8.5% of the total pipes, bars and sheets sales. In Chile, pipes, bars and sheets are sold to retailers (68%), durable goods manufacturers (18%), electric appliance manufacturers (6%), aluminum manufacturers (4%) and others (4%). In Argentina, pipes, bars and sheets are sold to distributors (39%), durable goods manufacturers (37%) and construction companies (24%).

Competition. Madeco estimates that the total market size for pipes, bars and sheets is 18,400 tons in Chile and 21,000 tons in Argentina, as of December 31, 2001. Madeco estimates that it has a 55% market share in Chile and a 25% market share in Argentina. There are four main competitors in the Chilean pipes, bars and sheets market, including Tecob (8%), Cembrass (5%), Conmetal (4%) and Offermanns (2%). In addition, there are other domestic and international competitors in the Chilean pipes, bars and sheets market, which have estimated market shares of 3% and 23%, respectively. There are four main competitors in the Argentine pipes, bars and sheets market, including Pajarbol (12%), Sotyl (8%), Vaspia (6%) and Quimetal (6%). In addition, there are other domestic and international competitors in the Argentine pipes, bars and sheets market, which have estimated market shares of 20%

and 23%, respectively. While Madeco does not collect extensive market share information regarding the global brass mills industry, it estimates that the size of the global market exceeds 4 million tons and that Madeco's market share represents less than 1%.

Manufacturing facilities. Manufacturing activities of pipes, bars and sheets are carried out in Chile at Madeco's plant located in San Miguel, near Santiago. In addition, Madeco has a smelting facility in Lo Espejo, near Santiago. Manufacturing in Argentina which has been temporarily halted, was carried out in three brass mills facilities in Argentina, in San Luis, Lavallol and Barracas.

Raw materials. The primary raw materials used in the production of pipes, bars and sheets are copper, aluminum, zinc, nickel and tin. Copper supplies are purchased for both Argentina and Chile from two large Chilean mining companies, Codelco and Enami. Madeco obtains most of its aluminum requirements from Aluminios Argentinos in Argentina. Zinc is purchased from two Peruvian supplier, Doe Run Peru and Cajamarquilla.

Brass Mills – Coin Blanks and Minted Coins

Sales of the coins sub-unit which includes the manufacture of coin blanks and minted coins amounted to Ch\$13,582 million in 2001, accounting for 19.5% of the total brass mills business unit's sales in 2001. Sales in Chile accounted for 7.6% of coins revenue in 2001 and exports accounted for 92.4% of coins revenue. Coin blanks and minted coins are produced by Madeco's wholly-owned Chilean subsidiary, Armat. Production is specialized in four alloys which are copper based. The exact alloy mix is determined according to customer specifications.

Customers. Madeco has 22 customers, most of which are international customers, but also include the Chilean Mint. The company's largest customers in 2001 were the Banco de Guatemala which accounted for 32% of total coin sales and the Dutch Mint, which accounted for 20%.

Competition. Madeco estimates that the international demand for newly minted coins was 100,000 tons in 2001. Madeco estimates that it had a 5% market share worldwide in 2001. Madeco's main competitors in coins are Poongsan (35%), VDN (31%), the Royal Mint of England (3%), and Royal Canadian of Canada (3%). In addition, there are other competitors which were estimated to have a market share of approximately 23% in 2001.

Raw materials. Madeco purchases its copper supplies from Codelco and Enami, and most of its aluminum requirements from Aluminios Argentinos in Argentina. Zinc necessities are principally purchased from two Peruvian suppliers, Roe Run Peru and Cajamarquilla.

Flexible Packaging Business Unit

Sales of the flexible packaging business unit amounted to Ch\$42,320 million in 2001, accounting for 12.8% of Madeco's 2001 consolidated sales. Madeco is a manufacturer of printed flexible packaging for use in the packaging of consumer products. It also produces aluminum foil and plastic wrap for both commercial and home use. Madeco participates in the flexible packaging industry through its subsidiaries, Alusa and Alufoil. In Argentina, Madeco has operated since 1993 through its subsidiary, Aluflex. Additionally, Madeco owns a 25% stake in two manufacturers in Peru, Peruplast and Tech Pack, which together comprise the largest flexible packaging operation in that country.

In 2001, sales of the flexible packaging segment were similar to the sales level achieved in 2000. In Chile, Madeco lost market share in the beginning of the year due to operational difficulties, but recovered its market share later in the year.

Madeco and subsidiaries	Flexible Packaging Unit	
	2000	2001
Revenues (in millions of constant Ch\$):		
Chile.....	Ch\$25,572	Ch\$25,358
Argentina	13,916	13,840
Exports (1)	<u>3,102</u>	<u>3,122</u>
Total	<u>Ch\$42,590</u>	<u>Ch\$42,320</u>
Sales Volume (in tons)		
Chile.....	9,399	9,379
Argentina	3,979	3,746
Exports (1)	<u>1,048</u>	<u>888</u>
Total	<u>14,426</u>	<u>14,013</u>

(1) Exports for the flexible packaging unit are considered to be all sales to customers in any country other than Chile and Argentina.

Flexible Packaging – Chile

Sales of the Chilean flexible packaging operations amounted to Ch\$25,358 million, accounting for 59.9% of the total flexible packaging segment sales in 2001.

Customers. The Chilean flexible packaging operations have approximately 309 customers, which include 121 mass consumer product manufacturers and 188 retail customers. The largest customer in Chile, a food company, accounted for 8% of total flexible packaging unit revenues in 2001.

Competition. The total market size in Chile of flexible packaging products was estimated to be 38,600 tons in 2001. Madeco estimates that it has a market share in Chile of approximately 26%. The main competitor in the Chilean flexible packaging market is Edelpa, who had an estimated market share of 32% in 2001. Other competitors include Mapoleno (7%), HyC (6%), Carter Holt (5%), Wanda (4%), other domestic competitors (15%) and other international competitors (5%).

Manufacturing facilities. Manufacturing in Chile is carried out at in two plant facilities located near Santiago.

Raw materials. Madeco's plastics suppliers include Vitopel, Votocel Filmes Flexibeis, Therphane, Toray Plastics Europe, Dow Chemical and Sigdopack. Madeco currently purchases approximately 70% of its plastic raw material requirements from these suppliers. Madeco obtains most of its aluminum requirements from Aluminios Argentinos and VAW Aluminum AG. Paper is purchased from suppliers in Chile, Brazil, U.S.A and Sweden. Madeco purchases its various adhesives from Henkel and other suppliers.

Flexible Packaging – Argentina

Sales of the Argentine flexible packaging operations amounted to Ch\$13,840 million, accounting for 32.7% of the total flexible packaging segment sales in 2001.

Customers. The Argentine flexible packaging operations have approximately 50 customers. The main customers in Argentina include biscuits and cookie producers (30%), pet food producers (21%) condiment producers (18%) as well as other mass consumer product producers (31%).

Competition. The total market size in Argentina of flexible packaging products was estimated to be 60,300 tons in 2001. Madeco estimates that it had a market share of 7% as of December 31, 2001. Principal competitors in Argentina include Arcor (15%), Dinan (12%), Fleximat (10%), and others (56%).

Manufacturing facilities. Manufacturing activities are carried out in Argentina at a plant facility located in San Luis.

Raw materials. Madeco's plastics suppliers include Vitopel, Votocel Filmes Flexibeis, Therphane, Toray Plastics Europe, Dow Chemical and Sigdopack. Madeco currently purchases approximately 70% of its plastic raw material requirements from these suppliers. Madeco obtains most of its aluminum requirements from Aluminios Argentinos and VAW Aluminum AG. Paper is purchased from suppliers in Chile, Brazil, U.S.A and Sweden. Madeco purchases its various adhesives from Henkel and other suppliers.

Aluminum Profiles Business Unit

Sales of the aluminum profiles segment amounted to Ch\$28,723 million in 2001, accounting for 8.6% of Madeco's 2001 consolidated sales. Madeco is the sole Chilean manufacturer of aluminum profiles, the foundation of window frames and doorframes. In addition, it produces profiles which are used in the manufacture of industrial durable goods such as refrigerators and ovens. In conjunction with the production of aluminum profiles, Madeco also has a curtain wall installation service, which involves the engineering and installation of curtain walls in large commercial real estate projects. Madeco operates in the aluminum profiles segment through its subsidiary, Indalum. Through Indalum, Madeco also owns Alumco, the largest Chilean aluminum profiles distributor, and Ingewall, one of the main competitors in the Chilean curtain wall market. Madeco also distributes aluminum profiles in Bolivia and Peru through its proprietary company, Distribuidora Boliviana.

Sales of the aluminum profiles segment increased by 23.1% in 2001 mainly due to higher volume sales and average prices of aluminum profiles and a larger number of projects completed in the curtain wall business.

Madeco and subsidiaries	Aluminum Profiles & Curtain Walls Unit (1)	
	<u>2000</u>	<u>2001</u>
Revenues (in millions of constant Ch\$):		
Aluminum profiles	Ch\$19,705	Ch\$24,013
Curtain walls	<u>3,622</u>	<u>4,710</u>
Total	<u>Ch\$23,327</u>	<u>Ch\$28,723</u>
Sales Volume (in tons)		
Aluminum profiles	9,052	10,257
Exports	<u>-</u>	<u>1</u>
Total	<u>9,052</u>	<u>10,258</u>

(1) Revenues include exports of Ch\$568 million in 2001.

Customers. The aluminum profiles operation has approximately 50 active customers, of which 8 are key distributors for Madeco. In 2001, Madeco's main customers in the aluminum profiles segment were Alumco (26%), independent distributors (50%), construction companies and durable goods manufacturers (16%) and distribution offices in Bolivia and Peru (8%). In 2001, Madeco's main customers in the curtain wall business were construction companies.

Competition. The size of the aluminum profiles market in Chile is estimated to be 12,600 tons per year as of December 31, 2001. Madeco estimates that it had a 74% market share in the aluminum profiles segment in Chile, and that its main competitor, Alcoa, had a 15% market share in 2001. International aluminum profiles manufacturers also compete in Chile through imported products with an estimated market share of 11%. In the curtain wall market, Madeco estimates that the size of the curtain wall market was 180,000 square meters in 2001, and that it had a market share of approximately 15%. Its main competitor in the curtain wall business is Exxal.

Manufacturing facilities. Manufacturing activities are carried out in Chile at a plant facility located in San Bernardo, on the outskirts of Santiago.

Raw Materials. Aluminum, the principal raw material used in the production of aluminum profiles, is purchased from the Argentine supplier, Aluminios Argentinos. Madeco purchases paint from two painting companies, Pinturas Tricolor and Dupont Powder Coating Andina. Chemical products are purchased from four suppliers, Harding Representaciones, Química del Sur, Chemal Katschmareck-GMBH and Goldschmidt Quimica. For the curtain wall business, the principal raw material required is glass, which is purchased from Vidrios Lirquén, Vidrieria La Argentina and Glaverbel.

Real Estate/Hotel Administration – Hoteles Carrera

Hoteles Carrera was a 89.9% owned consolidated subsidiary of the Company for the year ended December 31, 2001 and a 87.2%-owned consolidated subsidiary for the years ended December 31, 2000 and 1999. Quiñenco's interest in Hoteles Carrera is held through an intermediate holding company, Agrícola El Peñon S.A., a 96.2%-owned subsidiary of Quiñenco. Hoteles Carrera accounted for approximately 1.6% of the Company's consolidated sales in 2001, 1.6% of consolidated sales in 2000 and 1.5% of consolidated sales in 1999.

Capital increase. On May 17, 2001, Hoteles Carrera's Board of Directors approved a capital increase of Ch\$4,287 million through the issuance of 5,358,920 new shares. The capital increase was carried out in the last quarter of 2001 and as of December 31, 2001, Carrera had issued 2,827,221 new shares for Ch\$2,261 million. Quiñenco subscribed to 2,825,264 shares for Ch\$2,260 million. Quiñenco's economic interest in Carrera increased from 87.2% to 89.9% following the capital increase. Proceeds from the capital increase were used to reduce liabilities.

Hoteles Carrera operates five hotels in Chile. Two of these, the five-star Hotel Carrera in central Santiago and the four-star Hotel El Araucano in Concepción, are owned and operated by Hoteles Carrera. The three remaining hotels, located in the north of Chile in the cities of La Serena, Iquique and Antofagasta, are leased and operated by Hoteles Carrera.

The following table shows selected statistical data for Hoteles Carrera's hotel business at and for the years ended December 31, 1999, 2000 and 2001:

Hoteles Carrera			
	<u>1999</u>	<u>2000</u>	<u>2001</u>
Average daily number of available rooms			
Hotel Carrera.....	307	307	307
Hotel El Araucano.....	154	144	144
La Serena Club Resort	98	98	95
Carrera Club Hotel Iquique.....	32	77	77
Carrera Club Hotel Antofagasta.....	<u>30</u>	<u>140</u>	<u>137</u>
Total.....	<u>621</u>	<u>766</u>	<u>760</u>
Occupancy rate(1)			
Hotel Carrera.....	38.7%	39.8%	31.7%
Hotel El Araucano.....	31.2%	32.9%	32.0%
La Serena Club Resort	29.9%	36.5%	46.0%
Carrera Club Hotel Iquique.....	22.8%	31.1%	33.2%
Carrera Club Hotel Antofagasta.....	10.2%	17.0%	27.2%
Weighted Average.....	33.2%	33.0%	32.9%
Average daily rate(2)			
Hotel Carrera.....	US\$98.8	US\$92.2	US\$91.9
Hotel El Araucano.....	62.3	53.6	39.5
La Serena Club Resort	63.6	52.8	41.4
Carrera Club Hotel Iquique.....	42.9	39.8	40.4
Carrera Club Hotel Antofagasta.....	43.0	50.7	27.2
Weighted Average.....	82.6	70.5	61.7
Average revenue per available room (REVPAR)(3)			
Hotel Carrera.....	US\$38.2	US\$36.7	US\$29.1
Hotel El Araucano.....	19.4	17.7	12.6
La Serena Club Resort	19.0	19.3	19.0
Carrera Club Hotel Iquique.....	9.8	12.4	13.4
Carrera Club Hotel Antofagasta.....	4.4	8.6	13.2
Weighted Average.....	27.4	23.3	20.3

(1) Occupancy is determined for a period by dividing total room nights sold during the period by total rooms available for each day during the period.

(2) Average daily rate is determined by dividing total room revenues by total room nights sold.

(3) Average revenue per available room is calculated as the average daily rate per room multiplied by the occupancy rate (equivalent to dividing total room revenues by total room nights available for sale).

The following table shows selected financial information of Hoteles Carrera at and for the years ended December 31, 1999, 2000 and 2001:

Hoteles Carrera	<u>1999</u> (in millions of constant Ch\$, except percentages)	<u>2000</u>	<u>2001</u>
Net Revenues	Ch\$6,758	Ch\$7,452	Ch\$7,359
Gross margin	1,894	1,227	1,197
Operating income	(240)	(453)	(540)
Non-operating results	(768)	(779)	(609)
Income taxes	<u>(3)</u>	<u>92</u>	<u>9</u>
Net income	<u>Ch\$(1,011)</u>	<u>Ch\$(1,140)</u>	<u>Ch\$(1,140)</u>
Total assets	Ch\$25,054	Ch\$24,288	Ch\$23,499
Bank debt	6,588	6,996	4,992
Other liabilities	3,384	3,350	3,441
Shareholders' equity	15,082	13,942	15,066
Quiñenco's effective economic interest %	87.2%	87.2%	89.9%

Hotel Carrera, located in central Santiago, facing La Moneda, headquarters of the Chilean government, is considered to be one of the most traditional European-style hotels in Chile. It has 307 guest rooms, as well as thirteen meeting rooms, three restaurants, a business center, a rooftop pool, a gym/health club and a beauty salon.

Hotel Carrera in Santiago is a member of the "Leading Hotels of the World" program, which is sponsored by Hotel Representatives, Inc., a worldwide organization headquartered in New York City. Membership in the "Leading Hotels of the World" program is limited to hotels categorized as "deluxe" and selected by Hotel Representatives, Inc. based on their quality of services and facilities. Participation in this program has enabled Hotel Carrera to benefit from a worldwide cooperative reservations and promotion system. For the year ended December 31, 2001, sales through the "Leading Hotels of the World" program represented 8% of Hotel Carrera's total sales.

Hotel El Araucano is the largest and best known four-star hotel in Concepción, which is the second-largest city in Chile. Hotel El Araucano serves mostly business travelers, and has 144 guest rooms and ten meeting rooms.

La Serena Club Resort is located in a popular holiday destination located 325 miles north of Santiago. This property is operated by Hoteles Carrera under a five-year renewable lease that commenced in December 1995. La Serena Club Resort has 95 guest rooms and since 1999, a convention center that holds 1,200 people. The five-year lease/management contract on the convention center began in 1999 and ends in 2004.

Carrera Club Hotel Iquique is a small hotel located in the seaside resort city of Iquique, in Northern Chile. The hotel has 77 rooms. It is being operated under a five year lease/management contract which began in 1999 and ends in 2004.

Carrera Club Hotel Antofagasta is a medium sized hotel located in the northern coastal city of Antofagasta. The hotel has 137 rooms. Hoteles Carrera was awarded the lease/management contract in 1999 which establishes a five year contract period.

Competition. Hotel Carrera competes directly with numerous five-star hotels in Santiago, including international hotels such as the Santiago Hyatt Regency, the Marriott, the Santiago Sheraton,

The Crown Plaza and the Radisson Hotel. Management estimates that Hotel Carrera ranked fourth in 2001 among Santiago's five-star hotels with respect to share of room-nights sold, with an approximate 9% market share during the year.

Hotel El Araucano is the largest four-star hotel in Concepción, where there are no five-star hotels, and, according to management estimates, ranked second in Concepción with respect to occupancy in 2000. The first ranked hotel in Concepción is believed by management to be the Holiday Inn.

La Serena Club Resort's principal competitor is Hotel Francisco de Aguirre, another large resort complex in La Serena. In addition, La Serena Club Resort competes against smaller hotels and guest houses. Though there are no comparable convention centers located in or near La Serena, the convention center faces competition from other established convention sites, located in Santiago, Viña del Mar, Marbella and Pucón.

The two hotels in Iquique and Antofagasta compete in their respective cities with hotels of similar characteristics. The hotel business in Iquique is considered more developed than that in Antofagasta as it attracts many tourists from Chile, neighboring Argentina and Bolivia. In Iquique, there are several hotels of four star and five star quality against which the hotel competes. In Antofagasta, which is considered less developed in terms of hotel and tourist-related infrastructure, there is one four star hotel which competes with the Carrera Club Hotel Antofagasta. Management estimates that its share of the hotel markets in Iquique and Antofagasta is 7% and 18%, respectively.

Operating Risks. Hoteles Carrera's hotels are subject to operating risks common to the hotel industry, including competition from other hotels, oversupply in room availability, increases in operating costs due to inflation and other factors, dependence on business travelers and tourism, increases in energy costs and other expenses, risks inherent in real estate investments and adverse effects of general and local economic conditions. Hoteles Carrera's business is seasonal, with revenues being higher during the summer months of December, January and February in Chile.

Real Estate/Hotel Administration – Habitaria

Since 1998, Quiñenco has owned a 50% equity interest in Habitaria, a developer of residential real estate for Chilean families in the middle-income and upper middle-income segments. Habitaria was formed in June 1998 through a joint venture between the Company and Ferrovial Inmobiliaria Chile Ltda. ("Ferrovial"), an indirect subsidiary of Ferrovial S.A. (listed on the Madrid Stock Exchange), which is among the three largest construction firms in Spain. Quiñenco and Ferrovial jointly control Habitaria through a shareholders agreement. The Company does not consolidate Habitaria's results, which are accounted for as an equity-method investment. In 2001, Habitaria reported net income of Ch\$417 million, of which Ch\$209 million corresponded to Quiñenco's proportionate share.

Habitaria was initially capitalized in 1998 with an amount equivalent to US\$20 million, of which Quiñenco and Ferrovial each contributed US\$10 million (historic value). In order to continue acquiring properties for future development, there was an additional capital increase of UF300,000 in 2000 and UF120,000 in 2001. In 2001, Quiñenco subscribed to 50% of the 4,180,600 shares issued for UF60,000. In general, Habitaria expects that purchases of land, as well as expenditures on professional services (such as architects and licenses), will be funded by equity capital, and that construction costs will be financed with bank debt.

Strategy. Habitaria was formed with the goal of becoming one of Chile's leading residential real estate developers while creating a brand image associated with quality, affordability, security and customer service. Habitaria intends to leverage the experience that Ferrovial Inmobiliaria S.A. has gained in Spain as a leading developer of residential real estate with a similar brand-oriented, customer-

focused strategy and bring innovations to the Chilean real estate market. Though Habitaria's strategy is currently focused on Chile, the shareholders' agreement between Quiñenco and Ferrovial allows for the possibility of projects in other Latin American countries. Key elements of Habitaria's strategy include: (i) developing and marketing projects with high quality-to-price attributes, including locations and amenities not common to apartments in comparable price ranges, (ii) focusing on customer service, from the pre-sale process to the post-sale process, (iii) developing complementary sales channels outside of the traditional channels so as to increase sales, (iv) expanding its stock of apartments and homes for sale in those parts of Santiago that experience high real estate turnover, (v) establishing strategic alliances with banks and other financial institutions in order to provide attractive financing alternatives for its clients and (vi) developing economies of scale in its projects.

As a real estate developer, Habitaria purchases land, supervises the design and construction of residential projects, secures financing for the projects, and markets and sells the projects to consumers. Projects cost between US\$13.5 million and US\$33.5 million, on average, to develop and construct, before financing costs, depending on their size and location. Habitaria's middle-class apartment units are priced between UF1,500 and UF3,500 depending on the number of bedrooms, quality of finishings, and location. Units targeted towards the upper-middle-class segment are priced between UF3,500 and UF9,000 depending on number of bedrooms and location. Habitaria's middle-class houses are priced between UF2,000 and UF3,500 and upper-middle-class houses between UF3,500 and UF6,000.

As of December 2001, Habitaria has nine projects with a total of 1,001 apartments and houses under development/sale. Seven of these projects are in the greater Santiago metropolitan region and two are located in Valparaíso, the most important port city in Chile. Of these projects, eight phases were completed in 2001. Six additional phases are planned for completion in 2002 and 2003, respectively.

For the year ended and as of December 31, 2001, 398 units were delivered to their owners and 126 were reserved under deposit agreements. Stock as of December 31, 2001 included 426 finished units and 584 units which will be completed between 2002 and 2004. Sales revenue or revenue from deposits is recognized as income for a given period when final delivery of the units has been made or in the case of finished units, upon the signing of a preliminary agreement, the delivery of a 10% down payment by the client, and certification by the municipal authorities.

The following table contains selected financial information of Habitaria at or for the years ended December 2000 and 2001:

Habitaria(1)	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$, except percentages)	
Net revenues	Ch\$6,501	Ch\$19,474
Gross margin	644	3,527
Operating income	(924)	996
Non-operating results	(54)	(561)
Income taxes	<u>11</u>	<u>(18)</u>
Net income	<u>Ch\$(967)</u>	<u>Ch\$417</u>
Total assets	41,436	48,898
Bank debt.....	24,626	30,311
Other liabilities	3,146	2,559
Shareholders' equity	13,664	16,028
Quiñenco's effective economic interest %	50%	50%

(1) 1999 figures are not included for lack of comparability. Habitaria was in the start-up phase in 1999.

Competition. The Chilean real estate development industry is fragmented, with no developer controlling a significant share of the residential market. Therefore, Habitaria competes with a variety of real estate developers, the largest of which include Socovesa, Besalco, ENACO, Almagro, Inmobiliaria P&Y and Geosal. According to information provided by La Cámara Chilena de la Construcción (the Chilean Construction Association), Habitaria has an approximate 12% share of the real estate development industry in those areas where it has projects, as of December 2001.

Sensitivity to Economic Activity. Habitaria expects that its operations will continue to be sensitive to Chile's economic cycles. At present, the slow recovery of the Chilean economy has created, in the view of Habitaria's management, conditions of oversupply. Though Habitaria's management believes that the economic conditions experienced since 1997 have reduced land prices and construction costs, sales have also been adversely impacted as a result of the oversupply discussed above. The Company cannot assure or predict the timing of any improvement in the market for residential real estate.

Sensitivity to Interest Rates and Credit Availability. As a developer of real estate, Habitaria is highly dependent on its ability to procure financing for its projects. Habitaria expects that each project will be financed by a mix of 30% equity and 70% debt, typically in the form of bank loans. Despite the importance of debt financing to Habitaria's growth strategy, there can be no assurance that Habitaria will be able to obtain the necessary financing for future projects. Of equal importance will be the terms and availability of mortgage financing for home-buyers. Habitaria expects that its sales will be sensitive to fluctuations in interest rates and mortgage availability and cannot guarantee that mortgages will be available on terms acceptable to home-buyers.

C. Organizational Structure

The following table shows the percentage interests directly and indirectly owned by Quiñenco in each of its main businesses as of December 31, 2001:

	Percentage of Economic Interest Owned by Quiñenco At December 31, 2001		
	Country of Incorporation	Economic Ownership	Control Of Voting Shares
Financial			
Banco Edwards (1).....	Chile	51.2%	51.2%
Banco de Chile (2).....	Chile	17.8%	52.7%
Food and Beverage			
Lucchetti	Chile	93.3%	93.3%
CCU	Chile	30.8%	30.8%
Telecommunications			
VTR	Chile	100.0%	100.0%
Entel.....	Chile	5.7%	5.7%
Manufacturing			
Madeco	Chile	56.1%	56.1%
Real Estate/Hotel Administration			
Hoteles Carrera	Chile	89.9%	93.5%
Habitaria	Chile	50.0%	50.0%

(1) Banco Edwards merged with Banco de Chile on January 1, 2002.

(2) On March 27, 2001, through a share acquisition, Quiñenco's economic interest in Banco de Chile increased to 17.8% and its control of the voting rights of Banco de Chile increased to 52.7%. Economic ownership corresponds to dividend rights. Under the terms of its agreement, and prior to its merger with Banco Edwards on January 1, 2002, Banco de Chile paid 64.9% of all declared dividends directly to the Central Bank. The

terms of its agreement with the Central Bank have been modified as of January 1, 2002 and until its subordinated debt with the Central Bank of Chile has been fully extinguished, Banco de Chile will pay 42.8% of all declared dividends directly to the Central Bank.

D. Property, Plant and Equipment

Quiñenco's principal executive offices are located in Santiago at Enrique Foster Sur 20, Floor 14, Las Condes, and occupy approximately 2,500 square meters of office space owned by Quiñenco.

Madeco's headquarters are located in Santiago, in a building containing approximately 3,524 square meters of office space. In addition, Madeco owns plants, warehouses and office space occupying a total of approximately 420,283 square meters in various locations in Chile, Argentina, Peru and Brazil. In Chile, Madeco owns plants, warehouses and office space in and around Santiago. In Argentina, Madeco owns plants in the Greater Buenos Aires area, San Luis and Llavallol. In Peru, Madeco owns plants and offices in Lima. In Brazil, Madeco owns production plants in Sao Paulo, Rio de Janeiro and Bahia.

Since 1999 VTR's ongoing operations consist entirely of Telsur, which has its own headquarters in the city of Valdivia (approximately 520 miles south of Santiago). In addition, Telsur owns office space, switch sites and customer service facilities in most of the cities in Regions VIII, IX, X and XI, particularly in major cities such as Puerto Montt, Coyhaique, Osorno, Temuco and Concepción.

Lucchetti's headquarters are located in Santiago, in Lucchetti's pasta manufacturing facilities. In Chile, Lucchetti owns manufacturing plants, warehouses and office space occupying a total of approximately 47,600 square meters in various locations in the Santiago Metropolitan Region. In Peru, Lucchetti owns a 17,000 square meter pasta plant near Lima which was placed in service in December 1998. Lucchetti is currently a party to a dispute which involves the location of its plant facilities in Peru. See "Item 4. Information on the Company—Business Overview—Food and Beverages—Lucchetti" and "Item 8. Financial Information-Legal Proceedings".

CCU's headquarters are located in Santiago. In addition, CCU owns and leases manufacturing plants and warehouses in various locations in the Santiago Metropolitan Region and throughout Chile. In Argentina, CCU owns and leases manufacturing plants, warehouses, commercial offices and vineyards in various locations, including the Greater Buenos Aires areas.

Until its merger with Banco de Chile, Banco Edwards owned 15,000 square meters of space, where it housed its main executive offices, in Santiago. Banco Edwards also occupied 12,900 additional square meters in other buildings (50% owned and 50% leased). At December 31, 2001, the Bank owned 40 of its 86 branches. The remaining 46 branch locations were rented and amounted to 14,400 square meters.

Banco de Chile owns a 76,000 square meter building and the underlying land of its executive offices located in Santiago, Chile. At December 31, 2001, it owned 116 properties in Chile, principally full service branches, not including 72 leased properties and 19 branches that offer limited services located at the headquarters of its large corporate customers. The bank leases office space for the New York branch and Miami agency. It also owns properties at various locations in Chile for the storage of documents and for back office and administrative operations. Following its merger with Banco Edwards on January 1, 2002, Banco de Chile expects that redundant branches and other physical facilities may be closed, however, at present, only an evaluation is still being carried out.

Hoteles Carrera owns the Hotel Carrera in Santiago and Hotel El Araucano in Concepción, Chile, which together occupy a total of approximately 43,100 square meters. The La Serena Club Resort and

convention center, which occupies a total of approximately 10,914 square meters, is leased pursuant to a four-year renewable lease that commenced in 2000. In July 1999, Hoteles Carrera signed a five year lease/management contract to operate two hotels in Iquique and Antofagasta. The lease payments are fixed, with an additional annual variable rental based on percentages of room revenues.

Habitaria's headquarters are located in Santiago, in 667 square meters of leased office space. The lease expires in October 2005.

For further information on future investments in property, plant and equipment, see Note 10 to the Consolidated Financial Statements and "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources".

Item 5. Operating and Financial Review and Prospects.

A. OPERATING RESULTS

The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere herein. The Consolidated Financial Statements have been prepared in accordance with Chilean GAAP, which differs in significant respects from U.S. GAAP. Note 26 to the Consolidated Financial Statements provides a description of the principal differences between Chilean GAAP and U.S. GAAP as they relate to the Company, and a reconciliation to U.S. GAAP of shareholders' equity as of December 31, 2000 and 2001 and net income for the years ended December 31, 1999, 2000 and 2001.

In accordance with Chilean GAAP, financial data included in the Consolidated Financial Statements have been restated in constant Chilean pesos of December 31, 2001. See Notes 2(b) and 4 to the Consolidated Financial Statements.

The Company conducts its operations through various consolidated subsidiaries (in which, in certain cases, minority shareholders hold significant interests), and through significant equity investments in certain other companies. The Consolidated Financial Statements as of December 31, 2001 consolidate the results of Madeco, VTR, Lucchetti and Hoteles Carrera. The Company's majority-owned investments in Banco de Chile and Banco Edwards (which was merged into Banco de Chile on January 1, 2002), and its equity investments in CCU, Entel, Habitaria, Plava Laguna and in OHCH, the holding company through which the Company held interests in four banks until May 1999, including Banco Santiago, are included under the caption "Other assets" in the Company's balance sheet and are accounted for under the equity method, and the Company's share of the net income (or loss) thereof is included under the caption "Non-operating results" in the Company's income statement. For the period ended December 31, 1999, the Company's investment in Banco de Chile was included under the caption "Investments in related and other companies" in the Company's balance sheet and was accounted for by the cost method.

Of the Company's unconsolidated investments, the results of Banco de Chile, Banco Edwards and CCU are important contributors to the Company's results. For further information regarding these entities whose results are not consolidated into the Company's financial statements, see Banco de Chile's, Banco Edwards' and CCU's Annual Report on Form 20-F for the fiscal year ended December 31, 2001.

The Company's lines of businesses and results of operations are, to a large extent, dependent on the overall level of economic activity and growth in Chile. In addition, certain group companies are also dependent on the overall level of economic activity and growth in Argentina, Brazil and Peru. Specifically, Madeco's wire and cable, brass mills, flexible packaging and aluminum profiles businesses

are dependent on the sectors that buy its products outside of Chile, including export markets. Lucchetti is dependent on the sectors that purchase its products in Peru, and CCU is dependent upon the sectors that buy its products in Argentina.

The Company's consolidated net income for any period is a function of: (i) the relative level of income (or loss) generated by Quiñenco and the consolidated subsidiaries and Quiñenco's economic interest in each such company, (ii) the relative level of income (or loss) generated by the companies accounted for under the equity method and Quiñenco's economic interest in each such company, (iii) adjustments for income items of intermediate holding companies, (iv) dividends from other investments accounted for by the cost method and (v) the level of income (or loss) generated by Quiñenco on the sale of investments. In addition, Quiñenco owns a printing company and an insurance company, neither of which have contributed significantly to the Company's operating results.

The following table shows the percentage interests directly and indirectly owned by Quiñenco in each of the main sectors in which it participates at December 31, 1999, 2000 and 2001:

	Percentage of Economic Interest Owned by Quiñenco At December 31,		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
Financial Services			
Banco Edwards (1).....	51.2%	51.2%	51.2%
Banco de Chile (2)	8.0%	12.3%	52.7%
Food and Beverage			
Lucchetti (3).....	86.2%	87.0%	93.3%
CCU	30.8%	30.8%	30.8%
Telecommunications			
VTR (4).....	100.0%	100.0%	100.0%
Entel (5)	14.3%	13.7%	5.7%
Manufacturing			
Madeco (6).....	56.5%	56.1%	56.1%
Real Estate/Hotel Administration			
Hoteles Carrera (7)	87.2%	87.2%	89.9%
Habitaria	50.0%	50.0%	50.0%
Plava Laguna (8).....	—	39.4%	—

- (1) The Company acquired a 43.5% ownership interest in Banco Edwards in the third quarter of 1999. On October 27, 1999, the interest was increased to 51.2%. Through an exception granted by the SVS, Banco Edwards is accounted for as an equity method investment.
- (2) The interest in Banco de Chile was acquired in 1999 and ownership interest percentage corresponds to Quiñenco's share of the outstanding voting rights of Banco de Chile. In 1999, the interest was accounted for as a long-term investment by the cost method. In 2000, Quiñenco's interest in Banco de Chile (as a percentage of the outstanding voting rights) increased to 12.3% and was accounted for as a long-term investment under the equity-investment method. On March 27, 2001, Quiñenco's interest, which is held through an intermediate holding company, LQIF, was increased to 52.7% (as a percentage of the outstanding voting rights). See "Item 4A. History and Development of the Company". Through an exception granted by the Chilean Superintendency of Securities and Insurance (SVS), Banco de Chile is accounted for as an equity method investment.
- (3) On September 9, 1999, the Company subscribed to a capital increase of 286,342,104 shares. As a result, Quiñenco's effective economic interest increased to 86.2%. As of December 31, 2000, Quiñenco's interest in Lucchetti is held through an intermediate holding company, of which Quiñenco owns 100.0%. As a result, Quiñenco's interest in Lucchetti increased to 87.0%. On December 10, 2001, the Company subscribed to a capital increase of 869,708,297 shares. As a consequence, Quiñenco's effective economic interest increased to 93.3%.

- (4) On June 15, 1999, Quiñenco completed the purchase of SBCI's 44.1% equity interest in VTR. On December 8, 1999, Quiñenco purchased Madeco's 9.6% ownership interest in VTR. As a result of these transactions, Quiñenco had a 100% economic interest in VTR as of December 31, 1999.
- (5) On August 11, 2000, the Company sold a 0.7% interest, thereby reducing its stake in Entel to 13.7%. On May 18, 2001, Quiñenco sold a 4% interest and on August 1, 2001 an additional 4% interest. As a result, the Company holds a 5.7% interest in Entel.
- (6) On April 25, 2000, Madeco completed a capital increase in which the Company subscribed to 7,021,522 shares. As a result, the Company's ownership interest in Madeco decreased from 56.5% to 56.1%.
- (7) On October 12, 2001, the Company subscribed to a capital increase of 2,825,264 shares. As a result, Quiñenco holds a 89.9% interest.
- (8) Quiñenco's interest in Plava Laguna, held by an intermediate holding company, Excelsa Establishment, was acquired on April 16, 2000. It was divested by the Company on August 20, 2001.

The following discussion analyzes the consolidated results of the Company for the years ended December 31, 1999, 2000 and 2001. See "Item 4. Information on the Company" for certain data regarding revenues and operating income of major product segments of the Company's principal businesses. In the following discussion the term "holding company" refers to Quiñenco S.A. and the intermediate level holding companies through which, in certain cases, Quiñenco holds its interest in the Company's consolidated operating companies and certain equity investments.

Quiñenco's manufacturing subsidiary, Madeco, is currently attempting to implement a refinancing plan that would restructure its financial liabilities and increase its equity by US\$70 million. Madeco is required to increase its capital by at least US\$60 million, as required by one of its loan facilities. See "Item 4. Information on the Company—Manufacturing—Madeco." If this plan is not substantially and timely consummated, Madeco may become in default on part or all of its indebtedness, which may then be subject to acceleration. There can be no assurance as to whether or when Madeco will reach agreement with the banks party to its loan facilities to restructure its current liabilities, nor as to the terms of any such restructuring. Further, none of Madeco's existing shareholders or any other person has committed to participate in a Madeco capital increase, and there can be no assurance that Madeco will be able to increase its share capital in a amount sufficient to avoid defaulting on its indebtedness. An acceleration of Madeco's indebtedness would materially adversely affect Madeco's results of operations and financial condition, and would materially adversely affect Quiñenco's financial condition. See "Item 4. Information on the Company—Manufacturing—Madeco."

Lucchetti Peru, a subsidiary of Quiñenco's food and beverage subsidiary, Lucchetti S.A., is currently a party to a dispute in Peru which involves an attempt by the Municipal Council of Lima to close Lucchetti's Peruvian plant operations, based on accusations that the plant's functioning interferes with the special environmental characteristics of a nearby wetlands. See "Item 4. Information on the Company—Business Overview—Food and Beverage—Lucchetti" and "Item 8. Financial Information—Legal Proceedings." There can be no assurance that Lucchetti will prevail in this dispute. If Lucchetti's Peruvian plant operations are closed, Lucchetti's results of operations and financial condition would be materially adversely affected, and Quiñenco's results of operations would be materially adversely affected.

RESULTS OF OPERATIONS

NET SALES

	<u>1999</u>	<u>Variation</u>	<u>% change</u>	<u>2000</u>	<u>Variation</u>	<u>% change</u>	<u>2001</u>
	(in millions of constant Ch\$, except percentages)						
Madeco.....	271,215	41,077	15.2	312,292	19,620	6.3	331,912
Lucchetti	98,019	1,337	1.4	99,356	(13,101)	(13.2)	86,255
VTR/Telsur	59,349	(16,435)	(27.7)	42,914	2,427	5.7	45,341
Hoteles Carrera	6,758	694	10.3	7,452	(93)	(1.2)	7,359
Holding Co. & eliminations ...	<u>3,646</u>	<u>111</u>	3.0	<u>3,756</u>	<u>(587)</u>	(15.6)	<u>3,170</u>
Total net sales	<u>438,987</u>	<u>26,784</u>	6.1	<u>465,770</u>	<u>8,266</u>	1.8	<u>474,037</u>

2001 Compared to 2000.

In 2001, the Company reported net consolidated sales of Ch\$474,037 million, a 1.8% increase from the net sales of Ch\$465,770 million in 2000. The increase was mainly attributable to higher sales at Madeco, partially offset by lower sales at Lucchetti.

Madeco's sales, which accounted for 70% of Quiñenco's consolidated sales in 2001, increased by 6.3% in 2001, mainly due to an increase in sales in the wire and cable business unit in Brazil. The wire and cable segment, which is Madeco's main business representing 57.6% of Madeco's consolidated sales in 2001, experienced an increase in sales of 9.6% in 2001 as a result of the high demand for copper and optical fiber telecommunications cables from the Brazilian telecommunications sector during the first half of the year, mainly due to the expansion of two telecom network back-bones in Brazil. This high level of demand continued up until the third quarter of 2001, when demand for telecommunications equipment in Brazil all but halted. This sudden decrease in demand in Brazil has been exacerbated by a global downturn in demand for telecommunications cable.

Madeco's aluminum profiles business unit which represented 8.6% of Madeco's consolidated sales, generated a 23.1% sales increase in 2001. The overall increase in Madeco's consolidated sales was partially offset by a 3.0% reduction in sales from the brass mills business unit and a 0.6% reduction in sales from the flexible packaging business unit, which represented 21.0% and 12.8% of consolidated sales, respectively.

Lucchetti's sales, which accounted for 18.2% of Quiñenco's consolidated sales in 2001, decreased by 13.2%, mainly as a result of the divestment of its Argentine operations in the first half of 2001. Isolating the effect of the divestment on consolidated sales, Lucchetti's sales would have decreased by 3.7% in 2001. The decrease in sales corresponded to an 18.0% reduction in the Peruvian operations, partially offset by a 3% increase in sales in the Chilean operations. Sales from the Chilean operations represented 72% of consolidated sales and the remaining 28% was accounted for by sales from the Peruvian operations. Sales from the Peruvian operations were affected by a sharp drop in the volume sold and lower average prices as a consequence of negative publicity generated by local politicians for alleged environmental violations related to the plant location on the outskirts of Lima.

2000 Compared to 1999.

In 2000, the Company reported net consolidated sales of Ch\$465,771 million, a 6.1% increase from net sales of Ch\$438,987 million in 1999. The increase was mainly attributable to higher sales at Madeco, partially offset by lower sales at VTR due to the divestiture of its cable TV business unit in 1999.

Madeco's sales level reflected improvements in three of its four business units, most notably, the wire and cable and brass mills segments. Madeco's wire and cable business unit, which represented 56% of Madeco's consolidated sales in 2000, experienced an increase in sales of 18% in 1999. This increase was principally due to higher sales at Madeco's Brazilian wire and cable operations, related to investments being made by operators in the telecommunications sector. Madeco's brass mills business unit, which accounted for 23% of Madeco's consolidated sales in 2000, grew by 25% in 2000, mainly attributable to increased exports to Europe, Latin America and the United States.

COST OF SALES

	<u>1999</u>	<u>Variation</u>	<u>% change</u>	<u>2000</u>	<u>Variation</u>	<u>% change</u>	<u>2001</u>
	<u>(in millions of constant Ch\$, except percentages)</u>						
Madeco.....	(244,938)	27,940	11.4	(272,878)	14,010	5.1	(286,888)
Lucchetti	(71,254)	(2,980)	(4.2)	(68,274)	(7,797)	(11.4)	(60,477)
VTR/Telsur	(30,063)	(11,273)	(37.5)	(18,790)	(415)	(2.2)	(18,375)
Hoteles Carrera	(4,864)	1,361	28.0	(6,225)	(63)	(1.0)	(6,162)
Holding Co. & eliminations ...	<u>(6,045)</u>	<u>(364)</u>	(6.0)	<u>(5,681)</u>	<u>(979)</u>	(17.2)	<u>(4,702)</u>
Total cost of sales.....	<u>(357,164)</u>	<u>14,684</u>	4.1	<u>(371,848)</u>	<u>4,756</u>	1.3	<u>(376,604)</u>

2001 Compared to 2000.

In 2001, the Company's cost of sales was Ch\$376,604 million, compared to cost of sales of Ch\$371,848 million in 2000, an increase of 1.3%. The increase was mainly attributable to an increase in cost of sales at Madeco, partially offset by a reduction in cost of sales at Lucchetti.

At Madeco, the increase in cost of sales of 5.1% was in line with its sales revenue increase of 6.3% in 2001. As a percentage of sales, cost of sales decreased from 87.4% to 86.4% in 2001.

At Lucchetti, the reduction in the cost of sales was related to the divestiture of the Argentine operations in the first half of 2001, and to a lesser extent, lower cost of sales at Lucchetti Peru as a result of the lower sales activity during the year.

2000 Compared to 1999.

In 2000, the Company's cost of sales was Ch\$371,848 million, compared to cost of sales of Ch\$357,164 million in 1999, an increase of 4.1%. The increase was mainly attributable to an increase in cost of sales at Madeco, partially offset by a reduction in cost of sales at VTR, and to a lesser extent, at Lucchetti.

At Madeco, the increase in cost of sales (in absolute terms) corresponded to an increase in the production level in three of the four business units, most notably in the wire and cable and brass mills business units. However, as a percentage of sales, Madeco's cost of sales decreased from 90.3% in 1999 to 87.4% in 2000.

At VTR, the reduction in the cost of sales was related to the aforementioned divestiture of the cable TV business unit in April 1999. Lucchetti's cost of sales decreased primarily due to production efficiencies achieved during the period and lower costs associated with the import of edible oils in 2000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	<u>1999</u>	<u>Variation</u>	<u>% change</u>	<u>2000</u>	<u>Variation</u>	<u>% change</u>	<u>2001</u>
	(in millions of constant Ch\$, except percentages)						
Madeco.....	(39,924)	(10,808)	(27.1)	(29,116)	5,242	18.0	(34,358)
Lucchetti	(28,665)	(1,115)	(3.9)	(27,550)	(4,419)	(16.0)	(23,131)
VTR/Telsur	(24,211)	(11,560)	(47.7)	(12,651)	1,136	9.0	(13,787)
Hoteles Carrera	(2,134)	(454)	(21.3)	(1,680)	57	3.4	(1,737)
Holding Co. and eliminations.....	<u>(8,561)</u>	<u>(1,795)</u>	(21.0)	<u>(6,765)</u>	<u>140</u>	2.1	<u>(6,905)</u>
Total SG&A expenses.....	<u>(103,495)</u>	<u>(25,732)</u>	(24.9)	<u>(77,762)</u>	<u>2,156</u>	2.8	<u>(79,918)</u>

2001 Compared to 2000.

In 2001, the Company's selling, general and administrative expenses or SG&A expenses were Ch\$79,918 million, compared to Ch\$77,762 million in 2000, an increase of 2.8%. The increase was mainly due to higher selling, general and administrative expenses at Madeco and to a lesser extent, at VTR, partially offset by a reduction in selling, general and administrative expenses at Lucchetti.

The increase in selling, general and administrative expenses at Madeco was related to various factors, the most important of which include the consolidation starting in 2001 of the fiber optic operation in Argentina, and indemnities related to Madeco's restructuring and workforce reduction in its Argentine and Brazilian operations. The increase in SG&A expenses was partially offset by a decrease in personnel expense in the last quarter of 2001.

The reduction in Lucchetti's selling, general and administrative expenses in 2001 was mainly due to the divestiture of the Argentine operation. Isolating the effect of the divestiture on SG&A expenses, Lucchetti would have reported a 1.3% reduction, mainly related to lower expenses incurred in Lucchetti's Chilean operations.

2000 Compared to 1999.

In 2000, the Company's selling, general and administrative expenses were Ch\$77,762 million, compared to Ch\$103,495 million in 1999, a decrease of 24.9%. The decrease was mainly due to a reduction in selling, general and administrative expenses at VTR and Madeco, although all the group companies which consolidate with Quiñenco reported a lower level of selling, general and administrative expenses in 2000.

VTR reported lower selling, general and administrative expenses as a result of the divestiture of its cable TV operations in May 1999. Madeco reported lower selling, general and administrative expenses as a result of its restructuring process, initiated in 1999, which reduced the level of personnel. Additionally, Madeco's 1999 selling, general and administrative expenses included write-offs for uncollectible accounts receivable and other non-recurring SG&A expenses.

OPERATING INCOME (LOSS)

	<u>1999</u>	<u>Variation</u>	<u>% change</u>	<u>2000</u>	<u>Variation</u>	<u>% change</u>	<u>2001</u>
	(in millions of constant Ch\$, except percentages)						
Madeco.....	(13,647)	23,945	n.m.	10,298	368	3.6	10,666
Lucchetti	(1,900)	5,432	n.m.	3,532	(885)	(25.1)	2,647
VTR/Telsur	5,075	6,398	126.1	11,473	1,706	14.9	13,179
Hoteles Carrera	(240)	(213)	88.8	(453)	(87)	19.2	(540)
Holding Co. & eliminations	<u>(10,959)</u>	<u>2,270</u>	(20.7)	<u>(8,689)</u>	<u>252</u>	(2.9)	<u>(8,437)</u>
Total operating income (loss).....	<u>(21,671)</u>	<u>37,832</u>	n.m.	<u>16,161</u>	<u>1,354</u>	8.4	<u>17,515</u>

2001 Compared to 2000.

In 2001, the Company reported operating income of Ch\$17,515 million, compared to operating income of Ch\$16,161 million in 2000. The increase of 8.4% in 2001 was primarily due to the improved operating performance of Telsur and, to a lesser extent, Madeco, partially offset by a reduction in Lucchetti's operating profit.

VTR/Telsur reported a 9.5% increase in operating profit in 2001. The increase in operating profit was attributable to a 5.7% increase in sales in 2001 as well as effective management of costs, the combination of which resulted in an improvement in the operating margin as a percentage of sales from 28.6% in 2000 to 29.6% in 2001.

Madeco's operating profit increased by 3.6% in 2001. However its low operating margin of 3.2% as a percentage of sales reflected the higher level of SG&A expenses incurred by Madeco, mainly attributable to the restructuring of the Brazilian and Argentine operations.

Lucchetti's operating profit declined by 25.1% compared to 2000, partially as a result of the divestiture of the Argentine operations in the first half of the year. Isolating the effect of the divestiture, operating income would have decreased by 20.3%, directly related to the reduced sales level in Lucchetti's Peruvian operations.

2000 Compared to 1999.

In 2000, the Company reported operating income of Ch\$16,161 million, compared to operating losses of Ch\$21,671 million in 1999. The higher level of operating income in 2000 was primarily due to the improved operating performance of Madeco, Lucchetti and VTR.

The improvement in operating performance at Madeco was attributable to higher gross profit which resulted from the recovery of Madeco's sales levels in 2000 and lower selling, general and administrative expenses. All of Madeco's four business units contributed positively to Madeco's operating income in 2000. As a percentage of sales, Madeco's operating income was 3.3% in 2000, compared to a negative 5.0% in 1999, demonstrating the positive effects of the restructuring process initiated in 1999.

Lucchetti also had improved performance in 2000, as a result of higher gross profit obtained from improvements in gross profit and a lower level of selling, general and administrative expenses. Lucchetti's Chilean, Peruvian and Argentine operations all contributed positively to Lucchetti's improved operating results in 2000, although the Peruvian operations represented 65% of the increase in operating income, mainly attributable to higher average pasta prices, an increase in edible oil sales and the initiation of in-house distribution activities.

The increase in operating income at VTR was mainly attributable to a reduction in operating expenses, mostly related to changes in the estimated lives of Telsur's main assets in 1999 which resulted in a 31% reduction in depreciation expense in 2000.

NON – OPERATING RESULTS

INTEREST INCOME

2001 Compared to 2000.

In 2001, interest income amounted to Ch\$7,939 million, compared to Ch\$8,778 million in 2000, a reduction of 9.6%. The decrease in interest income was primarily attributable to a reduction in interest income earned at the Quiñenco corporate level, and to a lesser extent, at Madeco and Lucchetti due to a lower level of cash and cash equivalents.

2000 Compared to 1999.

In 2000, interest income amounted to Ch\$8,778 million, compared to Ch\$20,971 million in 1999, a reduction of 58.1%. The decrease in interest income was primarily attributable to a reduction in interest income earned at the Quiñenco corporate level, and to a lesser extent, at VTR, due to a lower level of cash and cash equivalents.

NON – OPERATING INCOME

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$)		
Gain on sale of investments:			
Gain on sale of OHCH	164,775	–	–
Gain on sale of VTR Hipercable	78,340	–	–
Gain on sale of Entel shares	–	7,606	49,569
Gain on sale of other investments	<u>11,884</u>	<u>1,722</u>	<u>6,028</u>
Total gain on sale of investments	254,999	9,328	55,597
Proportional share of net income of equity method investments:			
Banco Edwards	–	1,676	5,170
Banco de Chile	–	2,833	15,527
CCU	13,692	8,167	11,817
Entel	2,765	3,944	3,081
Habitaria.....	–	–	209
Plava Laguna.....	–	550	–
Others.....	<u>2,348</u>	<u>1,064</u>	<u>592</u>
Total proportional share of net income of equity method investments	<u>18,805</u>	<u>18,234</u>	<u>36,396</u>
Other non-operating income.....	<u>12,014</u>	<u>6,734</u>	<u>10,951</u>
Total non-operating income	<u>285,818</u>	<u>34,296</u>	<u>102,944</u>

2001 Compared to 2000.

In 2001, non-operating income was Ch\$102,944 million compared to Ch\$34,296 million reported in 2000, an increase of over 200%. Non-operating income in 2001 included large non-recurring gains on the sale of investments, principally the sale of an 8% interest in Entel which produced a gain of Ch\$49,569 million in 2001, the sale of Plava Laguna, which generated a gain of Ch\$1,280 million and Madeco's sale of a 25% interest in Optel, which generated a gain on sale of Ch\$3,138 million. In addition, Quiñenco's proportionate share of net income of equity method investments increased by 99.6% to Ch\$36,396 million, due to the acquisition of a controlling interest in Banco de Chile in March of 2001 as well as higher results corresponding to Quiñenco's interest in Banco Edwards and CCU.

2000 Compared to 1999.

In 2000, non-operating income was Ch\$34,296 million compared to Ch\$285,818 million reported in 1999, a decrease of 88%. Non-operating income in 1999 included large non-recurring gains on the sale of investments, principally the sale of OHCH in June 1999.

GAIN ON SALE OF INVESTMENTS

2001 Compared to 2000.

In 2001, gains on the sale of investments amounted to Ch\$55,597 million, compared to Ch\$9,328 million in 2000. In 2001, gains on the sale of investments were mostly made up of the gain on the sale of 8% of the outstanding shares of Entel, which amounted to Ch\$49,569 million. In addition, the Company sold its 39.4% interest in Plava Laguna during 2001 which produced a gain on sale of Ch\$1,280 million (included with gain on sale of other investments). In 2000, gains on the sale of investments included the gain on the sale of a 0.7% interest in Entel of Ch\$7,606 million

2000 Compared to 1999.

In 2000, gains on the sale of investments amounted to Ch\$9,328 million, compared to Ch\$254,999 million in 1999. In 2000, gains on the sale of investments mainly included the gain on the sale of shares of Entel which amounted to Ch\$7,606 million. In 1999, gains on the sale of investments included the gain on the sale of OHCH of Ch\$164,775 million, gain on the sale of VTR Hipercable of Ch\$78,340 million and gain on the sale of other investments of Ch\$11,884 million.

PROPORTIONAL SHARE OF NET INCOME OF EQUITY METHOD INVESTMENTS

2001 compared to 2000.

The proportional share of net income of equity method investments was Ch\$36,396 million in 2001, compared to Ch\$18,234 million in 2000, an increase of 99.6%. The increase can mainly be explained by the acquisition of a controlling interest in Banco de Chile in March of 2001 and to a lesser extent, a greater proportionate of net income from Quiñenco's investment in Banco Edwards and CCU.

2000 compared to 1999.

The proportional share of net income of equity method investments was Ch\$18,234 million in 2000, compared to Ch\$18,805 million in 1999, a decrease of 3%. The decrease can mainly be explained by a reduction in the share in net income from CCU, partially compensated for by an increase in the share in net income from Entel, Banco de Chile, Banco Edwards and Plava Laguna, which was acquired in 2000.

Results from the main equity investments are further explained below. Of the Company's unconsolidated investments, the results of Banco de Chile (including Banco Edwards, which merged into Banco de Chile on January 1, 2002) and CCU, are important contributors to the Company's results. For further information regarding these entities whose results are not consolidated into the Company's financial statements, see Banco de Chile's, Banco Edwards' and CCU's Annual Reports on Form 20-F for the fiscal year ended December 31, 2001.

Banco de Chile - 2001 compared to 2000.

Quiñenco's proportionate share of Banco de Chile's net income was Ch\$15,527 million in 2001 and Ch\$2,833 million in 2000. The Company's economic interest (dividend rights) in Banco de Chile was 17.8% and 4.3% as of December 31, 2001 and 2000, respectively.

Banco de Chile's net income was Ch\$86,968 million in 2001, an increase of 2.9% from the Ch\$84,498 million reported in 2000. The increase in net income was primarily attributable to a higher level of net interest revenue, which increased from Ch\$210,274 million in 2000 to Ch\$214,858 million in 2001, a 5.9% increase in fee income which totaled Ch\$51,475 million in 2001, and a significant tax benefit of Ch\$1,346 million. The increase of 2.2% in net interest revenue in 2001 is explained by a 13.5% increase in average interest earning assets, partially offset by a reduction of forty-two basis points in the net interest margin.

These increases were however, partially offset by higher provisions for loan losses which increased from Ch\$39,483 million in 2000 to Ch\$45,887 million in 2001, and an increase of 1.6% in operating expenses which increased by Ch\$2,267 million to Ch\$148,247 million. The increase in loan loss provisions was made in response to the weak macroeconomic conditions, low internal consumption and a significant reduction in aggregate demand prevailing in Chile during 2001. The increase in operating expenses was related to the merger process with Banco Edwards, which became effective on January 1, 2002.

Banco de Chile - 2000 compared to 1999.

Quiñenco's proportionate share of Banco de Chile's net income was Ch\$2,833 million in 2000. In 1999, Quiñenco's interest in Banco de Chile was accounted for under the lower of cost or market method.

Banco de Chile's net income was Ch\$84,498 million in 2000, an increase of 22.1% from the Ch\$69,185 million reported in 1999. The improvement was primarily attributable a higher level of net interest revenue which reached Ch\$210,274 in 2000, and a 15.9% increase in fee income. In addition, net income in 2000 was boosted by lower provisions for loan losses. The increase of 4.3% in net interest revenue in 2001 is explained by a seven basis points increase in the net interest margin.

Loan provisions in 2000 decreased by 22.6% from Ch\$50,991 million in 1999 to Ch\$39,483 million in 2000. The reduction corresponded to an improvement in the bank's loan portfolio quality in line with the overall improvement in the Chilean economy shown during the year.

Banco Edwards - 2001 compared to 2000.

Quiñenco's proportionate share of Banco Edwards' net income was Ch\$5,170 million in 2001 and its proportionate share of Banco Edwards' net income was Ch\$1,676 million in 2000, corresponding to its 51.2% interest from the date of purchase in 1999.

Banco Edwards' net income was Ch\$10,103 million in 2001, an increase of 208.6% from the Ch\$3,276 million reported in 2000. The increase in net income was primarily attributable to an increase in operating revenues and lower charge-offs on assets received in lieu of payment. Net interest revenue, which increased by 11.7% from Ch\$108,014 million in 2000 to Ch\$120,642 million in 2001, was the result of a 7.1% expansion in average interest earning assets and a nineteen basis points increase in the net interest margin. In addition, fee income increased by 47.4% to Ch\$25,487 million in 2001, primarily due to the implementation of a new pricing strategy during the second half of 2000.

These increases were, however, partially offset by higher provisions for loan losses which increased by 22.6% from Ch\$36,427 million in 2000 to Ch\$44,661 million in 2001, and an increase of 11.8% in operating expenses which rose by Ch\$10,274 million to Ch\$97,402 million. The increase in loan loss provisions was attributable to higher provisions made on commercial loans as well as the establishment of voluntary provisions in the amount of Ch\$4,250 million required by the Central Bank as a condition for the merger with Banco de Chile. The increase in operating expenses was related to the merger process with Banco de Chile which became effective on January 1, 2002.

Banco Edwards - 2000 compared to 1999.

Quiñenco's proportionate share of Banco Edwards' net income was Ch\$1,676 million in 2000 and its proportionate share of Banco Edwards' net loss was Ch\$2,051 million in 1999, corresponding to its 51.2% interest from the date of purchase in 1999.

In 2000, Banco Edwards reported net income of Ch\$3,276 million, compared to a net loss of Ch\$7,124 million in 1999. The improvement in net results in 2000 was mostly attributable to the lower allowances for loan losses made in 2000.

In 2000, Banco Edwards reported net interest revenue of Ch\$108,014 million, compared to net interest revenue of Ch\$109,942 million in 1999, a decrease of 1.8%. Net interest revenue declined in 2000 mainly due to a reduction in the net interest margin which was not fully offset by the overall 8% expansion in interest earning assets during the period. Income from services amounted to Ch\$17,286 million, an increase of 18.3% in 2000. Other operating income, which consisted of gains on sales of financial instruments and foreign exchange transactions, increased by 36.3% to Ch\$9,215 million in 2000.

The provision for loan losses was Ch\$36,427 million in 2000, compared to Ch\$68,962 million in 1999, a decrease of 47.1%. The reduction in provisions for loan losses in 2000 reflected an overall improvement in the bank's loan portfolio during 2000. Operating expenses increased by 22.7% to Ch\$87,128 million in 2000 from Ch\$70,984 million in 1999, mostly in connection with an increase in administrative expenses related to the bank's expansion plan, implemented during 2000.

CCU - 2001 compared to 2000.

Quiñenco's proportionate share of CCU's income was Ch\$11,817 million in 2001 and Ch\$8,167 million in 2000, which represented its 30.8% economic interest in CCU's net income in both years.

CCU's consolidated sales increased by 5.0% to Ch\$343,562 million in 2001, compared to Ch\$327,216 million in 2000. The increase in CCU's consolidated sales was mainly due to a 1.1% increase in volumes sold and a 3.5% increase in average prices. The increase in revenues was mainly attributable to the wine segment which grew by over 23%. Sales by segment were as follows in 2001: beer-Chile (36.0%), beer-Argentina (14.9%), soft drinks/mineral waters (29.5%), wine (19.5%) and other (0.1%).

Operating income increased by 7.2% to Ch\$43,652 million in 2001 as a consequence of the aforementioned 5% increase in sales. This was in spite of higher cost of goods sold related with raw material purchases abroad and slightly higher SG&A expenses. As a percentage of sales, the operating margin increased from 12.4% in 2000 to 12.7% in 2001,

Non-operating losses amounted to Ch\$3,663 million in 2001, compared to non-operating losses of Ch\$8,257 million in 2000. Non-operating income in 2001 included a significant gain on the sale of shares of a 6.7% interest in Backus & Johnston, a Peruvian beer producer, which produced a non-

recurring gain of Ch\$16,698 million. Net income in 2001 amounted to Ch\$38,377 million, an increase of 44.7% from the net income of Ch\$26,525 million reported in 2000, as a result of the aforementioned improvement in operating and non-operating results.

CCU - 2000 compared to 1999.

Quiñenco's proportionate share of CCU's income was Ch\$8,167 million in 2000 and Ch\$13,692 million in 1999, which represented its 30.8% economic interest in CCU in both years.

CCU's sales increased by 4.4% to Ch\$327,216 million in 2000, compared to Ch\$313,480 million in 1999. The increase in CCU's sales was mainly due to an increase in volumes sales in the soft drink and wine segments. Sales related to the Chilean and Argentine beer segments did not vary significantly compared to 1999.

Operating income decreased by 5.9% to Ch\$40,705 million from Ch\$43,248 million in 1999. Operating income as a percentage of sales decreased from 13.8% in 1999 to 12.4% in 2000. The decrease in operating income in 2000 was attributable to an increase in marketing and distribution expenses, partially offset by a reduction in salaries expense.

Non-operating losses amounted to Ch\$8,257 million in 2000, compared to non-operating income of Ch\$13,064 million in 1999. Non-operating losses included non-recurring severance payments and other expenses of Ch\$6,060 million related to the company's cost reduction plan which was implemented in mid-year 2000. As a consequence of the non-recurring expenses incurred during the year, coupled with the reduction in operating income, net income for the year 2000 decreased by 40.3% to Ch\$26,525 million.

Entel - 2001 compared to 2000.

Quiñenco's proportional share of Entel's net income was Ch\$3,081 million in 2001 and Ch\$3,944 million in 2000. Its economic interest in Entel was 5.7% and 13.7% as of December 31, 2001, 2000, respectively.

Entel's consolidated sales increased by 32.0% in 2001 to Ch\$709,807 million, mostly explained by an increase in revenues related to Entel's cellular telephony business unit, Internet services and long distance services in the United States and parts of Central America.

Operating income amounted to Ch\$83,166 million in 2001, compared to Ch\$71,187 million in 2000, an increase of 16.8%. The increase in operating income was a result of the higher overall sales level and higher margins earned in connection with Entel's subsidiaries, particularly the cellular telephony business.

Non-operating losses amounted to Ch\$47,297 million in 2001, compared to non-operating losses of Ch\$37,639 million in 2000. Non-operating losses were increased in part due to a higher level of goodwill expense. Entel reported net income of Ch\$34,204 million in 2001, compared to Ch\$28,224 million in 2000, an increase of 21.2%, attributable to the aforementioned improvements in the company's operating performance in the year and reduced tax obligations during the period.

Entel - 2000 compared to 1999.

Quiñenco's proportional share of Entel's net income was Ch\$3,944 million in 2000 and Ch\$2,765 million in 1999. Its economic interest in Entel was 13.7% and 14.3% as of December 31, 2000 and 1999, respectively.

Entel's consolidated sales increased by 32.1% in 2000 to Ch\$537,666 million, explained by an increase in revenues related to Entel's cellular telephony business unit. In addition, sales revenues from Entel's international subsidiaries also grew by 47.5% in 2000, mostly related to long distance services in the United States.

Operating income amounted to Ch\$71,187 million in 2000, compared to Ch\$39,270 million in 1999, an increase of 81.3%. The increase in operating income was a result of the higher overall sales level and higher margins earned in connection with Entel's international subsidiaries.

Non-operating losses amounted to Ch\$37,639 million in 2000, compared to non-operating income of Ch\$3,595 million in 1999. During 1999, non-operating income was highly affected by an extraordinary gain on sale of Ch\$38,855 million recognized in connection with the sale of a cellular telephone license. Entel reported net income of Ch\$28,224 million in 2000, compared to Ch\$30,159 million in 1999, a decrease of 6.4%.

Habitaria - 2001 compared to 2000.

Quiñenco's proportionate share of Habitaria's net income was 50%, or Ch\$209 million in 2001 and a loss of Ch\$483 million in 2000.

Habitaria reported net income in 2001 of Ch\$417 million, compared to a net loss of Ch\$823 million in 2000. During 2001, Habitaria reported a sales increase of 200% compared to 2000. Sales revenues reached Ch\$19,474 million in 2001, compared to Ch\$6,501 million in 2000, reflecting Habitaria's increase in housing stock available to the public and activity in the Chilean real estate market which was stimulated by lower prevailing interest rates. Habitaria sold and delivered 398 apartments in 2001. In comparison, 2000 sales revenues corresponded to the sale and delivery of 161 apartments. Operating income was Ch\$996 million in 2001, compared to an operating loss of Ch\$924 million in 2000.

OTHER NON – OPERATING INCOME

2001 compared to 2000.

Other non-operating income was Ch\$10,951 million in 2001, compared to Ch\$6,734 million in 2000, an increase of 62.6%. The increase in 2001 is mainly explained by the early recognition of negative goodwill of Ch\$7,582 million associated with the original Entel share purchases sold during 2001, partially offset by lower miscellaneous income.

2000 compared to 1999.

Other non-operating income was Ch\$6,734 million in 2000, compared to Ch\$12,014 million in 1999, a decrease of 43.9%. In 1999, other non-operating income included amortization of an unrealized gain in OHCH and higher miscellaneous income in comparison to 2000.

INTEREST EXPENSE

2001 Compared to 2000.

Interest expense was Ch\$59,009 million in 2001, a 54.9% increase from the Ch\$38,099 million reported in 2000. The increase in interest expense is associated with the indebtedness incurred in relation to the Banco de Chile acquisition in early 2001, and, to a lesser extent, an increase in interest expense at Madeco. Quiñenco's consolidated interest expense in 2001 is principally composed of interest expense

incurred by Quiñenco and intermediate holding companies (37.2%), Madeco (36.0%), Lucchetti (15.7%), VTR/Telsur (9.9%) and others (1.2%).

Madeco's increase in interest expense reported in 2001 is related to higher average interest rates on bank obligations during the period.

VTR's increase in interest expense during the period is related to a higher level of indebtedness at VTR, taken in connection with the financing of the Banco de Chile acquisition in 2001.

2000 Compared to 1999.

Interest expense was Ch\$38,099 million in 2000, 11.7% lower than the Ch\$43,136 million reported in 1999, principally due to lower interest expense incurred at VTR and Madeco. Quiñenco's consolidated interest expense in 2000 was principally composed of interest expense incurred by Madeco (49.7%), Lucchetti (23.9%), VTR/Telsur (9.6%), Quiñenco and intermediate holding companies (14.9%) and others (1.9%).

Madeco's reduction in interest expense reported in 2000 is related to lower average interest rates on bank obligations during the period.

VTR's reduction in interest expense incurred for the period is related to the sale of the cable TV business unit in 1999 from which cash proceeds were in part used to reduce VTR's consolidated indebtedness level.

NON – OPERATING EXPENSES

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$)		
Proportional share of net loss of equity method investments:			
OHCH	761	-	-
Banco Edwards (1).....	2,051	-	-
Habitaria (2).....	52	483	-
Others.....	<u>200</u>	<u>7,794</u>	<u>143</u>
Total proportional share of net loss of equity method investments	<u>3,064</u>	<u>8,277</u>	<u>143</u>
Other non-operating expenses.....	<u>51,848</u>	<u>26,810</u>	<u>69,649</u>
Total non-operating expenses.....	<u>54,912</u>	<u>35,087</u>	<u>69,792</u>

- (1) Quiñenco's proportionate share of net income corresponding to its interest in Banco Edwards amounted to Ch\$1,676 million in 2000 and Ch\$5,170 million in 2001. For a discussion of Banco Edwards' results in 2001, 2000 and 1999, see "Non-operating income, proportionate share of net income, main equity investments" in this section.
- (2) Quiñenco's proportionate share of net income corresponding to its interest in Habitaria amounted to Ch\$209 million in 2001. For a discussion of Habitaria's results in 2001 compared to 2000, see "Non-operating income, proportionate share of net income, main equity investments" in this section.

2001 Compared to 2000.

In 2001, non-operating expenses were Ch\$69,792 million compared to Ch\$35,087 million in 2000, an increase of 98.9%. The increase in non-operating expenses was mainly attributable to a significant increase in Madeco's non-operating expenses as well as higher goodwill expense reported during the period, related to the Banco de Chile acquisition in early 2001. The increase in non-operating expenses was partially offset by a reduction in Lucchetti's non-operating expenses.

2000 Compared to 1999.

In 2000, non-operating expenses were Ch\$35,087 million compared to Ch\$54,912 million in 1999, a decrease of 36.1%. The decrease in non-operating expenses was mainly attributable to a reduction in other non-operating expenses at Madeco and VTR, partially offset by an increase in non-operating expenses at Lucchetti.

PROPORTIONAL SHARE OF NET LOSS OF EQUITY METHOD INVESTMENTS

2001 compared to 2000.

The proportional share of net loss of equity method investments was Ch\$143 million in 2001, compared to Ch\$8,277 million in 2000. In 2000, the proportionate share of net loss of equity method investments mainly corresponded to Lucchetti's loss provision of Ch\$7,323 million on the sale of its Argentine subsidiary.

2000 compared to 1999.

The proportional share of net loss of equity method investments was Ch\$8,277 million in 2000, compared to Ch\$3,064 million in 1999. The increase in the proportionate share of net loss of equity method investments was mainly attributable to Lucchetti. In 2000, Lucchetti made a provision in connection with the expected loss on the sale of its Argentine subsidiary of Ch\$7,323 million, to be divested during 2001. In accordance with instructions from the Chilean SVS, Lucchetti reported its Argentine subsidiary as an equity method investment on its balance sheet at December 31, 2000, but consolidated its subsidiary's results in its consolidated statement of income.

Results from the main equity investments are explained below:

Habitaria - 2000 compared to 1999.

Quiñenco's proportionate share of Habitaria's net loss was 50%, or Ch\$483 million in 2000 and Ch\$52 million in 1999. Habitaria reported a net loss in 2000 of Ch\$967 million, compared to a net loss of Ch\$104 million in 1999. Although Habitaria's sales revenues increased by 68.6% to Ch\$6,501 million in 2000, compared to Ch\$3,856 million in 1999, a significant increase in SG&A expenses resulted in an operating loss of Ch\$924 million and a net loss of Ch\$823 million in 2000. Habitaria sold and delivered 161 apartments in 2000, compared to the sale and delivery of 28 apartments in 1999, a start-up year.

OTHER NON – OPERATING EXPENSES

2001 compared to 2000.

In 2001, other non-operating expenses were Ch\$69,649 million, compared to Ch\$26,810 million in 2000, an increase of 160.0%. The increase in other non-operating expenses was mainly due to an increase in other non-operating expenses at Madeco and an increase in goodwill expense at the Quiñenco corporate level. The increase in other non-operating expenses was partially offset by a reduction of other non-operating expenses at Lucchetti.

Madeco's other non-operating expenses amounted to Ch\$30,413 million in 2001, compared to Ch\$7,394 million in 2000. In 2001, Madeco restructured its Brazilian and Argentine subsidiaries, which resulted in significant non-recurring charges in the period, including severance payments, restructuring costs, provisions for accounts receivable and write-offs of fixed assets.

With respect to its Argentine operations, Madeco shut down its plant facilities in the last quarter of the year due to the economic crisis and currency devaluation in that country which impeded Madeco from further developing its businesses. As a consequence, Madeco made charges to income which amounted to Ch\$12,460 million in 2001 in connection with the write-down of assets of its Argentine operations and Ch\$5,496 million related to restructuring and other non-recurring expenses in that country. Also included in other non-operating expenses was a provision for Ch\$3,810 million, mostly made in connection with the settlement of a decade long labor lawsuit.

Goodwill expense, included with other non-operating expenses, amounted to Ch\$27,408 million in 2001, compared to Ch\$12,075 million in 2000. The increase of 127.0% is explained by goodwill expense associated with the Banco de Chile acquisition in March of 2001.

Lucchetti's other non-operating expenses decreased by Ch\$5,192 million to Ch\$5,532 million, mainly because other non-operating expenses in 2000 included a provision of Ch\$7,323 million made in connection with the expected loss on the sale of the Argentine subsidiary, to be divested during 2001.

2000 compared to 1999.

In 2000, other non-operating expenses were Ch\$26,810 million, compared to Ch\$51,848 million in 1999, a decrease of 48.3%. The decrease in other non-operating expenses was mainly due to a reduction in other non-operating expenses at Madeco and VTR.

Madeco's other non-operating expenses amounted to Ch\$9,688 million in 2000, a decrease of 63.1% from the Ch\$26,291 million reported in 1999. In 1999, Madeco initiated a restructuring plan which resulted in significant non-recurring charges in that period, including severance payments, restructuring costs, provisions for accounts receivable and write-offs of fixed assets.

VTR's other non-operating expenses decreased by Ch\$10,388 million to Ch\$841 million, mainly because other non-operating expenses in 1999 included non-recurring provisions for probable losses and contingencies on the sale of the cable TV business unit.

PRICE – LEVEL RESTATEMENT

2001 Compared to 2000.

Price-level restatement losses amounted to Ch\$10,632 million in 2001, compared to price-level restatement losses of Ch\$6,159 million in 2000. In 2001, the net charge to income to adjust for the change in purchasing power of the Chilean peso on the Company's net liability position amounted to Ch\$3,782 million, compared to Ch\$4,617 million in 2000. Also included with price-level restatement is a charge to income in 2001 of Ch\$6,849 million for exchange rate translation losses, most of which corresponded to Madeco's businesses and reflect the devaluation of the Chilean peso, Brazilian real and the Argentine peso vis-à-vis the United States dollar in 2001. In 2000, a charge of Ch\$1,542 million related to exchange rate translation losses was included with price-level restatement.

2000 Compared to 1999.

Price-level restatement losses amounted to Ch\$6,159 million in 2000, compared to price-level restatement gains of Ch\$13,581 million in 1999. In 2000, the net charge to income to adjust for the change in purchasing power of the Chilean peso on the Company's net liability position amounted to Ch\$4,617 million, compared to Ch\$5,210 million in 1999. Also included with price-level restatement is a charge to income in 2000 of Ch\$1,542 million for exchange rate translation losses which mainly reflect the devaluation of the Chilean peso and Brazilian real vis-à-vis the U.S. dollar in 2000. In 1999, the Company recognized a gain of Ch\$18,791 million related to exchange rate translations.

NON – OPERATING RESULTS (NET)

2001 Compared to 2000.

There was a non-operating loss of Ch\$28,550 million in 2001, compared to a non-operating loss of Ch\$36,271 million in 2000. The main items which contributed to a non-operating loss in 2001 were other non-operating expenses, goodwill expense and interest expense incurred during the period. These expenses were partially offset by a large non-recurring gain resulting from the sale of a portion of the Company's interest in Entel. In 2000, non-operating losses were mostly attributable to interest expense and other non-operating expenses, partially offset by other non-operating income which included a gain on the sale of a portion of Quiñenco's interest in Entel.

2000 Compared to 1999.

There was a non-operating loss of Ch\$36,271 million in 2000, compared to non-operating income of Ch\$222,321 million in 1999. Non-operating income in 1999 was mainly composed of significant non-recurring gains resulting from the sale of the Company's interest in OHCH and the sale of the cable TV business unit (Hiper cable) at VTR, which had a significant effect on the consolidated non-operating results in that year. In 2000, non-operating losses were mostly attributable to interest expense and other non-operating expenses, partially offset by other non-operating income which included a gain on the sale of a portion of Quiñenco's interest in Entel.

MINORITY INTEREST

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$)		
Madeco & subsidiaries.....	25,640	7,461	23,270
VTR & subsidiaries.....	(32,814)	(2,150)	(2,403)
Lucchetti & subsidiaries.....	2,449	1,341	672
Hoteles Carrera	93	105	98
Other	<u>128</u>	<u>208</u>	<u>157</u>
Total minority interest.....	<u>(4,504)</u>	<u>6,965</u>	<u>21,794</u>

2001 Compared to 2000.

In 2001, minority interest amounted to a credit to income of Ch\$21,794 million, compared to a credit to income of Ch\$6,965 million in 2000. Madeco reported a net loss in 2001 which resulted in an add-back to income of the net loss which did not correspond to Quiñenco of Ch\$23,270 million. The deduction from income of Ch\$2,403 million corresponding to Telsur and its subsidiaries was related to the portion of Telsur's net income which did not correspond to the Company's interest.

2000 Compared to 1999.

In 2000, minority interest amounted to a credit to income of Ch\$6,965 million, compared to a deduction from income of Ch\$4,504 million in 1999. Madeco reported a net loss in 2000 which resulted in an add-back to income of the net loss which did not correspond to Quiñenco of Ch\$7,461 million. The deduction from income of Ch\$2,150 million corresponding to VTR and its subsidiaries was related to the portion of Telsur's net income which did not correspond to the Company's interest.

INCOME TAXES

2001 Compared to 2000.

In 2001, the Company reported a tax credit of Ch\$4,750 million, in connection with tax loss carry-forwards, compared to Ch\$7,322 million in 2000. Taxes are imposed separately on each group company. Income is not consolidated for tax purposes.

2000 Compared to 1999.

In 2000, the Company reported a tax credit of Ch\$7,322 million, in connection with tax loss carry-forwards, compared to income taxes of Ch\$23,098 million in 1999. Taxes are imposed separately on each group company. Income is not consolidated for tax purposes.

NET INCOME

2001 Compared to 2000.

In 2001, the Company reported net income of Ch\$15,509 million, compared to net loss of Ch\$5,823 million in 2000. The improvement in net results in 2001 was primarily attributable to a higher proportionate share of net income from Quiñenco's main investments, namely Banco de Chile, Banco Edwards and CCU, as well as significant non-operating income related to the sale of shares of Entel. These results were partially offset by losses incurred by Madeco.

2000 Compared to 1999.

In 2000, the Company reported a net loss of Ch\$5,823 million, compared to net income of Ch\$173,048 million in 1999. The difference is primarily explained by the non-operating income reported in 1999 in connection to gains on the sale of OHCH and the cable TV business unit (Hiper cable) which produced significant non-recurring income in that year. In 2000, the net loss was primarily attributable to the net losses of Madeco and Lucchetti.

IMPACT OF INFLATION AND PRICE – LEVEL RESTATEMENT

As explained in detail in Notes 2(b) and 4 to the Consolidated Financial Statements, the Company is required to restate non-monetary assets and liabilities, equity and income and expense accounts to reflect the effect of variations in the purchasing power of the Chilean peso, thus reflecting by an indirect method the gain or loss resulting from holding or owning monetary assets and liabilities. For all the above balances, the restatement is based on the variation of the official Consumer Price Index (“CPI”) of the National Institute of Statistics, with the exception of assets and liabilities in foreign currencies, and inventories, which are adjusted in accordance with their replacement value.

Chilean companies sometimes finance current assets and fixed assets with short-term and long-term liabilities in foreign currency. Because assets are generally restated using the CPI and liabilities in foreign currencies are restated to closing exchange rates, the price-level restatement line in the income statement is affected by the relationship between local inflation and the U.S. dollar exchange rate of the Chilean peso.

Because of Chile’s past history with inflation, the financial markets have developed a system of borrowing and lending in UFs. Most long-term assets and liabilities in pesos are indexed in UFs, and the adjustment to the closing value is reflected in the price-level adjustment account.

The restatement of the principal non-monetary assets and liabilities, equity and income and expense accounts and the corresponding effect on the Company’s results of operations is set forth in the following table:

	Credit (charge)		
	<u>Year Ended December 31,</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$)		
Property, plant and equipment	Ch\$7,637	Ch\$12,615	Ch\$8,379
Shareholders’ equity accounts.....	(13,680)	(30,610)	(19,747)
Other assets and liabilities.....	10,077	25,243	22,248
Income and expense accounts in terms of period-end constant Chilean pesos	(3,391)	(453)	(95)
Net adjustment of assets and liabilities indexed in UFs ...	(5,853)	(11,412)	(14,568)
Net adjustment of assets and liabilities denominated in foreign currency	<u>18,791</u>	<u>(1,542)</u>	<u>(6,849)</u>
Price-level restatement	<u>Ch\$13,581</u>	<u>Ch\$(6,159)</u>	<u>Ch\$(10,632)</u>

WORKING CAPITAL IN FOREIGN CURRENCIES

The Company’s operating results and investments are exposed to fluctuations of foreign currency exchange rates principally as a result of carrying working capital in local currencies. According to Chilean GAAP, the Company’s financial statements are expressed in Chilean pesos which result from the consolidation of financial statements of Chilean subsidiaries expressed in Chilean pesos and the translation of the foreign subsidiaries’ financial statements expressed in local currencies to Chilean

pesos. In 2001, approximately 45% of the Company's consolidated revenues were from sales made outside of Chile and equity investments outside of Chile represented approximately 16% of the Company's shareholders' equity at December 31, 2001.

The following table presents the working capital position (net) in local currencies as of December 31, 2001. All amounts are expressed in thousands of Chilean pesos.

	<u>U.S. dollars</u>	<u>Euros</u>	<u>Other currencies</u>	<u>Argentine pesos</u>	<u>Peruvian sols</u>	<u>Brazilian reals</u>
	(in thousands of constant Ch\$)					
Working capital in foreign currencies (net).....	(45,826,829)	1,281,403	(1,126,828)	5,386,693	12,430,089	19,569,895

In addition, CCU, an equity-method investment, maintains working capital in foreign currencies. As of December 31, 2001, working capital in foreign currencies (net) was Ch\$2,293 million in U.S. dollars, Ch\$6,296 million in Argentine pesos and Ch\$1,967 million in other foreign currencies.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Financial Reporting Release No. 60, which was recently released by the Securities and Exchange Commission, encourages all companies to include a discussion of critical accounting policies or methods used in the preparation of the financial statements. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, which would potentially result in materially different results under different assumptions and conditions. The Company principally operates in five operating segments, Manufacturing, Food and Beverage, Telecommunications, Financial Services and Real estate/hotel administration, each with different critical accounting policies and estimates described below:

The Company believes that its critical accounting policies in the preparation of its Chilean GAAP financial statements are limited to those described below. It should be noted that in many cases, Chilean GAAP specifically dictates the accounting treatment of a particular transaction, with no need for management's judgment in their application. Additionally, significant differences can exist between Chilean GAAP and U.S. GAAP, as explained in note 26 of the financial statements. There are also areas in which management's judgment in selecting available alternatives would not produce materially different results. For a summary of significant accounting policies and methods used in the preparation of the financial statements, see Note 2 to the consolidated financial statements.

Manufacturing

Revenue Recognition

Madeco recognizes revenues when goods are shipped or services are provided, while revenues from telephone line installation contracts are by the percentage of completion method. Madeco measures the percentage of completion based on the relationship between actual costs incurred to total costs estimated to be incurred over the contract duration. Madeco recognizes provisions for anticipated losses on contracts at the time they become known. Because of the use of estimates in its revenue recognition policies, if Madeco used a different estimation method, its revenue line would be higher or lower, depending on the type of estimate used.

Inventories

Madeco values raw materials at the lower of restated cost or current replacement cost. Work-in-progress and finished goods are shown at restated cost, which includes related direct and indirect manufacturing expenses. Madeco values projects for installation of telephone cables which are in progress by the percentage of completion method. Inventory costs are reflected in income on the basis of average cost. Madeco's inventory in the balance sheet would be effected had it used a different estimation method.

Food and Beverage

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based upon the assessment of probable loss related to overdue accounts receivable. A 100% provision is applied for those customers that are 180 days overdue in the case of CCU and 90 days overdue at Lucchetti.

Accounting for bottles

CCU incurs a liability for the deposits on bottles in circulation paid by its customers. Its recorded liability for such deposits is based on an annual inventory of the bottles and cases in the possession of customers along with an independent statistical analysis of the number of deposits that have not been reclaimed.

Bottles are included in fixed assets and depreciated over the estimate of their useful life. For glass bottles, CCU estimates the useful life to be eight years while for plastic bottles, it estimates the useful life to be four years.

Inventory

In the Chilean GAAP financial statements of CCU, its accounts for inventory at replacement cost considering only the cost of raw materials added to the products. Chilean GAAP allows absorption costing but it is optional, therefore if CCU had used a different method, its inventory would be accounted for at a different amount.

Telecommunications

Revenue Recognition

Telsur's revenues include income from contract fees and services rendered but not billed at each period end, which have been valued at contracted rates existing at each respective period end.

Financial Services

Banco de Chile and Banco Edwards prepare their financial statements in accordance with Chilean GAAP and the rules of the Chilean Superintendency of Banks. They are required to make estimates and assumptions in the application of certain rules because they are related to matters that are inherently uncertain. The banks believe that the following are the more critical judgment areas or are those accounting policies that involve a higher degree of complexity and affect the Banks' financial condition and results of operations:

Allowance for Loan Losses

Under the regulations of the Chilean Superintendency of Banks, banks must classify their loan portfolio into five categories of payment capability. The minimum amount of required loan loss allowances are determined based on fixed percentages of estimated loan losses assigned to each category.

Additionally, Chilean banks may also maintain voluntary reserves in excess of the minimum required amount so as to provide additional coverage for potential loan losses. Classification of the Banks' loan portfolio are determined based on a systematic, ongoing review and evaluation performed as part of the credit-risk evaluation process, estimated fair value and adequacy of collateral and other pertinent factors.

Investment securities

Investment portfolios principally include debt securities purchased in connection with the Banks' balance sheet management activities. These securities are classified at the time of purchase, based on management's intentions, as either trading or permanent.

The bank's account for financial investments that have a secondary market at fair value with unrealized gains and losses included in other operating income (expenses) for those classified as *trading* investments, and unrealized gains and losses included in a separate component of shareholders' equity for those classified as *permanent*, in accordance with the regulations of the Chilean Superintendency of Banks. All other financial investments are carried at acquisition cost plus accrued interest and UF indexation adjustments, as applicable.

If available, quoted market prices provide the best indication of value. If quoted market prices are not available for fixed maturity securities, the banks discount the expected cash flows using market interest rates commensurate with the credit quality and maturity of the investment. Alternatively, matrix or model pricing may be used to determine an appropriate fair value.

Accounting policies common to all segments and areas of accounting to which a U.S. reader may not be accustomed.

Accounting for Argentine operations

Since 1991, the Argentine peso had been pegged to the U.S. dollar at a rate of 1 Argentine peso to 1 U.S. dollar. In early December 2001, restrictions were put in place that prohibited cash withdrawals above a certain amount and foreign money transfers, with certain limited exceptions. While the legal exchange rate remained at 1 peso to 1 U.S. dollar, financial institutions were allowed to conduct only limited activity due to these controls, and currency exchange activity was effectively halted except for personal transactions in small amounts.

In January 2002, the Argentine government announced its intent to create a dual currency system with an "official" fixed exchange rate of 1.4 pesos to 1 U.S. dollar for import and export transactions, and a "free" floating exchange rate for other transactions. On January 11, 2002, the exchange rate market holiday ended closing new "free" floating exchange rates ranged from 1.6 to 1.7 pesos to 1 U.S. dollar. On February 3, 2002, the Argentine government issued a decree to (1) eliminate the fixed exchange rate of 1 to 1; (2) establish one "free" floating exchange rate for the Argentine peso; and (3) require U.S. dollar-denominated obligations be converted to peso-denominated obligations using mandated conversion rates, depending on the type of obligation. The "free" floating exchange rate was 1.7 Argentine pesos per U.S. Dollar on the day the market opened on February 11, 2002.

The financial statements of the Company's Argentine operations are remeasured into U.S. dollars under Chilean GAAP in accordance with Technical Bulletin 64 ("BT 64"), which requires remeasurement of financial statements of foreign subsidiaries that operate in countries exposed to significant risks ("unstable" countries), and that are not considered to be an extension of the parent company's operations. The Company has remeasured its Argentine subsidiary financial statements in accordance with SVS Circular No. 81 using the conversion rate of 1.7 Argentine pesos per U.S. Dollar.

Price-level restatement

Chilean GAAP requires that financial statements be restated to reflect the full effects of the loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The method prescribes that the historical cost of all non-monetary accounts be restated for general price-level changes between the date of origin of each item and the year-end. The Company's consolidated financial statements have been price-level restated in order to reflect the effects of the changes in the purchasing power of the Chilean currency during each year. All non-monetary assets and liabilities and all equity accounts have been restated to reflect the changes in the CPI from the date they were acquired or incurred to year-end. The purchasing power gain or loss included in net income reflects the effects of Chilean inflation on monetary assets and liabilities. For comparative purposes, the historical December 31, 1999 and 2000 consolidated financial statements and their accompanying notes have been presented in constant Chilean pesos as of December 31, 2001. This updating does not change the prior years' statements or information in any way except to update the amounts to constant pesos of similar purchasing power.

The price-level adjusted consolidated financial statements do not purport to represent appraised values, replacement cost, or any other current value of assets at which transactions would take place currently and are only intended to restate all non-monetary consolidated financial statement components in terms of local currency of a single purchasing power and to include in the net result for each year the gain or loss in purchasing power arising from the holding of monetary assets and liabilities exposed to the effects of inflation. In the financial statements, price level restatement also includes foreign exchange differences.

Technical Bulletin No. 64

In October 1998, the Chilean Institute of Accountants (Colegio de Contadores de Chile) issued Technical Bulletin No. 64, Accounting for Permanent Foreign Investments. Technical Bulletin No. 64 replaced Technical Bulletin No. 51, which was effective as from January 1, 1996. As required by Chilean GAAP, Technical Bulletin No. 64 has been applied prospectively from January 1, 1998. Technical Bulletin No. 64 differs from the foreign currency translation procedures to which a U.S. investor is accustomed under Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation" issued by the Financial Accounting Standards Board. Technical Bulletin No. 64 changes the method used to restate the foreign investments, by first translating foreign currency amounts in respect of foreign subsidiaries and investees to U.S. dollars at historical rates of exchange and then translating the U.S. dollar amounts to Chilean pesos at the period-end rate of exchange. In effect, the foreign investments are adopting the U.S. dollar as their "functional currency", because the Chilean peso is not considered to be a stable currency.

The application of Technical Bulletin No. 64 results in the comprehensive separation of the effects of inflation in Chile (for financial accounting purposes) from the changes in foreign currency translation, with respect to non-Chilean investments. Under Chilean GAAP, the amount of the net foreign investment as of the opening balance sheet date is price-level restated for the effects of inflation in Chile, thereby increasing net income due to price-level restatement. Changes in the opening balance

sheet balance of the net foreign investment due to movements in the Chilean peso to U.S. dollar exchange rates are recorded net of the effects of price-level restatement mentioned above in shareholders' equity under the caption "cumulative translation adjustments." As a result, during periods when the Chilean peso depreciates in excess of inflation in Chile, compared to the U.S. dollar, shareholders' equity would increase. Conversely, during periods in which the Chilean peso appreciates in excess of inflation in Chile, as compared to the U.S. dollar, shareholders' equity would decrease.

The application of Chilean foreign currency translation standard Technical Bulletin No. 64 with respect to the translation of non-Chilean operations is part of the comprehensive basis of preparing of price-level adjusted financial statements required by Chilean GAAP. The inclusion of inflation and translation effects in the financial statements is considered appropriate under the inflationary conditions that have historically affected the Chilean economy and, accordingly, have not been eliminated. The U.S. Securities Exchange Commission has confirmed that they do not object to the view that the adjustments made in respect of investments in unstable countries are part of a comprehensive basis of adjusting for inflation. Accordingly, differences between Technical Bulletin No. 64 and SFAS No. 52 do not need to be eliminated in the reconciliation to US GAAP. If the Company applied SFAS No. 52 instead of Technical Bulletin No. 64, significant differences would result:

- As the methodology used to determine both the Company's and its subsidiaries functional currencies differs under SFAS No. 52, it is probable that the local currency would be considered the functional currency of the Company's foreign subsidiaries instead of the U.S. dollar.
- Income statement amounts would be translated using the actual or average exchange rates instead of the closing rates.
- Gains or losses related to foreign currency denominated assets and liabilities may vary significantly.

Recoverability of Tangible Assets

The Company assesses the permanent impairment of tangible assets and investments whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors it considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the use of the acquired assets or the strategy for the overall business;
- significant negative industry or economic trends.

When the Company determines that the carrying value of tangible assets and investments may not be recoverable based upon the existence of one or more of the above indicators of impairment, it evaluates the future cash flows to determine if it needs to write down the asset or the investment. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the assets, the Company would recognize an impairment loss. The measurement of the impairment loss is based on the fair value of the asset, which is generally determined using a discounted cash flow approach and recent comparable transactions in the market.

Derivative Contracts

The Company maintains foreign exchange forward and swap contracts to hedge against the risk of fluctuations in foreign currencies. These contracts are recorded at fair value with losses recognized in earnings. Generally, fair values under Chilean GAAP are estimated using the closing spot exchange rate at the period end, because listed forward market prices between these currencies are not widely-available in the Chilean market, and spot rates are the accepted local standard to estimate fair value. The Company defers and amortizes gains over the period of the contract.

The Company's estimates of fair value are based on assumptions about market variables that may change in the future. Changes in assumptions could have a significant impact on the estimates. As a result, such fair value amounts are subject to volatility and are dependent on the quality of the assumptions used.

Income and Deferred Taxes

In accordance with Chilean law, the Company and each of its subsidiaries compute and pay tax on a separate basis. The Company estimates its actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as depreciation, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheet.

Prior to January 1, 2000 deferred taxes were not recorded under Chilean GAAP. As a transitional provision, the Company recorded a contra asset or liability offsetting the effects of the deferred tax assets and liabilities not recorded prior to that date. These asset or liability amounts must be amortized to income over the estimated average reversal periods corresponding to the underlying temporary differences to which the deferred tax asset or liability relates calculated using the tax rates in effect at the time of reversal. The Company then assesses the likelihood that its deferred tax assets will be recovered from future taxable income and to the extent it believes that recovery is unlikely, it establishes a valuation allowance. Revisions to the estimated realizable value of deferred tax assets or estimated average reversal periods of contra assets or liabilities could cause the provision for income taxes to vary significantly from period to period.

Change in Accounting Principles

Financial Services - Banco de Chile and Banco Edwards

During 2000 for Banco de A. Edwards and 2001 for Banco de Chile, the banks began to write-off assets received or awarded in lieu of payment, and assets recovered from leasing operations, on a straight-line basis over 18 months if they are not sold within one year. Previously, they were required to write-off completely those assets received in lieu of payment that were not sold within one year.

Also during 2000 for Banco Edwards and 2001 for Banco de Chile, they modified the accounting treatment of fees and expenses related to the origination of loans, as well as fees for services rendered, to be deferred and recognized in income over the term of the loans to which they relate, and over the period that the services are performed. Previously, these fees and expenses were recognized in income as the fee was received or the expense incurred. Both changes in accounting principles were made to comply with the regulations issued by the Chilean Superintendency of Banks.

US GAAP RECONCILIATION

The differences between Chilean GAAP and US GAAP as they affected the Company's results for the three years in the period ended December 31, 2001 principally related to accounting for (i) the consolidation of banking operations, (ii) the recognition of goodwill and other purchase accounting adjustments resulting from the step acquisitions of Banco de Chile and Banco Edwards and the subsequent amortization of such differences, (iii) investments accounted for by the equity method, (iv) price-level restatement, (v) investment securities, and (vi) deferred income taxes.

Consolidation of Banking Operations

Under Chilean GAAP, banking operations are not generally consolidated with non-financial businesses in Chile primarily due to the dissimilarity of both the nature of the businesses and the related accounting policies. However, under US GAAP, all majority-owned subsidiaries, including the Company's banking subsidiaries, must be consolidated. Note 26 to the financial statements presents the effects of consolidating the Company's banking operations under Chilean GAAP.

The recognition of goodwill and other purchase accounting adjustments

Under Chilean GAAP, recorded assets acquired and liabilities assumed from the step acquisitions of Banco de Chile and Banco Edwards at their historical carrying values. The excess of the purchase price over carrying values is recorded as goodwill. Under US GAAP, the Company has allocated the purchase price between the fair value of the identifiable assets assumed and identifiable liabilities acquired as of the acquisition date. Any remaining unidentifiable excess amount of the purchase price is recorded as goodwill. Included in the fair value of the assets are identifiable intangible assets, such as the brand name and the value of the banks' long-term customer relationships.

Investments accounted for by the equity method

The Company records certain investments using equity method under both Chilean and US GAAP. Under the equity method, the carrying amount of an investment is initially recorded at cost and is displayed in a separate caption on the balance sheet and income statement of the investor. The carrying value is adjusted to recognize the investor's share of changes in the carrying amount of the investee determined subsequent to the date of investment. The Company's equity participation in the increases in the carrying value of such investments is generally included in the determination of net income by the investor. However, the Company is required to adjust an investee's Chilean GAAP financial statements to US GAAP in order to determine its equity participation in the net income of the investment under US GAAP. Significant differences in accounting criteria applied under Chilean GAAP as compared to US GAAP in the Company's equity method investments in CCU and Banco de Chile.

In CCU, the main US GAAP differences in accounting criteria relate primarily to deferred income taxes, goodwill amortization, employee severance indemnities, the capitalization of interest cost and the effects of US GAAP adjustments in the equity method investment, ECUSA. During the period in which the Company held less than a majority interest in SM Chile and Banco de Chile, which were the years ended December 31, 1999 and 2000 and the three-month period ended March 27, 2001, the primary US GAAP differences relate to the subordinated debt obligation, goodwill amortization, purchase accounting differences, loan loss allowances, deferred income taxes, recognition of interest income, and employee severance indemnities. After March 27, 2001, Quiñenco started to consolidate SM Chile and Banco de Chile under US GAAP so they were no longer considered equity method investments.

Similarly, due to basis differences that exist in the carrying values of investments in other companies that the Company holds, differences exist in the amount of gain or loss that is recorded under US GAAP and Chilean GAAP when the investment is sold.

Price-level restatement

Chilean accounting principles require that financial statements be restated to reflect the full effects of loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The method, which is described in more detail in note 2b to the Company's consolidated financial statements, is based on a model that requires the calculation of net inflation gains or losses caused by monetary assets and liabilities exposed to changes in the purchasing power of the local currency by restating all non-monetary accounts in the financial statements. The model prescribes that the historical cost of such accounts be restated for general price-level changes between the date of origin of each item and the year-end.

Although the cumulative inflation rate in Chile as measured by the Consumer Price Index for the three-year period ended December 31, 2001 was only approximately 10.75%, the inclusion of price-level adjustments in the Company's consolidated financial statements is considered appropriate under the prolonged inflationary conditions that have affected the Chilean economy in the past. Therefore, the Company has not eliminated the effect of price-level changes in its reconciliation to US GAAP.

Investment Securities

The Company held a 14.3%, 13.7% and 5.7% ownership interest in Entel S.A. as of December 31, 1999, 2000 and 2001 respectively. Under Chilean GAAP, this investment is recorded based on the Company's equity participation in the net income and net equity of Entel S.A. Under US GAAP, these investments would be classified as available-for-sale marketable securities with unrealized gains and losses included in a separate component of shareholders' equity, while realized gains and losses on sale of such investment securities are included in the results from operations.

Deferred Income Taxes

On January 1, 2000, the Company began to apply Technical Bulletin No. 60 of the Chilean Association of Accountants concerning deferred taxes. Technical Bulletin No. 60 requires the recognition of deferred income taxes for all temporary differences arising after January 1, 2000, whether recurring or not, using an asset and liability approach. For US GAAP purposes, in prior years the Company had applied SFAS 109, "Accounting for Income Taxes", whereby income taxes are also recognized using substantially the same asset and liability approach, with deferred income tax assets and liabilities established for temporary differences between the financial reporting basis and tax basis of the assets and liabilities based on enacted rates at the dates that the temporary differences arose.

Prior to the implementation of Technical Bulletin No. 60, the Company had not recorded deferred income taxes under Chilean GAAP to the extent that the timing differences were expected to be offset in the year that they were projected to reverse by new timing differences of a similar nature. Because the effects of deferred income taxes are only recognized in the results of operations for temporary differences arising after January 1, 2000, after that date, Chilean GAAP and US GAAP differ primarily due to the recognition for US GAAP purposes of the reversal of deferred income taxes included in the US GAAP reconciliation in prior years.

Investments held in other companies and sales of participations in other companies

Under Chilean GAAP, the investments held in other companies are reported in the financial statements are valued at the lower of restated cost or market value. Unrealized losses on such investments are reflected in the statements of income.

Under US GAAP, investments in other companies are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, a separate component of shareholders' equity, net of the deferred income tax effects.

Due to differences in carrying value in the participations in other companies that the Company holds, when the Company sells such investments, there is a difference in the amount of gain or loss that is recorded under US GAAP and Chilean GAAP.

B. LIQUIDITY AND CAPITAL RESOURCES

GENERAL

As a holding company, the level of Quiñenco's income and cash flow and its ability to pay debt service obligations and dividends depends primarily upon the receipt of dividends and distributions from its subsidiaries, equity investments and related companies and, to a certain extent, on the periodic sale of investments. The payment of dividends by such subsidiaries, equity investments and related companies is in certain instances subject to restrictions and is contingent upon their earnings and cash flows.

Although Quiñenco controls many of these companies, Quiñenco has in the past and expects in the future to influence the dividend policies of its subsidiaries and affiliates in order to retain resources within such companies where it is deemed necessary or appropriate to further these entities' individual business plans and strategies. In addition, certain of Quiñenco's non-consolidated subsidiaries and related companies, and their respective subsidiaries, are operated pursuant to shareholders' agreements that require unanimous consent of the parties thereto to pay dividends beyond the minimum required by law, and in some cases, the parties have agreed not to pay dividends for certain periods.

In addition to funds used for its own operations, Quiñenco's primary use of funds has been oriented to investments in consolidated investments and unconsolidated equity investments. Quiñenco believes that its working capital is sufficient to meet its present working capital requirements.

At December 31, 2001, the Company had cash and cash equivalents totaling Ch\$52,913 million on a consolidated basis and Ch\$23,279 million on a non-consolidated basis. This compares to Ch\$135,435 million on a consolidated basis and Ch\$21,242 million on a non-consolidated basis at December 31, 2000 and Ch\$131,714 million on a consolidated basis and Ch\$84,154 million on a non-consolidated basis at December 31, 1999.

Quiñenco's manufacturing subsidiary, Madeco, is currently attempting to implement a refinancing plan that would restructure its financial liabilities and increase its equity by US\$70 million. Madeco is required to increase its capital by at least US\$60 million, as required by one of its loan facilities. See "Item 4. Information on the Company—Manufacturing—Madeco." If this plan is not substantially and timely consummated, Madeco may become in default on part or all of its indebtedness, which may then be subject to acceleration. There can be no assurance as to whether or when Madeco will reach agreement with the banks party to its loan facilities to restructure current liabilities, or as to the terms of any such restructuring. Further, none of Madeco's existing shareholders or any other person has committed to participate in a Madeco capital increase, and there can be no assurance that Madeco will be able to increase its share capital in a amount sufficient to avoid defaulting on its indebtedness. If

Madeco's indebtedness were accelerated, this would materially adversely affect Madeco's results of operations and financial condition, including its ability to have working capital sufficient to meet its present working capital requirements. An acceleration of Madeco's indebtedness would materially adversely affect Quiñenco's financial condition but would be not expected to materially adversely affect Quiñenco's having working capital sufficient to meet its present working capital requirements.

Lucchetti Peru, a subsidiary of Quiñenco's food and beverage subsidiary, Lucchetti S.A., is currently a party to a dispute in Peru which involves an attempt by the Municipal Council of Lima to close Lucchetti's Peruvian plant operations based on accusations that the plant's functioning interferes with the special environmental characteristics of a nearby wetlands. See "Item 4. Information on the Company—Business Overview—Food and Beverage—Lucchetti" and "Item 8. Financial Information—Legal Proceedings." There can be no assurance that Lucchetti will prevail in this dispute. If Lucchetti's Peruvian plant operations are closed, Lucchetti's results of operations and financial condition, including its working capital, would be materially adversely affected. If such a plant closure occurs, Quiñenco's results of operations would be materially adversely affected but such a closure would not be expected to materially adversely affect Quiñenco's having working capital sufficient to meet its present working capital requirements.

DIVIDEND INCOME

The following table shows dividends received by Quiñenco from its investments in 1999, 2000 and 2001:

	Year Ended December 31,		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$)		
Dividends paid to Quiñenco by:			
Madeco.....	Ch\$5,283	-	-
VTR (1).....	7,406	73,902	-
Inversiones Y Rentas (2)	6,711	6,692	13,205
OHCH	3,577	-	-
LQIF (3).....	-	-	491
Banco de Chile(3)	-	2,873	-
Others.....	<u>270</u>	<u>11</u>	<u>3</u>
Total Dividends received by Quiñenco	<u>Ch\$23,247</u>	<u>Ch\$83,478</u>	<u>Ch\$13,699</u>

(1) VTR is an intermediate holding company through which Quiñenco holds a 73.6% interest in Telsur. In 1999, 2000 and 2001, VTR received a dividend distribution from Telsur which amounted to Ch\$5,545 million, Ch\$4,055 million and Ch\$3,522 million, respectively.

(2) Inversiones y Rentas is an intermediate holding company through which Quiñenco holds a 30.8% interest in CCU. Inversiones y Rentas' only activity is its investment in CCU.

(3) LQIF is a wholly owned subsidiary of Quiñenco, formed in August 2000 to invest in companies in the financial services sector. LQIF has held the Company's interests in Banco de Chile and Banco Edwards since December 2000. In 2001, LQIF received a dividend distribution from Banco de Chile and Banco Edwards, which amounted to Ch\$4,341 million and Ch\$836 million, respectively.

OPERATING ACTIVITIES

Consolidated cash flow provided by operating activities was Ch\$13,716 million in 2001, compared to cash flow used by operating activities of Ch\$1,860 million in 2000 and cash flow provided by operating activities of Ch\$19,419 million in 1999.

Operating Activities – 2001

In 2001, cash flow provided by operating activities totaled Ch\$13,716 million. The main components of cash flow generated by operating activities in 2001 consisted of the net income of Ch\$15,509 million, adjusted by net non-cash items included in the income statement which amounted to Ch\$8,990 million, less cash used to fund an increase in working capital of Ch\$10,783 million. The net increase in working capital was mainly due to an increase in other assets and a decrease in accounts and notes payable, partially offset by a decrease in accounts and notes receivable and inventories.

Operating Activities – 2000

In 2000, cash flow used by operating activities totaled Ch\$1,860 million. The main components of cash flow used by operating activities in 2000 consisted of the net loss of Ch\$5,823 million, adjusted by net non-cash items included in the income statement which amounted to Ch\$42,093 million, less cash used to fund an increase in working capital of Ch\$38,129 million. The net increase in working capital was mainly due to an increase in accounts and notes receivable, inventories and other assets and a decrease in other current liabilities, partially offset by an increase in accounts and notes payable.

Operating Activities – 1999

In 1999, cash flow generated by operating activities totaled Ch\$19,419 million. The main components of cash flow from operating activities in 1999 consisted of net income of Ch\$173,048 million, adjusted by net non-cash items included in the income statement which amounted to a deduction of Ch\$165,519 million, and cash generated by a net reduction in working capital of Ch\$11,889 million. The net reduction in working capital was mainly due to an increase in accounts and notes payable and other current liabilities, and a decrease in accounts and notes receivable and inventories, which was partially offset by an increase in other assets.

INVESTING ACTIVITIES

In 2001, consolidated cash flow used by investing activities was Ch\$36,533 million, compared to cash flow used by investing activities was Ch\$20,198 million in 2000 and cash flow provided by investing activities of Ch\$4,045 million in 1999.

Investing Activities -2001

In 2001, the main components of cash flow provided by investing activities were proceeds from the sale of other investments of Ch\$158,440 million, which included proceeds from the sale of shares of Entel for Ch\$88,821 million, the sale of Plava Laguna for Ch\$19,397 million, the sale of a partial interest in Ficap Optel (subsidiary of Madeco in Brazil) for Ch\$12,352 million and the sale of Lucchetti Argentina (subsidiary of Lucchetti in Argentina) for Ch\$17,928 million. In addition, proceeds from sales of other investments included Ch\$16,644 million corresponding to the liquidation of time deposits held by VTR. Cash flow used in investing activities in 2001 was mostly related to investments in other companies of Ch\$157,510 million, which included the investments made in Banco de Chile of Ch\$147,957 million and in Ficap Optel (subsidiary of Madeco in Argentina) of Ch\$6,547 million. Additions to plant, property and equipment of Ch\$31,151 million were mainly composed of fixed asset additions of Telsur for Ch\$20,424 million and of Madeco for Ch\$8,406 million.

Investing Activities –2000

In 2000, the main components of cash flow provided by investing activities were proceeds from the sale of other investments of Ch\$60,832 million, which included proceeds from the sale of shares of

Entel for Ch\$11,605 million and the liquidation of time deposits held by VTR, which amounted to Ch\$44,275 million. Cash flow used in investing activities in 2000 was mostly related to investments in other companies of Ch\$54,439 million, which included the investments made in Banco de Chile of Ch\$31,302 million, in Entel of Ch\$4,255 million and in Plava Laguna of Ch\$15,817 million. Additions to plant, property and equipment of Ch\$33,988 million were mainly composed of fixed asset additions at Madeco and VTR.

Investing Activities –1999

In 1999, the main components of cash flow provided by investing activities were proceeds from the sale of OHCH of Ch\$316,828 million, VTR Hipercable of Ch\$135,365 million and other investments of Ch\$23,097 million. Cash flow used in investing activities in 1999 was mostly related to investments in other companies of Ch\$386,556 million, which included the investment made in Banco Edwards of Ch\$202,542 million, shares of Entel of Ch\$53,158 million, shares of Banco de Chile of Ch\$42,013 million and the purchase of VTR shares from SBC of Ch\$69,953 million. Additions to plant, property and equipment of Ch\$60,219 million were mainly composed of fixed asset additions at Madeco and VTR. Investments in time deposits that are not considered to be cash equivalents of Ch\$42,693 million mostly corresponded to time deposits taken at VTR.

FINANCING ACTIVITIES

VTR, Madeco, Lucchetti, Hoteles Carrera, Banco Edwards, Banco de Chile, CCU, Entel, Habitaria and Plava Laguna generally do not rely on each other or on Quiñenco for financing except that they may rely on Quiñenco when significant new capital or other expenditures are to be made. When intercompany financing is needed, it generally is provided by Quiñenco to such companies (or to intermediate holding companies) by means of capital contributions or loans. Quiñenco, its intermediate holding companies, subsidiaries and affiliates may periodically borrow from the Company's banks in the ordinary course of business on commercial terms and on an arms' length basis.

Quiñenco believes that it has access to local and international funding such as short-term and long-term bank borrowings, bonds and capital markets in order to fund its investment programs. In 2001, Quiñenco issued bonds amounting to UF6.5 million in the Chilean market. The proceeds from the bond issue were used to finance a portion of the Banco de Chile acquisition, refinance short-term bank liabilities and fund capital increases in Lucchetti and Hoteles Carrera during 2001.

The cash flows of Banco Edwards (which was merged into Banco de Chile on January 1, 2002), Banco de Chile, CCU, Entel, Habitaria and Plava Laguna and OHCH (the holding company through which the Company held interests in four banks until May 1999, including Banco Santiago), which are accounted for under the equity method, are not included in the Company's consolidated statements of cash flows.

In 2001, consolidated cash flow used by financing activities was Ch\$58,777 million, compared to cash flow provided by financing activities of Ch\$27,545 million in 2000 and cash flow used by financing activities of Ch\$71,263 million in 1999.

Financing Activities - 2001

In 2001, the main sources of cash flow provided by financing activities were an increase in net bonds payable of Ch\$136,472 million, and capital increases in subsidiaries contributed by minority shareholders of Ch\$724 million. In 2001, the main uses of cash flow from financing activities corresponded to a net decrease in bank borrowings of Ch\$186,008 million, dividends paid of Ch\$1,695

million, a decrease in accounts payable to related companies of Ch\$1,055 million and other financing activities (net) of Ch\$7,215 million.

The increase in net bonds payable of Ch\$136,472 million on a consolidated basis in 2001 was mainly attributable to bonds issued by Quiñenco for Ch\$104,183 million, by Madeco for Ch\$24,133 million and Telsur for Ch\$15,935 million. Madeco and Telsur's bond obligations were partially reduced by payments of Ch\$1,389 million and Ch\$6,390 million, respectively.

The net decrease in bank borrowings of Ch\$186,008 million was composed of a net decrease in bank borrowings of Quiñenco and its intermediate holding companies of Ch\$130,211 million, a net decrease in bank borrowings at Madeco of Ch\$27,453 million and at Lucchetti of Ch\$28,343 million.

Dividend payments, which amounted to Ch\$1,695 million in 2001, can mostly be explained by dividend payments made by Telsur to minority shareholders of Ch\$1,374 million.

Financing Activities - 2000

In 2000, the main sources of cash flow provided by financing activities were a net increase in bank borrowings on a consolidated basis of Ch\$44,924 million, an increase in net bonds payable of Ch\$33,298 million, and to a lesser extent, capital increases in subsidiaries contributed by minority shareholders of Ch\$3,690 million. In 2000, the main uses of cash flow from financing activities correspond to dividends paid of Ch\$52,615 million, a decrease in accounts payable to related companies of Ch\$681 million and other financing activities (net) of Ch\$2,433 million.

The net increase in bank borrowings of Ch\$44,924 million was mainly composed of a net increase in bank borrowings at VTR of Ch\$14,755 million and Quiñenco and its intermediate holding companies of Ch\$56,415 million, partially offset by a net decrease in bank borrowings at Madeco of Ch\$25,171 million and Lucchetti of Ch\$1,510 million.

Dividend payments, which amounted to Ch\$52,615 million in 2000, can mostly be explained by dividend payments made by Quiñenco to its shareholders which amounted to Ch\$50,709 million. The remaining balance consists of dividend payments by subsidiaries to minority shareholders.

The increase in net bonds payable of Ch\$33,298 million on a consolidated basis in 2000, was attributable to bonds issued by Madeco which totaled Ch\$37,852 million, partially offset by bond repayments and costs associated with the bond issue of Ch\$1,965 million made by Madeco and payments by VTR of Ch\$2,589 million in 2000.

Financing Activities - 1999

In 1999, the main sources of cash flow provided by financing activities were capital increases in subsidiaries contributed by minority shareholders of Ch\$2,912 million and other financing activities (net) which provided Ch\$435 million. In 1999, the main uses of cash flow from financing activities correspond to a net decrease in bank borrowings on a consolidated basis of Ch\$23,905 million, dividends paid of Ch\$21,527 million, a capital distribution by VTR of Ch\$22,477 million, a decrease in bonds payable of Ch\$3,344 million and a net decrease in accounts payable to related companies of Ch\$3,357 million.

The net decrease in bank borrowings was composed of a net reduction in bank borrowings in Madeco of Ch\$21,725 million, in Lucchetti of Ch\$11,504 million, in VTR of Ch\$13,599 million and in Hoteles Carrera of Ch\$1,478 million. Quiñenco and intermediate holding companies increased bank borrowings on a net basis in 1999 by Ch\$24,402 million.

Dividends payments which amounted to Ch\$21,527 million in 1999, correspond to payments made by Quiñenco to its shareholders of Ch\$8,687 million and the remaining Ch\$12,840 million to minority interest shareholders in VTR and Madeco.

Bonds payable, which decreased by Ch\$3,344 million on a consolidated basis in 1999, were the result of payments of bond obligations in Madeco of Ch\$1,239 million and in VTR of Ch\$2,104 million.

DEBT STRUCTURE

As of December 31, 2001, approximately 66.0% of the Company's Ch\$793,993 million in outstanding liabilities consisted of long-term interest bearing debt. The Company's outstanding long-term bank loans (excluding the current portion of long-term debt of Ch\$49,529 million) which totaled Ch\$220,597 million in 2001, generally consist of borrowings by Quiñenco, Madeco, Lucchetti, VTR and intermediate holding companies for periods up to five years. Approximately 15.4% of these long-term bank facilities were dollar-denominated with interest rates which averaged 5.5%, and 1.8% were long-term loans denominated in currencies other than the U.S. dollar or the Chilean peso with interest rates averaging 11.1%. In the case of Chilean peso-denominated long-term debt, which composed 82.8% of total long-term debt, interest rates averaged 6.6% in 2001. The average interest rate of U.S. dollar-denominated debt was 8.3% and the average interest rate of Chilean peso-denominated debt was 6.9% in the year 2000. Additionally, the Company has long-term bond obligations denominated in Chilean pesos, which at December 31, 2001 amounted to Ch\$209,295 million. The average terms of the bond obligations are between five and twenty-one years. The average interest rate of long term bond obligations was 6.2% in 2001. 26.3% of the Company's bond obligations will mature within the next three years.

As of December 31, 2001, the Company's outstanding short-term bank loans totaled approximately Ch\$121,810 million, which represented 15.3% of the Company's outstanding liabilities. The Company's outstanding short-term bank loans mostly consist of borrowings by Quiñenco, Madeco and Lucchetti under unsecured revolving credit facilities provided by Chilean and U.S. commercial banks. At December 31, 2001, the Company had no committed credit lines. Approximately 66.1% of these short-term facilities were dollar-denominated with interest rates which averaged 4.5% in the case of dollar-denominated obligations and 30.3% in the case of UF-denominated obligations during 2001. In 2000 approximately 44.3% of these short-term facilities were dollar-denominated with interest rates which averaged 8.7% in the case of dollar-denominated obligations and 6.9% in the case of UF-denominated obligations.

The Company's total dollar-denominated liabilities amounted to Ch\$157,046 million at December 31, 2001, compared to Ch\$227,805 million at December 31, 2000. The Company's total debt to capitalization ratio increased to 47.9% at December 31, 2001 from 41.1% at December 31, 2000.

At December 31, 2001, the Company's net consolidated dollar-denominated assets (e.g. after deducting dollar denominated liabilities) were US\$153.5 million, compared to US\$92.2 million in 2000.

There is no seasonality with respect to Quiñenco's borrowings. For a summary of the maturities of the Company's long-term debt, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk".

The Company utilizes foreign exchange forward contracts and swap exchange currency contracts in order to hedge its currency exchange exposure as part of its asset and liability management. Investment contracts (for speculative purposes) are recorded at the closing spot exchange rate and gains and losses

are included in earnings as Other non-operating income and expenses. For a summary of Foreign Exchange Rate Exposure, see “Item 11. Foreign Currency Exchange Rate Risk”.

FINANCIAL COVENANTS AND OTHER RESTRICTIONS.

The Company is subject to certain financial covenants and restrictions with respect to its existing agreements with the banks party to its credit facilities. The Company believes that it is in compliance with all of the financial covenants and restrictions associated with its credit facilities as of December 31, 2001 except as described below.

During 2001, Madeco on several occasions had period-end results that did not meet the financial covenant requirements in some of its debt instruments. Specifically, as of December 31, 2001, Madeco’s Series B bonds which amounted to Ch\$3,113 million and become due in 2003, did not comply with several financial covenants, including a ratio of unencumbered assets to non-collateralized interest bearing debt of at least 1.3:1 and a ratio of total liabilities to shareholders’ equity not to exceed 1.75:1. Bondholders, in an extraordinary meeting held April 9, 2002, approved an amendment of the applicable bond agreement, modifying the covenants through maturity of the bonds. As a result, Madeco is no longer in default for non-compliance with respect to this bond series. As part of the agreement to modify the covenants, Madeco agreed to additional covenants including, among others, a covenant to raise additional capital of at least US\$60 million by September 30, 2002. The agreement also stipulates, among other things, that Quiñenco must retain at least a 40% ownership of Madeco during the remaining life of the bonds. If the Company does not perform in accordance with the bond agreement covenants, as amended, the Series B bond amount is subject to acceleration.

Madeco was also in non-compliance during 2001 with covenants associated with a medium-term credit granted by an affiliate of Bank of Boston, which as of December 31, 2001, amounted to Ch\$7,388 million and matures in 2003. Specifically, the loan agreement stipulated an interest coverage ratio of 2.05:1 and a maximum leverage (calculated as total liabilities/shareholders’ equity plus minority interest) not to exceed 1.75:1, neither of which were reached by Madeco. For the periods measured in 2001, the bank granted a waiver of the covenants.

In addition, during 2001 a subsidiary of Madeco, Alusa S.A. (“Alusa”), which maintained medium-term credits with several international banks which in total amounted to Ch\$3,398 million as of December 31, 2001, was not in compliance with several covenants of its credit facilities. Alusa obtained a waiver and/or amendments to the loan agreements with the banks involved in 2001.

As of March 31, 2002, Madeco maintained banking relationships with approximately 34 banking institutions, both in Chile and abroad. As of the same date, Madeco had short-term interest bearing debt obligations totaling Ch\$108,496 million and long-term interest bearing debt obligations totaling Ch\$115,548 million. Of the total short-term interest bearing debt obligations, Ch\$104,581 million corresponded to short-term bank obligations. Long-term interest bearing debt obligations include medium and long-term bank financing of Ch\$36,958 million, long-term bond obligations of Ch\$65,580 million and an intercompany loan with Quiñenco of Ch\$5,874 million.

Short-term obligations do not require compliance with specific financial covenants. Long-term obligations are generally subject to financial covenants compliance.

For the period ended March 31, 2002, Madeco did not comply with the required financial covenants related to the above mentioned credit with Bank of Boston. However, Madeco has negotiated a waiver with Bank of Boston for the period ended March 31, 2002. In addition, as of the same date, Madeco did not comply with covenants associated with a medium-term credit granted by Citibank, which

as of March 31, 2002 amounted to Ch\$3,322 million and matures in 2003. The loan agreement required a leverage ratio (measured as total bank and bond debt to shareholders' equity plus minority interest) not to exceed 1.6:1. Citibank also granted a waiver of the requirement for the period ended March 31, 2002.

As of March 31, 2002, except as explained above, Madeco was in compliance with financial covenants associated with other debt instruments, including bond obligations. Future compliance of financial covenants will be based in part, on the successful renegotiation of Madeco's financial obligations which is currently underway and a capital increase. There can be no assurance that these events will occur. If Madeco cannot comply with the various financial covenants related to its outstanding debt obligations, payments could be accelerated, which would adversely affect Madeco's operations and financial position. Moreover, at present, a significant portion of Madeco's indebtedness is concentrated in short-term financing in order to cover its working capital and other general corporate needs. Madeco has not secured committed credit lines, as is customary in its principal markets. In the past, short-term loans have been available to Madeco by banks as well as by Quiñenco, under acceptable terms. However, there can be no assurance that short-term financing will continue to be available to Madeco under current or otherwise acceptable terms. If Madeco cannot obtain short-term financing at acceptable terms, this lack of liquidity would adversely affect Madeco's operations and financial position.

Lucchetti's existing bank debt, which as of December 31, 2001, amounted to Ch\$56,432 million, is subject to a number of financial covenants and other restrictions. During 2001, Lucchetti completed a financial restructuring to reduce the company's overall debt level and reprogram the remaining debt maturities to expected future cash flow. The debt restructuring mainly focused on refinancing short-term debt into a seven-year syndicated credit facility with a group of banks for Ch\$36,066 million (UF2,369,359). As of December 31, 2001, 82.5% of Lucchetti's interest bearing debt was concentrated in long-term facilities as a result of the debt refinancing. As of December 31, 2001 and March 31, 2002, Lucchetti was in compliance with the financial covenants associated with its bank liabilities, which include, a minimum interest coverage ratio, a minimum current ratio and a maximum debt to equity ratio. Lucchetti is currently involved in a dispute in Peru which involves an attempt by the Municipality of Lima to close Lucchetti's Peruvian plant operations. If Lucchetti were obliged to close its plant operations in Peru, either temporarily or permanently, this would have a material adverse effect on Lucchetti's financial condition and results of operations and could cause certain covenants to be violated.

CAPITAL EXPENDITURES AND OTHER INVESTMENTS

The following table sets forth the capital expenditures and other investments made by each of the Company's principal businesses for the years ended December 31, 1999, 2000 and 2001:

Capital Expenditures and Other Investments	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of constant Ch\$)		
Quiñenco and Consolidated Subsidiaries			
Madeco (Manufacturing)	Ch\$13,698	Ch\$16,250	Ch\$14,953
VTR (Telecommunications).....	31,428	14,924	32,806
Lucchetti (Food and Beverage).....	8,454	2,136	1,750
Hoteles Carrera (Real Estate and Hotel Administration)	1,104	399	286
Quiñenco and others.....	<u>392,091</u>	<u>54,717</u>	<u>138,865</u>
Total	<u>Ch\$446,775</u>	<u>Ch\$88,426</u>	<u>Ch\$188,660</u>
Main Equity Investments (1)			
CCU (Food and Beverage).....	125,755	63,669	37,244
Banco Edwards (Financial Services) (2)	6,277	18,227	6,707
Banco de Chile (Financial Services) (3).....	-	6,009	11,039
Total	<u>Ch\$132,032</u>	<u>Ch\$87,905</u>	<u>Ch\$54,990</u>

- (1) Represents Quiñenco's main equity investments, all of which are either controlled directly by Quiñenco or indirectly by Quiñenco in conjunction with strategic partners.
- (2) Quiñenco's 51.2% interest in Banco Edwards was acquired between August and October 1999.
- (3) As of December 31, 2001, Quiñenco's interest in Banco de Chile corresponded to 52.7% of the outstanding voting rights of Banco de Chile.

EXPANSION PLANS; FUTURE CAPITAL EXPENDITURES

The following table sets forth the total capital expenditures currently planned to be made by the Company and its principal businesses for the years ending December 31, 2002, 2003 and 2004:

Planned Capital Expenditures 2002 – 2004	<u>2002</u>	<u>2003</u>	<u>2004</u>
	(in millions of constant Ch\$)		
Quiñenco and Consolidated Subsidiaries			
Madeco (Manufacturing)	Ch\$6,280	Ch\$6,944	Ch\$6,944
VTR/Telsur (Telecommunications)	14,850	15,617	13,686
Lucchetti (Food and Beverage).....	3,000	3,000	3,000
Hoteles Carrera (Real Estate/Hotel Administration).....	60	85	110
Quiñenco and others (1).....	-	-	-
Total.....	<u>Ch\$24,190</u>	<u>Ch\$25,646</u>	<u>Ch\$23,740</u>
Main Equity Investments			
CCU (Food and Beverage).....	Ch\$23,958	Ch\$39,232	Ch\$31,630
Banco de Chile (Financial Services).....	24,272	14,900	13,500
Total.....	<u>Ch\$48,230</u>	<u>Ch\$54,132</u>	<u>Ch\$45,130</u>

- (1) Capital expenditures for Quiñenco and other intermediate holding companies for the years 2002-2004 do not include future acquisitions. Historically, capital expenditures used for acquisitions have been significant, though they may vary.

Quiñenco, its subsidiaries and equity investments review their capital expenditures program periodically and changes are made as needed and appropriate. Accordingly, there can be no assurance that the Company will make the capital expenditures described herein. The actual amount of future capital expenditures will depend on a variety of factors, many of which are beyond the Company's control, and could be significantly less than planned.

If necessary, Quiñenco intends to provide or actively participate in obtaining financing (whether equity, debt or a combination thereof) to support the planned future capital expenditures and expansion of its principal businesses. The amounts and terms of any such debt or equity financing from Quiñenco will depend, among other things, on the terms and conditions of financing available to its businesses from third parties and international capital markets, as well as Quiñenco's strategy to maintain control of its businesses. In addition, Quiñenco may participate in the planned capital increases of its principal businesses, depending on the terms, timing, and other investment considerations relevant to Quiñenco.

Quiñenco. Capital expenditures in 2002 through 2004 do not include further acquisitions that could be made by Quiñenco or its intermediate holding companies as these amounts are not readily estimated and depend on many factors outside of the Company's control.

Banco de Chile. Banco de Chile merged with Banco Edwards on January 1, 2002. Capital expenditures planned for the period 2002-2004 are related to the consolidation of the merger process, including the incorporation of a common technology platform for the commercial and operations areas. Other planned capital expenditures will be made to maintain and improve the bank's existing infrastructure of branch offices and other maintenance required in the normal course of business. Capital expenditures during the three year period between 2002 and 2004 are estimated to total Ch\$52,672 million and will be financed with internally generated funds.

CCU. CCU plans to make an aggregate of approximately Ch\$94,820 million in capital expenditures over the 2002-2004 period to increase and update production capacity, install new bottling lines, optimize its information systems and make additional investments in marketing assets. CCU expects to fund its capital expenditures through a combination of internally generated funds and long-term indebtedness.

Lucchetti. Lucchetti's capital expenditure budget for the years 2002, 2003 and 2004, which is estimated to total Ch\$9,000 million, mainly includes maintenance expenditures in Lucchetti's manufacturing facilities in Chile.

VTR/Telsur. All of VTR's capital expenditures planned for 2002, 2003 and 2004 relate to Telsur, VTR's local telephony business based in the south of Chile. Telsur plans to continue investing in its geographic expansion, mainly in the city of Concepción in Region VIII of southern Chile. This includes expansion of telephone lines, transmission equipment, infrastructure and buildings. It also plans to expand its transmission network between Temuco in Region IX to Region XI of Chile. In addition, Telsur will expand its wide band multiplatform service network in order to further develop Internet related services and will dedicate resources towards the develop of telephone-based security services. VTR expects to finance its capital expenditures through internally generated funds, supplier financing and external financing.

Madeco. Madeco's capital expenditures for the years 2002 to 2004 are estimated to total Ch\$20,168 million. Capital expenditures for the three year period related to the company's wire and cable business unit are expected to be Ch\$10,562 million, the brass mills business unit, Ch\$4,089 million, the flexible packaging business unit, Ch\$4,508 million and the aluminum profiles business unit, Ch\$1,009 million. The planned capital expenditures are to maintain and upgrade production facilities and machinery and equipment used in the productive processes as well as to expand capacity in the cutting and smelting processes in the coin production unit. Madeco expects to fund its capital expenditures through a combination of bank debt and or future equity increases.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

The Company does not own patents, licenses to technology, copyright or other intellectual property, nor is it involved in any research and development. In addition, the Company has not spent any money on research and development during the three year period immediately preceding the date of this annual report.

D. TREND INFORMATION

On March 27, 2001, Quiñenco acquired a controlling interest in Banco de Chile. Combined with the investment it held in Banco Edwards, investments in the Financial Services Sector represented approximately 65% of Quiñenco's total investments and 59% of total assets at the corporate level as of December 31, 2001. Due to the increased importance of Quiñenco's investments in the financial services sector, the level of future revenue and income will depend, to a large extent, on the results from this sector.

The share acquisition involved significant cash outlays during 2001, which amounted to Ch\$340,340 million (historic value) in 2001 and was financed with debt. As a result, the Company incurred in 2001 and will incur in future periods a higher level of interest expense until the debt level is reduced, either by payments at scheduled amortization dates or through the sale of non-strategic assets.

In connection with the acquisition of Banco de Chile, goodwill amounted to Ch\$247,779 million (historic value). The goodwill is being amortized over a period of 20 years, in accordance with Chilean GAAP and the related expense will represent a charge to income in future periods.

Banco de Chile

The Chilean banking industry has become increasingly competitive in recent years which has led to, among other things, increased consolidation in the industry and reduction of margins. Limited barriers to entry, as a consequence of higher flexibility in the regulatory framework in the Chilean financial system, and continued consolidation of the Chilean banking industry have intensified this competition. Banco de Chile expects the trend in increased competition to continue and result in further efficiency pressures as well as the formation of new large financial groups. The continued consolidation may materially and adversely affect Banco de Chile's financial condition and results of operations.

Historically, Chilean banks have not paid interest on amounts deposited in checking accounts. However, on February 28, 2002, the Central Bank amended the applicable regulations in order to allow banks to pay interest on checking accounts beginning on June 1, 2002 at an interest rate not to exceed 4% per annum until May 31, 2003. If Banco de Chile decides to pay interest on amounts deposited in checking accounts, it may also consider charging a fee for checking accounts, which could lead some customers to terminate their accounts or dissuade others from opening an account. Any such effect could have a material adverse effect on Banco de Chile's financial condition or its results of operations.

Madeco

The economic deterioration and currency devaluation in Argentina has materially affected and is expected to continue to materially adversely affect Madeco's operations in Argentina. As of December 31, 2001, Madeco had Ch\$38,448 million or 19.2% of its consolidated assets in Argentina and derived Ch\$48,823 million or 14.7% of its revenue from Argentine operations. As a result of the ongoing Argentine recession, Madeco has been limiting its activities, even before the onset of the recent crisis. Madeco has temporarily suspended its Argentine wire and cable and brass mills operations and closed its subsidiary, Decker-Indelqui. It has also significantly limited the production of optical fiber cables in

Argentina. As a result, Madeco's results of operations were affected by Ch\$18,618 million in 2001 and Ch\$8,547 million in the first quarter of 2002. Madeco may establish additional provisions in the future relating to its investments and operations in Argentina. Madeco is currently planning to renew its Argentine operations upon recovery of the Argentine economy. However, there can be no assurance that the Argentine economy will recover or that Madeco will resume its operations in that country.

Madeco is currently undergoing a debt restructuring process as a result of the recession in Argentina and other adverse developments in the markets in which it operates, including Brazil, where Madeco's results from operations have been affected by a reduction in investment by the telecommunications sector. In January 2002, Madeco retained Salomon Smith Barney (Chile) to advise it in developing a plan to restructure financial liabilities and increase equity. As part of this plan, Madeco is renegotiating the terms of some of its existing indebtedness, specifically with respect to financial covenants and maturity dates. As part of the renegotiation between Madeco and its banks, Madeco plans to increase capital by US\$70 million. Madeco is required to increase its capital by at least US\$60 million and expects to complete the increase through a preemptive rights offering to its existing shareholders. Madeco plans to use the proceeds from a capital increase to reduce indebtedness.

If Madeco's plan is not successful or consummated in a timely manner, it could become in default on part or all of its indebtedness which would have a material adverse effect on Madeco's financial condition and operations. There can be no assurance that Madeco will reach agreement with the banks party to its credit facilities or that it will be able to raise the capital sufficient to meet its capital needs. To date, none of Madeco's existing shareholders or any other person has committed to participate in a Madeco capital increase. Quiñenco has not determined if and on what terms it would participate in such an offering. Quiñenco expects, however, that it would make a determination regarding such an offering based on the terms of the offering and based on certain of the terms of Madeco's loan facilities. There can be no assurance that Quiñenco will or will not participate in Madeco's expected preemptive rights offering, or, if Quiñenco participates, on what terms it would do so, or the total amount of capital Quiñenco would contribute through such an offering. For more information regarding challenges Madeco may face in the future and possible effects on Quiñenco, see "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources."

Lucchetti

Lucchetti's operations in Peru are currently threatened by action of the Municipal Council of Lima, published on August 22, 2001, ordering the closure of its plant facilities within twelve months. Lucchetti believes that it is operating its plant in Peru legally and that the Municipal Council of Lima is not authorized to revoke its operating license. Lucchetti is currently analyzing various legal alternatives, which include presenting the dispute to international arbitration under a bilateral investment treaty between Chile and Peru.

As of March 31, 2002, Lucchetti had Ch\$30,128 million or 25.3% of its consolidated assets in Peru and derived Ch\$4,792 million or 26.1% of its consolidated revenue from Peruvian operations. If Lucchetti is unable to operate its plant in Peru, either permanently or for an extended period of time, its financial condition and results of operations would be materially adversely affected, as would the value of the Company's results of operations and investment in Lucchetti. There can be no assurance that Lucchetti will be able to preserve its right to operate its plant in Peru. For more information, including challenges Lucchetti may face in the future, see "Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources" and "Item 8. Financial Information—Legal Proceedings."

CCU

CCU's Argentine subsidiary was affected and continues to be affected by the Argentine economic crisis, registering losses of Ch\$1,806 million in connection with the currency devaluation in 2002. CCU's subsidiary, Finca La Celia, a wine producer in Argentina currently in the start-up phase, also experienced a loss associated with the crisis of Ch\$639 million in 2001. The current economic crisis has resulted in a significant reduction in the demand for goods and services in Argentina during 2002. CCU Argentina's sales volume fell by 16.5% and its revenues by 54.7% to Ch\$7,517 million in the first quarter of 2002. CCU's investment and presence in Argentina is consistent with its long-term strategy to further develop markets for its products. However, there can be no assurance when the Argentine economy will experience the growth levels achieved prior to the current crisis or that it will recover in the near to medium term.

In addition, CCU's beer brands in Chile may face increased competition from other alcoholic beverages such as wine and spirits, as well as from non-alcoholic beverages such as soft drinks. Beer consumption in Chile historically has been influenced by changes in domestic wine prices. Increases in domestic wine prices have tended to lead to increases in beer consumption, while reductions in wine prices have tended to reduce or slow the growth of beer consumption. However, this correlation has not been observed clearly in the past three years due to the low level of wine consumption and factors like higher wine quality and awareness of the positive effects of moderate wine consumption on health. Similarly, as the price of soft drinks has decreased relative to the price of beer over the past few years, due to lower packaging costs and the introduction of larger packaging formats, growth in beer consumption has slowed.

CCU estimates that the total beer market decreased approximately 0.3% in terms of volume sold during 2001 as compared to 2000. The effect of the slowdown in Latin American economies began in the second half of 1998 and worsened during 1999 with an increase in the unemployment level and a reduction in consumer spending. By the second half of 2000, some recovery signs were observed, however, were not seen during 2001. In 2001 the beer market did not grow due to the depressed consumption spending in Chile.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following tables summarize the Company's contractual and commercial obligations as of December 31, 2001:

Contractual Commitments	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Short term and Long term debt	682,793,133	169,306,115	286,256,897	96,455,523	130,774,598
Capital lease obligations	8,409,835	1,809,174	1,752,911	2,078,258	2,769,492
Operating leases	2,841,453	1,272,264	1,248,567	320,623	-
Unconditional purchase obligations	1,024,792	1,024,792	-	-	-
Other short term and long term obligations	53,014,545	53,013,985	561	-	-
Total contractual cash obligations	748,083,758	226,426,329	289,258,935	98,854,404	133,544,090

Commercial Commitments	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Lines of credit	15,980,464	11,902,602	4,077,862	-	-
Stand by letters of credit	8,071,220	7,833,604	237,616	-	-
Guarantees	9,251	9,251	-	-	-
Stand by repurchase obligations	-	-	-	-	-
Other commercial commitments	954,399	954,399	-	-	-
Total commercial commitments	25,015,334	20,699,856	4,315,478	-	-

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Directors

Quiñenco is managed by its Board of Directors which, in accordance with Quiñenco's By-laws, must consist of nine directors who are elected at the Annual General Shareholders' Meeting. The entire Board of Directors is elected every three years; the next election will be held in 2003. The Board of Directors may appoint replacements to fill any vacancies that occur during periods between elections. Quiñenco's Chief Executive Officer is appointed by the Board of Directors. There are regularly scheduled meetings of the Board of Directors at least once a month on dates predetermined by the Board; extraordinary meetings are called by the Chairman of the Board or when requested by an absolute majority of directors.

The following table sets forth information with regard to Quiñenco's directors as of December 31, 2001:

<u>Name</u>	<u>Position in Quiñenco</u>	<u>Year Born</u>	<u>First Elected</u>	<u>Principal Directorships</u>
Guillermo Luksic	Chairman of the Board	1956	1982	CCU (1) Telsur (1) Madeco (1) Lucchetti (1) Banco de Chile (1)
Andrónico Luksic	Vice Chairman of the Board	1954	1978	Banco Edwards (1)(3) Madeco (1) CCU (1) Lucchetti (1)
Philip J. Adeane	Director	1933	1980	Antofagasta plc (2) Axmin Inc. Carpathian Gold Ltd.
Hernán Büchi	Director	1949	1990	Madeco (1) Lucchetti (1) CCU (advisor) (1) Soquimich S.A. Falabella S.A. Pilmaiquén S.A. P&S S.A.
Joaquín Errázuriz	Director	1953	1984	Alto Palermo (Argentina) Hoteles Carrera (1) JAL Fisheries S.A. Com. E Ind. Hochschild S.A.
Juan Andrés Fontaine	Director	1954	1997	Banco Santiago Mall Plaza Vespucio S.A. Mall Plaza Tobalaba S.A. Mall Plaza La Serena S.A. Plaza El Trebol S.A. Besalco S.A.
Jean Paul Luksic	Director	1964	1993	Madeco (1) Antofagasta plc (2) Antofagasta Minerals S.A. (2) Antofagasta Railway Co. (2) Minera Los Pelambres Ltd.(2) Minera Michilla S.A. (2) Minera El Tesoro S.A.(2)
Gonzalo Menéndez	Director	1949	1996	Telsur (1) Inversiones Vita S.A. (1) Banco de Chile (3) Antofagasta plc (2) Antofagasta Minerals S.A.(2) Minera Michilla S.A.(2) Socofin S.A.
Vladimir Radic	Director	1933	1981	Banco Latinoamericano de Exportaciones Hoteles Carrera (1)

- (1) Subsidiary or affiliate of Quiñenco.
- (2) Company associated with the Luksic Group.
- (3) Until December 31, 2001. Following Banco Edwards' merger with Banco de Chile, Mr. Andrónico Luksic assumed the Vice Chairman position on the Board of Directors of Banco de Chile.

Guillermo Luksic, Andrónico Luksic and Jean Paul Luksic are brothers. Other than such relationships, there is no family relationship between any director or executive officer and any other director or officer of Quiñenco.

The following table sets forth Quiñenco's key executive officers as of December 31, 2001, their positions and years of service with Quiñenco and with the Luksic Group:

<u>Name of Executive Officer</u>	<u>Position</u>	<u>Years with Quiñenco</u>	<u>Years with Luksic Group</u>
Francisco Pérez Mackenna	Chief Executive Officer	4	11
Luis Fernando Antúnez	Chief Financial Officer	5	15
Manuel Jose Noguera	Chief Legal Counsel	3	27
Felipe Joannon	Business Development Manager	3	3
Luis Hernán Paúl.....	Strategy and Performance Appraisal	3	3
Sergio Cavagnaro.....	Human Resources	5	16

Francisco Pérez Mackenna, (age 44) Francisco Pérez Mackenna has served as Chief Executive Officer of the Company since 1998. He is also a Director of many Quiñenco group companies, including CCU, Banco de Chile, Inversiones y Rentas, LQIF, Hoteles Carrera, ECUSA, Viña San Pedro, CCU Argentina and Karlovacka Pivovara (Croatia). Prior to joining Quiñenco, between 1991 and 1998, Mr. Pérez Mackenna was General Manager and CEO of CCU. Prior to his experience with the Luksic Group, he worked in key positions at Bankers Trust and Citicorp Chile. Mr. Pérez attended the Catholic University of Chile, majoring in Business Administration. He holds a postgraduate degree (MBA) from the University of Chicago.

Luis Fernando Antúnez Borjes, (46) Luis Fernando Antúnez has served as Chief Financial Officer of Quiñenco since 1996. In addition, he is General Manager of Quiñenco's wholly-owned subsidiary, LQIF. Prior to joining Quiñenco, between 1985 and 1996, Mr. Antúnez was CFO of CCU. Prior to his experience with the Luksic Group, he worked in COPEC as a financial analyst. Mr. Antúnez attended the Catholic University of Chile, majoring in Industrial Engineering. He holds a postgraduate degree (MBA) from Georgia State University.

Manuel José Noguera Eyzaguirre, (52) Manuel José Noguera has served as Chief Legal Counsel of Quiñenco since 2000. He is also a Director of several Quiñenco group companies, including CCU, Inversiones y Rentas and LQ Inversiones, and an advisor to the Boards of Madeco and Hoteles Carrera. In his capacity as Chief Legal Counsel, he serves as an advisor to the board of Quiñenco. Prior to joining Quiñenco, Mr. Noguera developed his career in other Luksic group companies for over 27 years. He is also a partner at the law firm of Morales, Noguera, Valdivieso y Besa. Mr. Noguera received his law degree from the Catholic University of Chile.

Luis Hernán Paúl Fresno, (42) Luis Hernán Paúl has served as Manager of Strategy and Performance Appraisal since 1999. He is also currently a member of the Board of several Quiñenco companies, including Telsur, Habitaria and LQIF. Other experience includes: advisor to the Ministries of Finance and Economics, Professor at the Business School of the Catholic University and Chief of the Business and Capital Markets Area at Centro de Estudios Públicos (a Chilean think tank). He has also worked as a consultant to the World Bank. Between 1991 and 1998, Mr. Paúl was a partner with

Fontaine and Paúl Consultores. Mr. Paúl received a degree in Civil Engineering from the Catholic University of Chile and an MBA from the Massachusetts Institute of Technology.

Sergio Cavagnaro Santa María, (47) Sergio Cavagnaro has served as Human Resources Manager for Quiñenco since 2000. Mr. Cavagnaro's experience with the Luksic Group dates back 16 years. During his career with the group, he has served as Chief Executive Officer of VTR Celular S.A., and Chief Executive Officer of VTR Telefónica S.A. He is currently on the boards of Habitaria and VTR. Mr. Cavagnaro received his degree in Civil Industrial Engineering from the Catholic University of Chile, and he has a postgraduate degree from Adolfo Ibáñez University.

Felipe Joannon Vergara, (42) Felipe Joannon has served as Business Development Manager of Quiñenco since 1999. He is also currently a Director of Madeco, Habitaria, Hoteles Carrera, Entel and LQIF. Prior to joining Quiñenco, Mr. Joannon was General Manager and CEO of Viña Santa Rita, CFO of Cristalerías Chile and Resident Vice President of the Corporate Finance Area of Citicorp Chile. He has also been a Professor at the Business School of the Catholic University of Chile and Universidad de Los Andes. He received a degree in Economics from the Catholic University of Chile and holds an MBA degree from the Wharton School, University of Pennsylvania.

The following table shows the Chief Executive Officer and Chief Financial Officer of the principal businesses of the group :

<u>Name</u>	<u>Position</u>	<u>Years with</u>	
		<u>Current Company</u>	<u>Years with Luksic Group</u>
Julio Guzmán (1).....	Chief Executive Officer of Banco Edwards	10	3
Pablo Granifo (2).....	Chief Executive Officer of Banco de Chile	1	7
Arturo Concha.....	Chief Financial Officer of Banco de Chile	16	1
Patricio Jottar	Chief Executive Officer of CCU	4	4
Ricardo Reyes	Chief Financial Officer of CCU	5	5
Fernando Pacheco.....	Chief Executive Officer of Lucchetti	9	9
Eduardo Saez	Chief Financial Officer of Lucchetti	7	7
Jorge Atton.....	Chief Executive Officer of Telsur	18	16
Eduardo Commentz.....	Chief Financial Officer of Telsur	18	16
Albert Cussen.....	Chief Executive Officer of Madeco	3	3
Santiago Edwards	Chief Financial Officer of Madeco	3	3
Paulo Rosales (3)	Chief Executive Officer of Hoteles Carrera	1	1
Gloria Vergara	Chief Financial Officer of Hoteles Carrera	13	13
Rafael Valderrábano	Chief Executive Officer of Habitaria	4	4
Waldo Arce.....	Chief Financial Officer of Habitaria	4	13

(1) In October 2001, Julio Guzmán replaced Pablo Granifo as CEO of Banco Edwards. Prior to this, he was CFO of Banco Edwards. Following the merger of Banco Edwards with Banco de Chile on January 1, 2002, Julio Guzmán joined Banco de Chile as Manager of the Corporate and International Banking Division.

(2) In October 2001, Pablo Granifo replaced René Lehuedé as CEO of Banco de Chile.

(3) In March 2001, Paulo Rosales replaced Gustavo Yurjevic as CEO of Hoteles Carrera; Mr. Yurjevic is currently working as an advisor to Quiñenco for its investments in the Real Estate/Hotel Administration Sector.

Julio Guzmán H., (48) Julio Guzmán was named General Manager of Banco Edwards in October 2001, after having been with Banco Edwards since 1992. Prior to his promotion to General Manager, Mr. Guzmán was the head of the International Banking Division. In January 2002, Mr. Guzmán began working with the newly merged Banco de Chile as Manager of the Corporate and International Division. Mr. Guzmán's prior bank experience includes jobs held at Banco Santiago, Citibank and Banco de Chile. He is a member of the Board of Directors of Banchile Administradora de Fondos Mutuos S.A., Banchile

Asesoría Financiera S.A., Banchile Securitizadora S.A. and Banchile Administradora de Fondos de Inversión S.A. Mr. Guzmán holds a degree in economics from the Catholic University of Chile

Pablo Granifo Lavín, (44) Pablo Granifo was named General Manager of Banco de Chile in October 2001, after having served as the General Manager of Banco Edwards, since November 2000. Prior to being named General Manager, between March and November 2000, Mr. Granifo was Commercial Manager of the bank. Between 1995 and early 2000, he was Commercial and Corporate Manager of Banco Santiago. He is currently a Director of Banchile Administradora Fondos Mutuos S.S., Banchile Asesoría Financieras S.A., Banchile Factoring S.A. and Banchile Administradora de Fondos de Inversión S.A. Mr. Granifo is also a member of the executive committee of Banchile Corredores de Seguros Ltda. He holds a degree in Business Administration from the Catholic University of Chile.

Patricio Jottar Nasrallah, (39) Patricio Jottar has served as Chief Executive Officer of CCU S.A. since 1998. He is also currently a Director of CCU Argentina and ECUSA and is Chairman of the Board of Viña San Pedro. Prior to joining CCU, he was Chief Executive Officer of Santander Chile Holding. He received a degree in Business Administration from the Catholic University of Chile, and a Masters degree in Economics and Business Administration from IESE, in Barcelona, Spain.

Fernando Pacheco Novoa, (47) Mr. Fernando Pacheco has served as Chief Executive Officer of Empresas Lucchetti S.A. since 1998. Previously, he was the Finance and Administration Manager of Empresas Lucchetti S.A. Prior to joining Lucchetti, he was Studies and Development Manager at Vidrios Lirquén, Finance Manager of Viña Santa Carolina, Pesquera Ecomar (Pathfinder) and El Tattersal. He received a degree in Business Administration from the Catholic University of Chile.

Jorge Adolfo Atton Palma, (48) Jorge Atton has served as Chief Executive Officer of Telefónica del Sur S.A. and Telefónica de Coyhaique S.A. since 1998. He is also currently Chairman of the Board of Telefónica del Sur Carrier S.A. During his career with Telsur, he has been Operations Manager and Client Service Manager of Telefónica de Coyhaique. He received his degree in Electronic Engineering, specializing in telecommunications, from the Universidad de Concepción, and a degree in Electronic Engineering from Universidad Austral de Chile.

Albert Cussen Mackenna, (52) Albert Cussen has been Chief Executive Officer of Madeco S.A. since 1999. He currently also serves as a Director of Viña Concha y Toro S.A., and a member of the Latin America Advisory Committee to the Board of the New York Stock Exchange. Prior to joining Madeco, he was Finance and Administration Vice-President of Codelco Chile. During his career, he has held key positions with Banco Santiago, AFP Provida, and Cruz Blanca. Mr. Cussen holds a degree in Industrial Civil Engineering from the University of Chile.

Paulo Rosales, (37) Paulo Rosales was named Chief Executive Officer of Hoteles Carrera in early 2001. Mr. Rosales developed his career as General Manager of DCP, The Walt Disney Company, Director of New Business Initiatives for LATAM and Export Manager of Viña Santa Rita. Mr. Rosales holds a degree in Business Administration from the Catholic University of Chile.

Rafael Valderrábano, (34) Rafael Valderrábano has been Chief Executive Officer of Habitaria since 1998. Prior to this, he was Commercial Manager of Ferrovial Inmobiliaria in Madrid, Spain and General Manager of Ferrovial Inmobiliaria Chile Limitada. Mr. Valderrábano holds a degree in Economics and Business Administration from ICADE and an MBA from IESE, in Spain.

B. Compensation

Director Compensation

For the year ended December 31, 2001, compensation paid to each of the Company's Directors in connection with their service on Quiñenco and subsidiary boards was the following:

<u>Director</u>	<u>Total Compensation</u> (in millions of constant Ch\$)
Guillermo Luksic	Ch\$147
Andrónico Luksic	87
Jean-Paul Luksic	2
Gonzalo Menéndez	228
Hernán Büchi	26
Juan Andrés Fontaine	2
Joaquín Errázurriz	5
Vladimir Radic	5
Philip Adeane	-
Total	<u>Ch\$502</u>

Executive Officer Compensation

For the year ended December 31, 2001, the aggregate amount of compensation paid to officers and key executives of Quiñenco, including bonuses, was Ch\$2,144 million. For the year ended December 31, 2001 and prior years, Quiñenco did not disclose to its shareholders or otherwise make publicly available information as to the compensation of its individual executive officers.

Each executive officer of the Company receives a fixed monthly salary and benefit package. In addition, the Company may, at its discretion, compensate executive officers with an annual bonus, depending on individual performance and adherence to predefined goals.

In addition, a long-term executive incentive plan was established by the Company in March 2000. In accordance with this plan, shares of Quiñenco's principal operating companies were purchased by a group of qualified executives and as of December 31, 2001, total shares purchased amounted to 5,638,940 shares of the Company, 250,325 shares of CCU, 10,498,875 shares of Banco Edwards, 563,941 shares of Madeco, 447,251 shares of Telsur and 34,700 shares of Lucchetti. Each executive was offered a predetermined number of shares, approved in each case by the Board of Directors. Financing was provided by the Company through non-interest bearing loans to each executive, the total of which amounted to Ch\$4,773 million as of December 31, 2001. The loans, which are expressed in Unidades de Fomento (UF), are repayable in 48 months, and the individual shares are pledged as collateral during the loan period. Upon maturity, the pledged shares will be delivered as full payment for the loans. To the extent that the value of the shares exceeds the loan value, the executive will be entitled to the difference as compensation. This plan was made available to qualified executives in accordance with approval granted by the Board of Directors on March 8, 2000.

C. Board Practices

The current term of office for each director expires in 2003. The Company does not provide for any additional benefits upon termination of the current term of office to the directors of Quiñenco or its subsidiaries.

Audit Committee

The Chilean Corporations Act was amended effective December 20, 2000. The following is a summary of the main provisions of the amendment. Under the amendment, the boards of directors of corporations whose market capitalization reaches or exceeds 1.5 million *Unidades de Fomento* (as of May 31, 2002, approximately US\$37 million) shall designate an audit committee (the “Audit Committee”). If the market capitalization falls below this threshold, the obligation to designate an Audit Committee disappears. However, corporations which do not reach the threshold may voluntarily assume the obligations concerning the Audit Committee, in which case they shall strictly follow the provisions of the amendment.

The Audit Committee shall have the following powers and duties:

- (1) to examine the independent accountants’ reports, the balance sheets, and other financial statements submitted by the corporation’s managers or liquidators to the shareholders, and issue an opinion about them prior to their submission for shareholder approval;
- (2) to propose to the Board of Directors the independent accountants and the risk rating agencies, which the Board must then propose to the shareholders. Should the Board disagree with the Audit Committee’s proposal, the Board shall be entitled to make its own proposal, submitting both to the shareholders for their consideration;
- (3) to examine the documentation concerning (i) contracts or agreements in which directors have an interest and (ii) transactions between related or affiliated companies, and to produce a written report on such documentation. A copy of the report shall be delivered to the Chairman of the Board, who shall read it at the Board meeting in which the relevant transaction is presented for approval or rejection;
- (4) to examine the managers’ and chief executives’ remuneration policies and compensation plans; and
- (5) all other matters contemplated in the company’s bylaws or entrusted to the Audit Committee by a shareholders’ meeting or the Board of Directors.

For purposes of the related party transactions mentioned in paragraph (3) above, the following persons are considered by the Securities Market Law and the Chilean Corporation Act to be related to a company:

- (a) any entities within the financial conglomerate to which the company belongs;
- (b) corporate entities that have, with respect to the company, the character of parent company, affiliated company, subsidiary or related company. Parent companies are those that control directly or indirectly more than 50% of the subsidiary’s voting stock (or participations, in the case of business organizations other than stock companies), or that may otherwise elect or appoint, or cause the election or appointment, of the majority of the directors or officers. Limited partnerships (*sociedades en comandita*) may likewise be affiliates of a corporation, whenever the latter has the power to direct or guide the administration of the general partner (*gestor*) thereof. Related companies are those that, without actually controlling the affiliate, own directly or indirectly 10% or more of the affiliate’s voting stock (or participations, in the case of business organizations other than stock companies), or that may otherwise elect or appoint, or cause the election or appointment of at least one board member or manager;

- (c) persons who are directors, managers, administrators or liquidators of the company, and their spouses or their close relatives (i.e., parents, father/mother in law, sisters, brothers, sisters/brothers in law); and
- (d) any person who, whether acting alone or in agreement with others, may appoint at least one member of the management of the company or controls 10% or more of the capital of the company.

In addition, the Superintendency of Securities and Insurance may create a presumption that any individual or corporate entity is related with a company if, because of relationships of equity, administration, kinship, responsibility or subordination, the person:

- (i) whether acting alone or in agreement with others, has sufficient voting power to influence the company's management;
- (ii) creates conflicts of interest in doing business with the company;
- (iii) in the case of a corporate entity, is influenced in its management by the company; or
- (iv) holds an employment position, which affords the person access to non-public information about the company and its business which renders the person capable of influencing the value of the company's securities.

However, a person shall not be considered to be related to a company by the mere fact of owning up to 5% of the company, or if the person is only an employee of the company without managerial responsibilities.

The Audit Committee's discussions, agreements, and organization are regulated, in every applicable matter, by the Chilean Corporations Act provisions relating to board of directors' meetings. The Audit Committee shall inform the Board of Directors about the manner in which it will request information and about its resolutions.

In addition to the general liabilities imputable to any director, the directors that compose the Audit Committee shall, in the exercise of their duties, be jointly and severally liable for any damage caused to the corporation or the shareholders.

The Audit Committee shall be composed of three members, the majority of which shall be independent. Independent directors are those that would have been elected even if the votes cast in that director's favor by the controlling shareholder and its related persons had not been counted. However, a majority of directors related to the controlling shareholder is permissible if there is an insufficient number of independent directors. Should there be more than three directors entitled to participate in the Audit Committee, the Board of Directors shall elect the members of the Audit Committee by unanimous vote. Should the Board fail to reach an agreement, the matter shall be decided by drawing. The Company's Audit Committee is composed of Gonzalo Menéndez, Vladimir Radic and Joaquín Errázuriz.

The members of the Audit Committee shall be remunerated. The amount of such remuneration shall be established annually by the shareholders, taking into consideration the duties that the Audit Committee members shall perform. The remuneration of the members of the Company's Audit Committee is 10 *Unidades de Fomento* per session.

The shareholders shall determine the budget of the Audit Committee and its advisors, and the Audit Committee shall be allowed to request the recruitment of professionals to fulfill its duties, within the limits

imposed by the budget. The activities of the Audit Committee and its expenses, including those of its advisors, shall be included in the annual report and made known to the shareholders. The annual budget of the Company's Audit Committee and its advisors is 1,000 *Unidades de Fomento*.

D. Employees

The following table sets forth the number of employees of Quiñenco and its subsidiaries as of December 31, 2001:

2001	<u>Executives</u>	<u>Professional/Technical</u>	<u>Other Personnel</u>	<u>Total</u>
Quiñenco	14	16	10	40
Banco de Chile	124	2,775	1,151	4,050
Banco Edwards	122	1,713	1,008	2,843
Madeco	60	385	2,869	3,314
Telsur	28	353	249	630
Lucchetti	17	148	793	958
Hoteles Carrera	8	54	271	333
Other Subsidiaries	<u>16</u>	<u>74</u>	<u>65</u>	<u>155</u>
Total Employees	<u>389</u>	<u>5,518</u>	<u>6,416</u>	<u>12,323</u>

2000	<u>Executives</u>	<u>Professional/Technical</u>	<u>Other Personnel</u>	<u>Total</u>
Quiñenco	15	9	14	38
Banco Edwards	201	1,562	1,176	2,939
Madeco	66	391	3,492	3,949
Telsur	30	330	256	616
Lucchetti	27	174	977	1,178
Hoteles Carrera	10	58	255	323
Other Subsidiaries	<u>11</u>	<u>54</u>	<u>85</u>	<u>150</u>
Total Employees	<u>360</u>	<u>2,578</u>	<u>6,255</u>	<u>9,193</u>

1999	<u>Executives</u>	<u>Professional/Technical</u>	<u>Other Personnel</u>	<u>Total</u>
Quiñenco	15	6	16	37
Banco Edwards	139	1,253	879	2,271
Madeco	67	399	4,087	4,553
Telsur	25	302	218	545
Lucchetti	32	197	947	1,176
Hoteles Carrera	12	63	274	349
Other Subsidiaries	<u>10</u>	<u>65</u>	<u>55</u>	<u>330</u>
Total Employees	<u>300</u>	<u>2,285</u>	<u>6,476</u>	<u>9,061</u>

In addition, at December 31, 1999, 2000 and 2001, CCU had 5,353, 4,332 and 3,892 employees, respectively. For the same years ended, Habitaria had 21, 59 and 83 employees, respectively. In 2000, Plava Laguna had 812 employees.

The Company believes its subsidiaries maintain productive relationships with their employees' respective unions and negotiate collective bargaining agreements from time to time. We include specific information regarding labor relationships of CCU, Madeco and Banco Chile below.

At December 31, 2001, CCU's unionized employees represented approximately 62% of the total permanent workforce. CCU's total workforce of 2,314 employees, which includes permanent and temporary employees, are subject to collectively negotiated agreements. During 2001, 1,428 employees renewed their collective contracts, all of them for a period of two years.

Madeco's 653 employees in Chile are represented by five labor unions, 279 of its 735 permanent employees in Brazil are represented by two labor unions, and 40 of its 261 Argentine employees were represented by Union Personal Civil de la Nacion (Civil Personnel Union of the Nation or "UPCN").

At December 31, 2001, 769 (17.0%) of Banco de Chile's employees were unionized. All management positions are held by non-union employees. Banco de Chile is party to four collective bargaining agreements (one of which was assumed as part of the merger with Banco A. Edwards) covering the unionized employees. Three collective bargaining agreements were signed in September 2001 and expire in December 2005, the other was signed in November 1999, and expires in December 2002.

For the year ended at December 31, 2001, Banco Edwards had 2,721 employees (on a consolidated basis), and 971 of the 2,721 employees belonged to one union, the Sindicato de Trabajadores del Banco Edwards. All management positions were held by non-union employees. Banco Edwards entered into a new collective bargaining agreement in November 1999, which covered all unionized employees and which expires on December 31, 2002.

E. Share Ownership

As of December 31, 2001, except as disclosed in "Item 7. Major Shareholders and Related Party Transactions — Principal Shareholders", none of the Company's directors or executive officers beneficially owned more than one percent of the outstanding stock. Excluding members of the Luksic Group, the directors and executive officers collectively held 0.6% of the Company's shares as of December 31, 2001. As of March 31, 2002, there was no change in the percentage of shares collectively held by directors and executives of the Company.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

As of the date of this Annual Report, members of the Luksic Group, which consists of Mr. Andrónico Luksic Sr. and his sons, Andrónico Luksic Craig, Guillermo Luksic Craig and Jean Paul Luksic Fontbona, beneficially own approximately 82.4% of the outstanding shares of common stock, without par values of Quiñenco ("the shares") and thereby control the Company. Guillermo Luksic, Andrónico Luksic and Jean-Paul Luksic are all directors on the Company's Board of Directors.

Control by the Luksic Group is exercised through the Luksic Group's control of Inversiones FCAB Ltda., Ruana Copper A.G. Agencia Chile, Inversiones Consolidadas S.A., Sociedad Inmobiliaria y de Inversiones Río Claro Ltda., Inversiones Salta S.A., Anaconda South America Inc. and the Andes Trust Ltd. (collectively, the "Principal Shareholders"), which are the Luksic Group companies that hold shares of Quiñenco. Although there are no formal agreements as to the voting or disposition of shares known to Quiñenco, Quiñenco believes that the members of the Luksic Group generally consult with each other regarding actions to be taken by shareholders of Quiñenco. Consequently, the Luksic Group has the power to elect a majority of Quiñenco's directors and to determine the outcome of substantially all matters to be decided by a vote of shareholders.

Quiñenco's only outstanding voting securities are the common shares. There was no significant change in the share ownership of the Company in 1999, 2000 or 2001. The following table sets forth certain information concerning ownership of the shares with respect to the Luksic Group's companies at December 31, 2001:

<u>Title of Class</u>	<u>Identity of Person or Group</u>	<u>Amount Owned</u>	<u>Percent of Class</u>
Common Stock	Inversiones FCAB Ltda.	362,757,196	33.6%
	Ruana Copper A.G. Agencias Chile	240,938,000	22.3%
	Sociedad Inmobiliaria e Inversiones Rio Claro Ltda	142,819,109	13.2%
	Inversiones Consolidadas S.A.....	124,819,108	11.6%
	Inversiones Salta S.A.	18,000,000	1.7%
	Anaconda South America, Inc	97,670	-
	The Andes Trust Limited	9,767	-

Registration Rights Agreement with Antofagasta. In connection with the reorganization of Quiñenco during 1996, Quiñenco has entered into a registration rights agreement (the “Registration Rights Agreement”) with Antofagasta, pursuant to which Antofagasta has the right to cause or agree with Quiñenco to cause the registration of shares obtained by Antofagasta and its subsidiaries in the 1996 reorganization on one or more registration statements (not to exceed five “demand” registration statements). In addition, Antofagasta has “piggy-back” rights in connection with its shares which permit Antofagasta, subject to certain conditions and limitations, to include shares received by its subsidiaries in connection with the 1996 reorganization and held by Antofagasta and its affiliates in any future registered public offerings of shares (or ADSs representing shares) in the United States.

B. Related Party Transactions

Article 89 of the Chilean Corporations Law, Law N° 18.046, requires that the Company’s transactions with related parties be on terms similar to those of an arm’s length transaction. Directors and executive officers of companies that violate Article 89 are liable for losses resulting from such violations. In addition, Articles 44 and 50 of the Chilean Corporations Law provide that any transaction in which a director has a personal interest or is acting on behalf of a third party may be executed only when such transaction is disclosed to the Audit Committee and approved by the Board of Directors, and the terms of such transaction are similar to those of an arm’s length transaction. If the conflicting interest transaction involves a “material amount,” the Board of Directors is required to produce a statement declaring in advance that the conflicting interest transaction is similar in its terms to an arm’s length transaction. A conflicting interest transaction is deemed to involve a “material amount” if the amount involved is both greater than 2,000 *Unidades de Fomento* (as of May 31, 2001, approximately US\$50 thousand) and exceeds 1% of the assets of the corporation, or if the amount exceeds 20,000 *Unidades de Fomento* (as of May 31, 2001, approximately US\$500 thousand) regardless of the size of the corporation.

If the Board of Directors believes that it is not possible to ascertain whether the conflicting interest transaction is similar to an arm’s length transaction, it may approve or reject the conflicting interest transaction, or appoint independent advisors to make such a determination. In this case interested directors are excluded from the decision of the Board related to the conflicting interest transaction. If the Board appoints independent advisors, the report prepared by the advisors will be made available to the shareholders and the Board of Directors for 20 business days from the date the report was received from the independent advisors. The shareholders will be notified in writing of the receipt of the report. After this period the Board may approve or reject the conflicting interest transaction, but the Board is not required to follow the independent advisors’ conclusion. The Board may treat the conflicting interest transaction and the report as confidential information.

Shareholders representing at least a 5% of the voting shares of the Company may request the Board to call a shareholders’ meeting in order to approve or reject the conflicting interest transaction by a two-thirds majority of the outstanding voting shares. All decisions adopted by the Board in respect of the conflicting interest transaction must be reported at the next shareholders’ meeting.

The controller of the corporation or the related party which intends to enter into the conflicting interest transaction shall make available to the Board of Directors, at the time the transaction is being considered by the Board, all information relating to the transaction filed with any non-Chilean regulatory entities or stock exchanges. A violation of Article 44 may result in administrative or criminal sanctions against the interested director. The Company, the shareholders or interested third parties who suffer losses as a result of such violation have the right to receive compensation from such director in certain situations.

In the ordinary course of its business, the Company engages in a variety of transactions with affiliates of the Luksic Group. Financial information concerning these transactions during the last three years is set forth in Note 21 to the Consolidated Financial Statements. The Company believes that it has complied with the requirements of Article 89 and Article 44 in all transactions with related parties.

Although the Company generally does not provide or receive long-term debt financing to or from other entities within the Luksic Group (except in connection with bank loans on arm's length terms in the ordinary course of business from the Company's subsidiary, Banco de Chile), the Company has occasionally in the past and may in the future advance funds and receive advances of funds from other companies under the common control of the Luksic Group when required to meet liquidity requirements. These loans have been on an unsecured basis at market rates of interest and, in the case of loans made by the Company to affiliated companies, require the prior approval of the Audit Committee and Quiñenco's Board of Directors pursuant to the requirements of the Chilean Corporations Laws relating to open companies such as Quiñenco. The outstanding amounts of such loans made by the Company to affiliated companies during the years ended December 31, 1999, 2000 and 2001 were not material to Quiñenco, individually or in the aggregate. In addition, the Company has from time to time in the past made loans and advances to affiliated companies in the Luksic Group and to strategic investors and their affiliates to provide financing resources in connection with acquisitions of assets and other transactions. Such loans and advances have generally been made on a secured basis at market rates of interest. See Note 21 to the Consolidated Financial Statements.

The Company also provides goods and services in commercial transactions in the ordinary course of business to affiliated companies in the Luksic Group. In connection with such transactions, the Company from time to time extends unsecured credit on terms substantially similar to those available to other customers purchasing goods and services in similar quantities.

Except for the transactions described below, none of the transactions carried out during 2001 between the Company and related parties were deemed to have been material to the related party:

1. *Promosol*. Lucchetti carried out transactions for goods and services with its 50%-owned affiliate, Promosol, during 2000. Under an ongoing agreement that Lucchetti maintains with Coprona S.A., Lucchetti extracts raw oil from seeds which it then sells to Promosol. Promosol, through its production processes, refines the edible oil. Promosol's production is then sold to Lucchetti and Coprona in accordance with the terms of its agreement which provide for purchases of 100% of Promosol's production. In 2001, Lucchetti provided extraction services to Promosol which amounted to Ch\$1,535 million. Sales made by Promosol to Lucchetti amounted to Ch\$3,216 million during the same period.
2. Under its executive incentive plan, Quiñenco made non-interest bearing loans to qualified executives which amounted to Ch\$4,773 million in 2001. For a description of the incentive plan, See "Item 6B. Executive Compensation".

On August 20, 2001, Quiñenco announced that it had sold its 39.4% interest in Plava Laguna d.d., to a company related to the Luksic Group, Sutivan Investments Establishment ("Sutivan"), for

US\$29.6 million (historic value). Quiñenco recognized a gain on sale of Ch\$1,280 million (equivalent to US\$2.0 million as of December 31, 2001). Quiñenco held its interest in Plava Laguna through its wholly-owned subsidiary, Excelsa Establishment. Sutivan is an investment holding company, which participates in the Croatian hotel and tourist industry. It is organized under the laws of Liechtenstein and controlled by the Luksic Group. The sales price of the transaction was determined in accordance with prevailing market conditions for real estate on the Croatian coast at the time of sale. Under the terms of the sales agreement, Quiñenco has an option to purchase 50% of Sutivan in the year 2004. If Quiñenco decides to exercise this option, the purchase price will be determined as the acquisition cost of the investments held by Sutivan, expressed in U.S. dollars, plus Sutivan's cost of capital to maintain its investments, adjusted by expenses or capital increases between the sales date and the option date.

On May 29, 2002, Quiñenco announced that its subsidiary, LQIF, had obtained a US\$70 million loan from Andsberg Finance Corporation, a company based in Bermuda, owned by Mr. Andrónico Luksic. The transaction, which was carried out at arms' length, bears an interest rate of LIBOR plus 2% per annum. The loan matures in May of 2005. Proceeds were used by LQIF to refinance existing indebtedness.

Item 8. Financial Information

A. and B. See "Item 18. Financial Statements".

Legal Proceedings

Neither Quiñenco nor any of its subsidiaries or affiliates in which Quiñenco holds significant non-consolidated equity investments is party to any legal proceedings which are material to the Company, except as described below.

Inversiones y Rentas.

Quiñenco is currently involved in arbitration proceedings, under the rules of the International Chamber of Commerce, in connection with its 50% interest in Inversiones y Rentas S.A. ("IRSA"), the holding company which directly owns 61.6% of the outstanding shares of CCU. Inversiones y Rentas is a joint venture between Quiñenco, Bayerische BrauHolding A.G. of Germany and FHI Finance Holding International B.V. of the Netherlands, formed in 1986 to invest in CCU. In February 2001, Bayerische BrauHolding A.G. announced that it had sold approximately 49% of its interest in Inversiones y Rentas to Heineken International B.V., the Dutch brewer. Although the exact terms of its agreement with Heineken International B.V. are not known, Quiñenco believes the sale represents a violation of the existing shareholders' agreement with Bayerische BrauHolding A.G. and FHI Finance Holding International B.V.

In December 2001, the arbitration panel placed a temporary freeze on the transfer to Heineken International B.V. of any interest that Bayerische BrauHolding A.G. maintains in IRSA. It is hoped that a definitive ruling will be issued in 2002. There can be no assurance as to the timing and nature of a definitive ruling.

In addition, on June 8, 2001, Quiñenco filed a request for the court appointment of an arbitrator under IRSA's charter documents (estatutos) in Chile in order to resolve disagreements between the partners of IRSA with respect to the aforementioned transaction. To date, an arbitrator has not yet been assigned to the case.

CCU.

In 1994, CCU's wholly-owned subsidiary, ECUSA, and Cadbury Schweppes plc. ("Cadbury Schweppes") entered into a license agreement for all Cadbury Schweppes products (Crush, Crush Light, Canada Dry Limón Soda, Canada Dry Ginger Ale and Canada Dry Agua Tónica). On December 11, 1998, TCCC announced an agreement with Cadbury Schweppes to acquire certain Cadbury Schweppes international beverage brands, and in August 1999 the agreement was reported to have been consummated. In July 1999, ECUSA filed an application against TCCC with the Chilean Antitrust Solicitor-General seeking a declaration that the acquisition of the Cadbury Brands by TCCC would have an adverse effect on competition in Chile; PepsiCo had filed a similar but separate petition. In November 1999, ECUSA filed a complaint before a Chilean civil court, seeking a judicial declaration of breach of contract and damages, against CS Beverages Ltd., Canada Dry Corporation Ltd., TCCC, Atlantic Industries and Cadbury Schweppes. On December 22, 1999, CCU received a notice wherein CS Beverages Ltd. and Canada Dry Corporation Ltd., unilaterally gave a 60-day notice of termination of the franchise agreements for the Crush and Canada Dry brands. This notice was later withdrawn by CS Beverages Ltd. and Canada Dry Corporation Ltd., stating that they would submit the validity of the termination of the agreements to the decision of a competent court. On March 21, 2000, CS Beverages Ltd. and Canada Dry Corporation Ltd. filed a Request for Arbitration under the rules of the International Chamber of Commerce ("ICC") to adjudge, among other things, the early termination of the agreements. In September 2000, ECUSA and TCCC reached an agreement to replace the two previous license contracts between ECUSA and each of CS Beverages Ltd. and Canada Dry Corporation Ltd., with a single new "Bottler Contract" between ECUSA and Schweppes Holding Limited, which is also a subsidiary of TCCC. To make the Bottler Contract operative, it was submitted to be approved by the Antitrust Commission. On December 26, 2000, the Commission issued a resolution declaring that the Bottler Contract was not objectionable from a free market perspective. Additionally, this resolution denied the request to put an end to the Commission's ex-officio proceeding, which will resume its course until a sentence is pronounced. On January 2, 2001, ECUSA and the three TCCC subsidiaries, CS Beverages Ltd., Canada Dry Corporation Ltd. and Schweppes Holdings Ltd., agreed to make effective the new "Bottler Contract". On June 28, 2001, the Antitrust Commission put an end to the proceeding regarding the Cadbury Schweppes brands issue. The decision confirmed it had no objection to the "Bottler Contract" executed between ECUSA and Schweppes Holding Ltd. regarding Crush and Canada Dry brands, and dismissed all complaints filed in consideration of that agreement. The "Bottler Contract" became effective January 2, 2001 and has an initial ten-year term, renewable for consecutive five-year periods provided that certain conditions are met.

Madeco.

In 2001, Madeco resolved a labor dispute which involved two of Madeco's unions. The dispute stemmed from an interpretation of collective bargaining agreements in effect in 1989 and 1990. Madeco is making provisions for the estimated flow of payments required over the upcoming years.

The Company is involved in 63 labor lawsuits in Argentina, primarily related to indemnity payments. The total amount of related damages claimed is approximately US\$0.8 million and the Company expects a resolution to these issues within the next three years. Also in Argentina, the Company is involved in 55 lawsuits related to the alleged unconstitutionality of *Ley de Aseguradora de Riesgos del Trabajo*, or Law No. 24,557, which regulates compensation benefits for work-related accidents and illnesses. The total amount of claims corresponding to Law No. 24,557 is approximately US\$4.3 million. While the Supreme Court of Argentina has ruled the law as constitutional, in favor of employers, the Company is still required to finalize proceedings with each of the respective state-level courts. Provisions have been made to reflect the Company's best estimate of the potential expenses that could be incurred as a consequence of these lawsuits.

In Brazil, two legal disputes against the previous owner of Madeco's subsidiary, Ficap, have been pending since prior to Madeco's acquisition of the subsidiary in 1997. It is estimated that the total amount of the lawsuits involve approximately US\$10 million. Madeco has a personal guarantee from the previous owner of Ficap to indemnify the Company if the Brazilian subsidiary were to be affected by these actions.

Madeco does not believe that the outcome of any of its outstanding litigations will have a material adverse effect on the Company's financial condition or results of operations.

Telsur.

Telsur is involved in labor lawsuits for indemnification claims totaling approximately Ch\$626 million. In addition, Telsur is involved in two lawsuits involving claims worth Ch\$1,456 million. Since the amounts involved are not significant, Telsur has not made provisions to cover anticipated losses.

Lucchetti.

In March 2000, allegations were made by certain governmental authorities and private parties in Peru that Lucchetti representatives acted improperly to obtain a judgment in their favor with respect to legal proceedings in 1998 arising out of a dispute between Lucchetti Peru and the Municipality of Lima, as discussed below under "—Lucchetti Peru". Lucchetti Peru had commenced these proceedings following actions by Lima to suspend construction and operation of the Lucchetti plant. The allegations were based in part on publicly-released portions of videotapes of meetings between Lucchetti representatives and Vladimiro Montesinos, a senior official of the government of then President Alberto Fujimori who has since been implicated in a widespread corruption scandal. The videotapes have been portrayed as an attempt by Lucchetti representatives to use Mr. Montesino's influence to intervene on behalf of Lucchetti Peru in order to obtain a favorable judgment. Lucchetti has denied that it acted improperly in the matter.

In May 2001, criminal charges were filed before the Second Anti-Corruption Court of Lima against certain Lucchetti representatives and Peruvian government officials, alleging influence peddling in connection with the matter described above. These charges have been denied by the individuals involved, and are still being investigated by the court in order to determine whether or not there is cause to warrant a trial.

Although Lucchetti expects its representatives to prevail in the pending legal proceedings, no assurances can be given as to the outcome of these or any related proceeding or other actions which may be brought against Lucchetti, its Peruvian subsidiary or their respective representatives relating to this matter. Lucchetti believes that if Lucchetti's representatives do not prevail, Lucchetti could be affected in terms of negative public relations which could have a materially adverse effect on Lucchetti's results of operations and financial position.

Lucchetti Peru.

On August 16, 2001, the Municipal Council of Lima adopted an "Acuerdo de Consejo" purporting to revoke the operating license that had been previously granted by the Municipality of Chorrillos, and requiring Lucchetti to close the plant operations within 12 months and dismantle and remove the plant facilities. The Municipal Council alleged that the operation of the plant interfered with the special characteristics of an adjacent wetlands area. The Acuerdo de Consejo was published in the Official Gazette of Peru on August 22, 2001.

On October 3, 2001, Lucchetti notified the Republic of Peru that it was invoking the dispute resolution procedures of the bilateral investment treaty, which requires a six-month period of consultations prior to the formal initiation of any legal proceedings. The consultation period ended on April 3, 2002 without a settlement. Lucchetti is currently considering submitting the dispute for resolution by an international arbitral tribunal under the auspices of the International Centre for Settlement of Investment Disputes in Washington, D.C. (Tribunal Arbitral Internacional del CIADI). Nonetheless, the outcome of this conflict cannot be foreseen, and Lucchetti may be obliged to close its plant operations in Peru in the future, which could materially adversely affect the results and operations and financial position of Lucchetti and the results of operations of Quíñenco.

Dividend Policy

A declaration of dividends is made to shareholders at a general ordinary meeting. A dividend declaration is based upon a proposal made by the Board of Directors. However, shareholders are not obligated to approve the board's recommendation. The dividend policy of the Company is to distribute 30% of annual net earnings as dividends. On April 30, 2002, a general ordinary meeting was held. At that time, it was proposed and accepted that a dividend payment of Ch\$5.75 pesos corresponding to the distribution of 40% of 2001 net income be paid on or after May 9, 2002.

B. Significant Changes

See "Item 4. Information on the Company—Summary of Developments in 2002" for certain developments in 2002.

Item 9. The Offer and Listing

A. and C. Trading Information

The Company's shares are traded on the Santiago Stock Exchange, the Chilean Electronic Stock Exchange, and the Valparaíso Stock Exchange and since June 1997 have been quoted on the New York Stock Exchange (the "NYSE") in the form of American Depositary Shares. The Company conducted a preemptive rights offering and United States offering of American Depositary Shares ("ADSs") in June 1997 (the "Offerings"). Since the conclusion of the Offerings, the ADSs (each ADS representing 10 shares) have been traded in the United States on the NYSE under the symbol LQ. The ADSs are evidenced by American Depositary Receipts ("ADRs"). The ADRs are outstanding under a Deposit Agreement, dated as of June 24, 1997 (the "Deposit Agreement"), among the Company, Citibank N.A., as depositary (the "Depositary"), and the holders from time to time of ADRs issued there under. Only persons in whose names ADRs are registered on the books of the Depositary are treated by the Depositary as owners of ADRs.

The table below shows, for the period indicated, the high and low closing prices in Chilean pesos for the Shares on the Santiago Stock Exchange and the high and low closing prices of the ADS in U.S. dollars on the NYSE:

Annual	Santiago Stock Exchange⁽¹⁾		NYSE	
	Ch\$ per Share		US\$ per ADS	
	High	Low	High	Low
1997 (2)	790	440	19.06	10.00
1998	570	215	13.25	4.00
1999	621	310	12.00	6.00
2000	795	390	14.63	6.75
2001	545	347	8.00	5.48
2000				
1 st Quarter	795	530	14.63	10.69
2 nd Quarter	600	500	11.43	9.12
3 rd Quarter	525	477	9.88	8.38
4 th Quarter	510	390	8.75	6.75
2001				
1 st Quarter	460	347	7.94	6.45
2 nd Quarter	485	410	8.00	5.80
3 rd Quarter	545	410	7.70	6.00
4 th Quarter	500	382	7.47	5.48
2002				
1 st Quarter	490	370	7.40	5.43
January	490	440	7.40	6.70
February	458	370	6.71	5.43
March	460	370	6.76	5.58
April	405	350	6.30	5.60
May	354	324	5.40	5.03
June (through June 14)	340	325	5.22	4.90

(1) Pesos per Share and U.S. dollar per share reflected nominal price at trade date.

(2) Shares began to trade on the Santiago Stock Exchange and the NYSE on June 25, 1997.

At December 31, 2001, ADRs evidencing 9,593,663 ADSs were outstanding (equivalent to 95,936,630 shares, or 8.88% of the total number of issued Shares). It is not practicable for the Company to determine the proportion of ADRs beneficially owned by U.S. persons. At December 31, 2001, the Luksic Group did not own ADRs of Quiñenco.

Madeco's shares are traded on the Chilean Stock Exchanges, and since 1993 have traded on the NYSE in the form of American Depositary Shares. CCU's shares are traded on the Chilean Stock Exchanges and between 1992 and March 1999 had been quoted on the NASDAQ National Market in the form of American Depositary Shares. In March 1999, trading in CCU's American Depositary Shares moved to the NYSE. Until December 31, 2001, Banco Edwards's shares were traded on the Chilean Stock Exchanges, and since November 1995 were traded on the NYSE in the form of American Depositary Shares. On January 1, 2002, as a result of its merger with Banco de Chile, Banco Edwards shares were converted to Banco de Chile "F shares" and on March 21, 2002, following the distribution of Banco Edwards' 2001 net income, the "F shares" were converted to Banco de Chile common shares. Banco de Chile's shares have been traded on the Chilean Stock Exchanges since November 1996 and on the NYSE since January 2002. The shares of Lucchetti, Hoteles Carrera, Entel, and Telsur are traded on the Chilean Stock Exchanges. The shares of Habitaria and VTR are not publicly traded.

Markets

The Chilean Stock Market

General

The Chilean stock market, which is regulated by the Superintendencia de Valores y Seguros (the “SVS”) under Chile’s Securities Market Law, is one of the most developed among emerging markets, reflecting the particular economic history and development of Chile. The Chilean government’s policy of privatizing state-owned companies, implemented during the 1980s, has led to an expansion of private ownership of shares, resulting in an increase in the importance of stock markets. This policy of privatization extended to the social security system, which was converted into a privately managed pension fund system. These pension funds have been allowed, subject to certain limitations, to invest in stocks and are currently major investors in the stock market. Certain elements of the market, including pension fund administrators, are highly regulated with respect to investment and remuneration criteria, but the general market is less regulated than the U.S. market with respect to disclosure requirements and information usage. While the expectation is that stock market regulations and practices will evolve, the Chilean stock market is still developing.

History and Description

The Santiago Stock Exchange was established in 1893. As of December 31, 2001, 249 companies had shares listed on the Santiago Stock Exchange. The Santiago Stock Exchange is Chile’s principal exchange, with transactions in 2001 which amounted to Ch\$2,691,613 million. In Chile, shares may also be traded on the Valparaiso Stock Exchange and the Chilean Electronic Stock Exchange.

There are two share price indices for the Santiago Stock Exchange: The General Share Price Index (the “IGPA”) and the Selective Shares Price Index (“IPSA”). The IGPA index is calculated using the prices of companies traded on the exchange, divided into five main sectors: banks and finance, farming and forest products, mining, industrial, and miscellaneous. The IPSA is a major company index, currently including the Exchange’s 40 most active stocks. Shares included in the IPSA are weighted according to the value of shares traded.

The table below summarizes recent value and performance indicators for the Santiago Stock Exchange.

<u>At or for the Year Ended</u>	<u>Market Capitalization</u> (in US\$ millions)	<u>Annual Trading Volume</u>	<u>IGPA Index</u> (1)	<u>IPSA Index</u> (1)	<u>Percent Change in IGPA Index</u> (2)	<u>Percent Change in IPSA Index</u> (2)
December 31, 1997.....	71,935	7,308	205.42	389.69	(7.78)%	6.46%
December 31, 1998.....	51,809	4,405	147.15	288.07	(28.37)%	(26.08)%
December 31, 1999....	68,193	6,601	206.76	402.78	40.51%	39.82%
December 31, 2000....	60,426	5,778	186.37	371.36	(9.86)%	(7.80)%
December 31, 2001....	56,857	4,111	201.30	394.72	8.01%	6.29%

Source: Santiago Stock Exchange

(1) Index base = 100 on December 31, 1990.

(2) In nominal peso terms.

Volatility and Suspension of Trading

The IPSA has increased at an average compounded annual rate of 3.1% for the period 1997 to 2001. During 2001, the IPSA decreased by 6.3% in nominal peso terms. As the table above shows, swings in market performance are often significant and reflect the high level of volatility characteristic of the Chilean stock market.

According to Article 14 of the Securities Market Law, the SVS may suspend the offer, quotation or trading of shares of any company listed on one or more Chilean stock exchanges for up to 30 days if in its opinion such suspension is necessary to protect investors or is justified for reasons of public interest. Such suspension may be extended to 120 days. If, at the expiration of the extension, the circumstances giving rise to the original suspension have not changed, the SVS may then cancel the relevant listing in the Registry of Securities.

Liquidity

The aggregate market value of equity securities listed on the Santiago Stock Exchange as of December 31, 2001 was US\$56.9 billion. The ten largest companies in terms of market capitalization as of December 31, 2001 represented approximately 41% of that exchange's aggregate market capitalization and accounted for approximately 61% of total volume traded during 2001. Average monthly trading volume for 2001 was US\$343 million. (Comparatively, the NYSE had an aggregate global market capitalization of approximately US\$16 trillion at December 31, 2001, and average daily reported share volume of approximately 1.24 billion).

Foreign Ownership

Foreign investment in Chile is governed by Decree Law No. 600 of 1974, as amended ("Decree Law No. 600"), by the Central Bank Foreign Exchange Regulations and by the Central Bank Act, law No. 18,840, which is an organic constitutional law requiring a "special majority" vote of the Chilean Congress to be modified (hereinafter referred to as the "Central Bank Act"). See "Item 10 D. Exchange Controls". Foreign investment into Chile under Decree Law No. 600 may not be remitted outside Chile earlier than one year after the initial investment. According to new regulations issued by the Central Bank of Chile in May 2000 and April 2001, if governed by Chapter XIV of the Central Bank Foreign Exchange Regulations, the capital may be remitted outside Chile at any time. However, in the case of investments made before May 2000, the capital must be kept in Chile for one year. Earnings may be remitted at any time, whether under Decree Law No. 600 or Chapter XIV. Capital and earnings must be remitted through the Formal Exchange Market.

Notwithstanding the foregoing, an investment in Chilean shares by foreigners through an ADR program is also governed by the Central Bank Act and by Chapter XIV of the Central Bank Foreign Exchange Regulations, which do not require a holding period before remitting capital or earnings abroad. See "Item 10 D. Exchange Controls".

Foreign capital investment funds ("FCIFs") are governed by Law No. 18,657 and are permitted to receive preferential tax treatment. FCIFs are required to obtain a favorable report issued by the SVS in order to conduct business in Chile. FCIFs may not remit capital for five years following the investment of such capital, although earnings may be remitted at any time. An FCIF may hold a maximum of 5% of a given company's shares, although this can be increased to a maximum of 10% if the excess over 5% corresponds to newly issued shares of such company that are subscribed and paid by the FCIF. Furthermore, no more than 10% of an FCIF's assets may be invested in a given company's stock, unless the security is issued or guaranteed by the Republic of Chile or the Central Bank, and no more than 25% of the outstanding shares of any listed company may be owned by FCIFs, taken together.

In addition, a FCIF may not own more than 40% of the outstanding shares of the same conglomerate. For a description of Chilean taxation, see “Item 10 E. Taxation”.

Item 10. Additional Information

B. Memorandum and Articles of Association

Pursuant to the requirements of the Chilean Corporations Law, and in accordance with Law Number 18,046, the Company’s articles of incorporation and by-laws or estatutos, have been registered with the Securities Register (Registro de Valores), under entry number 0594.

For a description of the Company’s share capital, including rights, preferences and restrictions thereto, See “Description of Share Capital” in the Registration Statement, Form F-1, filled with the Securities and Exchange Commission on June 6, 1997.

C. Material Contracts

Not applicable.

D. Exchange Controls

The Central Bank of Chile is responsible for, among other things, monetary policies and exchange controls in Chile. See “Item 3. Key Information—Exchange Rates”. Foreign investments can be registered with the Foreign Investment Committee under Decree Law No. 600 – registration which grants the investor access to the Formal Exchange Market - or with the Central Bank of Chile under Chapter XIV of the Central Bank Foreign Exchange Regulations.

Effective April 19, 2001, the Central Bank of Chile abrogated the then existing Chapter XXVI of the Central Bank Foreign Exchange Regulations (“Chapter XXVI”), which addressed issuances of ADSs by a Chilean company, and issued an entirely new set of Foreign Exchange Regulations (the “2001 Foreign Exchange Regulations”), virtually eliminating all the restrictions and limitations that had been in force up to that date. The 2001 Foreign Exchange Regulations were based upon the general principle that foreign exchange transactions can be done freely in Chile by any person, notwithstanding the power conferred by law to the Central Bank of Chile of imposing certain restrictions and limitations on such transactions.

With the issuance of the 2001 Foreign Exchange Regulations, the approval by the Central Bank of Chile required for access to the Formal Exchange Market was replaced with the requirement of disclosure of the relevant transactions to the Central Bank of Chile. However, some foreign exchange transactions, notably foreign loans, capital investment or deposits, continued to be subject to the requirement of being effected through the Formal Exchange Market.

The 2001 Foreign Exchange Regulations, among others, eliminated the following restrictions:

- (1) prior authorization by the Central Bank of Chile for the entry of capital in connection with foreign loans, investment, capital contribution, bonds and ADRs;
- (2) prior authorization by the Central Bank of Chile for the remittance of capital in connection with repatriation of capital, dividends and other benefits related to capital contributions and investment, and prepayment of foreign loans;
- (3) minimum risk classification restrictions and terms for the issuance of bonds;

- (4) restrictions to the issuance of ADRs. Therefore, the rules established under Chapter XXVI of the previous Foreign Exchange Regulations were abrogated; and
- (5) Mandatory Reserve deposits for foreign capital.

The abrogation of Chapter XXVI by the 2001 Foreign Exchange Regulations implied that the issuance of ADSs by a Chilean company would be subject to the rules contained in Chapter XIV of such regulations, according to which credits, deposits, investments and capital contributions coming from abroad must be effected through the Formal Exchange Market.

According to the 2001 Foreign Exchange Regulations, the foreign exchange transactions performed before April 19, 2001, remained subject to the regulations in effect at the time of the transactions, unless the interested parties elected the applicability of the 2001 Foreign Exchange Regulations, thereby expressly waiving the applicability of the regulations in force at the time of the execution of the respective transaction.

Effective March 1, 2002, the Central Bank of Chile has abrogated the then existing Central Bank Foreign Exchange Regulations, i.e. the 2001 Foreign Exchange Regulations, and issued an entirely new set of Foreign Exchange Regulations (the “New Regulations”), thereby continuing the liberalization of the foreign exchange regulations. As the 2001 Foreign Exchange Regulations, the New Regulations are also based upon the general principle that foreign exchange transactions can be done freely in Chile by any person, notwithstanding the power conferred by law to the Central Bank of Chile of imposing certain restrictions and limitations on such transactions.

The New Regulations also require the disclosure of the relevant transaction to the Central Bank of Chile and that some foreign exchange transactions, notably foreign loans, capital investments or deposits, be effected through the Formal Exchange Market.

The issuance of ADSs by a Chilean company remains subject to the rules contained in Chapter XIV. These rules were partly amended in the New Regulations, which allow the use of proceeds from a foreign credit, deposit, investment or capital contribution directly abroad, i.e., without delivering the currency into Chile. The direct use abroad of the proceeds of a foreign credit, deposit, investment or capital contribution remain subject to the obligation of informing the Central Bank of Chile of the transaction.

The New Regulations have also simplified the forms required to provide the information to the Central Bank of Chile, so as to reduce the time needed to effect foreign exchange transactions by foreign investors in Chile.

The New Regulations contain a transitory norm establishing that foreign exchange transactions performed before April 19, 2001, remain subject to the regulations in effect at the time of the transactions, unless the interested parties elect the applicability of the New Regulation, thereby expressly waiving the applicability of the regulations in force at the time of the execution of the relevant transaction.

A Foreign Investment Contract was entered into among the Central Bank of Chile, the Company and the Depositary pursuant to Article 47 of the Central Bank Act and Chapter XXVI. According to Chilean law, a contract is ruled by the law in effect at the time of the execution of the contract. Therefore, the Foreign Investment Contract entered into among the Central Bank of Chile, the Company and the Depositary is ruled by the foreign exchange regulations in force before April 19, 2001, among which is Chapter XXVI.

Absent the Foreign Investment Contract, under Chilean exchange controls in force until April 19, 2001, investors would not have been granted access to the Formal Exchange Market for the purpose of converting Chilean pesos to U.S. dollars and repatriating from Chile amounts received in respect of deposited shares or shares withdrawn from deposit on surrender of ADRs (including amounts received as cash dividends and proceeds from the sale in Chile of the underlying shares and any rights with respect thereto). In December 1999, amendments were introduced in Chapter XXVI whereby, among other things, the Central Bank of Chile was authorized to reject applications under such regulations without expression of cause. In resolving on such applications, the Central Bank of Chile was required to take into account the situation of the balance of payments and the stability of the capitals account. However, the Central Bank of Chile was authorized to require certain conditions to the applicants prior to resolving on the applications. In April 2000, Chapter XXVI was again amended in order to incorporate, in addition to shares issued by Chilean corporations, quotes of investment funds as eligible to be converted into ADSs. Chapter XXVI did not require delivery of a new application in case of the entry of U.S. dollars intended for the acquisition of shares not subscribed by the shareholders or by the transferees of the options to subscribe the shares.

Under Chapter XXVI and the Foreign Investment Contract, the Central Bank of Chile agreed to grant to the Depository, on behalf of ADR holders, and to any non-Chilean resident investor who withdrew Shares upon surrender of ADRs (such Shares being referred to herein as “Withdrawn Shares”) access to the Formal Exchange Market to convert Chilean pesos to U.S. dollars (and to remit such dollars outside of Chile) in respect of Shares represented by ADSs or Withdrawn Shares, including amounts received as (a) cash dividends, (b) proceeds from the sale in Chile of Withdrawn Shares (subject to receipt by the Central Bank of Chile of a certificate from the holder of the Withdrawn Shares (or from an institution authorized by the Central Bank of Chile) that such holder’s residence and domicile were outside Chile and a certificate from a Chilean stock exchange (or from a brokerage or securities firm established in Chile) that such Withdrawn Shares had been sold on a Chilean exchange), (c) proceeds from the sale in Chile of pre-emptive rights to subscribe for and purchase additional Shares, (d) proceeds from the liquidation, merger or consolidation of the Company and (e) other distributions, including, without limitation, those resulting from any recapitalization, as a result of holding Shares represented by ADSs or Withdrawn Shares. Access to the Formal Exchange Market in the case of (a), (b), (c) and (d) above would be available for only five working days following the sale of the shares on the stock exchange. Transferees of Withdrawn Shares would not be entitled to any of the foregoing rights under Chapter XXVI unless the Withdrawn Shares were redeposited with the Custodian. Investors receiving Withdrawn Shares in exchange for ADRs would have the right to redeposit such Shares in exchange for ADRs, provided that certain conditions to redeposit were satisfied. For a description of the Formal Exchange Market, see “3A Exchange Rates”. Alternatively, according to the amendments introduced to Chapter XXVI in December 1999, in case of Withdrawn Shares and their subsequent sale in a stock exchange, the Chilean peso proceeds obtained thereby could be converted into U.S. dollars in a market different from the Formal Exchange Market within five business days from the date of the sale.

Chapter XXVI provided that access to the Formal Exchange Market in connection with the sale of Withdrawn Shares or distributions thereon would be conditioned upon receipt by the Central Bank of Chile of a certification by the Depository or the Custodian, as the case might have been, that such Shares had been withdrawn in exchange for delivery of the pertinent ADRs and receipt of a waiver of the benefits of the Foreign Investment Contract with respect thereto (except in connection with the proposed sale of the Shares) until such Withdrawn Shares were redeposited. Chapter XXVI also provided that access to the Formal Exchange Market in connection with dividend payments was conditioned on certification by the Company to the Central Bank of Chile that a dividend payment had been made. The provision contained in Chapter XXVI that established that access to the Formal Exchange Market in connection with dividend payments was conditioned on certification by the Company to the Central Bank of Chile that any applicable tax had been withheld was eliminated on November 23, 2000.

Chapter XXVI and the Foreign Investment Contract provided that a person who brought foreign currency into Chile, including U.S. dollars, to purchase Shares entitled to the benefit of the Foreign Investment Contract was required to convert such foreign currency into Chilean pesos on the same date and had five banking business days within which to invest in Shares in order to receive the benefit of the Foreign Investment Contract. If such person decided within such period not to acquire Shares, such person could access the Formal Exchange Market to reacquire foreign currency, provided that the applicable request was presented to the Central Bank of Chile within seven banking days of the initial conversion into pesos. Shares acquired as described above could be deposited in exchange for ADRs and receive the benefit of the Foreign Investment Contract, subject to receipt by the Central Bank of Chile of a certificate from the Depository that such deposit had been effected and that the related ADRs had been issued and receipt by the Custodian of a declaration from the person making such deposit waiving the benefit of the Foreign Investment Contract with respect to the deposited Shares.

Chapter XXVI required foreign investors acquiring shares or securities in Chile to maintain a mandatory reserve (the “Mandatory Reserve”) for one year in the form of a non-interest bearing U.S. dollar deposit with the Central Bank, or to pay to the Central Bank a non-refundable fee (the “Fee”). Such reserve requirement was imposed with respect to investments made by foreign investors to acquire shares or securities in the secondary market, but did not apply to capital contributions made for purposes of paying-in capital for a newly created company or increasing the capital of an existing company. As of June 1, 1999, the Mandatory Reserve was not applied to foreign investments made for purposes of acquiring shares of a stock corporation, provided that the investor was entitled to the benefit of Chapter XXVI, and that such acquisition was consummated in accordance with the provisions of Chapter XXVI. On September 17, 1998, the Central Bank of Chile reduced the Mandatory Reserve to 0%.

Access to the Formal Exchange Market under any of the circumstances described above was not automatic. Pursuant to Chapter XXVI, such access required approval of the Central Bank of Chile based on a request presented through a banking institution established in Chile within five business days from the occurrence of any of the events described in letters (a), (b), (c) and (d) above. Pursuant to the Foreign Investment Contract, if the Central Bank of Chile had not acted on such request within seven banking days, the request would be deemed approved.

Under current Chilean law, the Foreign Investment Contract cannot be changed unilaterally by the Central Bank of Chile. No assurance can be given, however, that new restrictions applicable to the holders of ADRs, the disposition of underlying Shares or the repatriation of the proceeds from such disposition will not be reinstated in the future by the Central Bank of Chile, nor can there be any assessment of the possible duration or impact of such restrictions.

E. Taxation

Chilean Tax Considerations

The following discussion relates to Chilean income tax laws presently in force, including Ruling No. 324 of January 29, 1990 of the Chilean Internal Revenue Service and other applicable regulations and rulings in effect on the date of this Annual Report, all of which are subject to change. The discussion summarizes the principal Chilean income tax consequences of an investment in the ADSs or Shares by a person who is neither domiciled in nor a resident of Chile or by a legal entity that is not organized under the laws of Chile and does not have a permanent establishment located in Chile (any such individual or entity, a “Foreign Holder”). For purposes of Chilean tax law, an individual holder is a resident of Chile if he has resided in Chile for more than six consecutive months in one calendar year or for a total of six months, whether consecutive or not, in two consecutive tax years. The discussion is not

intended as tax advice to any particular investor, which can be rendered only in light of that investor’s particular tax situation.

Under Chilean law, provisions contained in statutes such as tax rates applicable to foreign investors, the computation of taxable income for Chilean purposes and the manner in which Chilean taxes are imposed and collected may only be amended by another statute. In addition, the Chilean tax authorities enact rulings and regulations of either general or specific application and interpret the provisions of Chilean tax law. Chilean tax may not be assessed retroactively against taxpayers who act in good faith relying on such rulings, regulations and interpretations, but Chilean tax authorities may change these rulings, regulations and interpretations prospectively. There is no income tax treaty in force between Chile and the United States.

Cash Dividends and Other Distributions

Cash dividends paid by Quiñenco with respect to the ADSs or Shares held by a Foreign Holder will be subject to a 35% Chilean withholding tax, which is withheld and paid over to the Chilean tax authorities by Quiñenco (the “Withholding Tax”). If the dividends, however, are paid to a Chilean Bank under whose name the Shares are registered by power of attorney, such bank will be liable for withholding and paying the Withholding Tax once the cash dividends are remitted to the bank’s principal. A credit against the Withholding Tax is available based on the level of corporate income tax actually paid by Quiñenco on the income to be distributed (the “First Category Tax”); however, this credit does not reduce the Withholding Tax on a one-for-one basis because it also increases the base on which the Withholding Tax is imposed. In addition, if Quiñenco distributes less than all of its distributable income, the credit for First-Category Tax paid by Quiñenco is proportionately reduced. Presently, the First Category Tax rate is 16%. The example below illustrates the effective Chilean Withholding Tax burden on a cash dividend received by a foreign holder, assuming a Withholding Tax rate of 35%, an effective First-Category Tax rate of 16%. The example below illustrates the effective Chilean Withholding Tax burden on a cash dividend received by a foreign holder, assuming a Withholding Tax rate of 35%, an effective First-Category Tax rate of 16% and a distribution of 30% of the consolidated net income of Quiñenco distributable after payment of the First-Category Tax:

Quiñenco taxable income	100
First Category Tax (16% of Ch\$100)	<u>(16)</u>
Net distributable income.....	84
Dividend distributed (30% of net distributable income).....	25.2
Withholding Tax (35% of the sum of Ch\$25.2 dividend plus Ch\$4.8 First- Category Tax paid).....	(10.5)
Credit for 30% of First-Category Tax.....	<u>4.8</u>
Net additional tax withheld.....	<u>(5.7)</u>
Net dividend received.....	<u>19.5</u>
Effective dividend withholding rate.....	<u>22.6%</u>

In general, the effective dividend Withholding Tax rate, after giving effect to the credit for the First-Category Tax, can be calculated using the following formula:

$$\text{Effective dividend Withholding Tax rate} = \frac{(\text{Withholding Tax Rate}) - (\text{First Category Tax Rate})}{1 - (\text{First Category Tax Rate})}$$

Under Chilean income tax law, dividends generally are assumed to have been paid out of the Company’s oldest retained profits for purposes of determining the level of First-Category Tax that was paid by the Company. For information as to the retained earnings of the Company for tax purposes and the tax credit available on the distribution of such retained earnings, see Note 24 to the Audited

Consolidated Financial Statements. The effective rate of Withholding Tax to be imposed on dividends paid by Quiñenco will vary depending upon the amount of First Category Tax paid by the Company on the earnings to which the dividends are attributed. The effective rate for dividends attributed to earnings from 1991 until 2001, for which the First Category Tax was 15%, generally was 23.5%. For 2002, the First Category Tax rate is 16%, which results in an effective rate of Withholding Tax of 22.6%. In 2003, the First Category Tax rate will be 16.5% and from 2004 onwards, the First Category Tax rate will be 17%.

For dividends attributable to the Company's profits during years when the First-Category Tax was 10% (before 1991), the effective dividend Withholding Tax rate will be 27.8%. However, whether the First-Category Tax is 10%, 15% or 16%, the effective overall combined tax rate imposed on the Company's distributed profits will be 35%.

Dividend distributions made in property would be subject to the same Chilean tax rules as cash dividends based on the fair market value of such property. Stock dividends and the distribution of preemptive rights are not subject to Chilean taxation.

Capital Gains

Gain from the sale or other disposition by a Foreign Holder of ADSs (or ADRs evidencing ADSs) outside Chile will not be subject to Chilean taxation. The deposit and withdrawal of Shares in exchange for ADRs will not be subject to any Chilean taxes.

Gain recognized on a sale or exchange of Shares (as distinguished from sales or exchanges of ADRs evidencing ADSs representing such Shares) may be subject to both the First-Category Tax and the Withholding Tax (the former being creditable against the latter) if either, (i) the Foreign Holder has held the Shares for less than one year since exchanging ADSs for the Shares, (ii) the Foreign Holder acquired and disposed of the Shares in the ordinary course of its business or as a habitual trader of shares or (iii) the Foreign Holder and the purchaser of the Shares are "related parties" within the meaning of Article 17, Number 8, of the Chilean Income Tax Law. In all other cases, gain on the disposition of Shares will be subject only to a capital gains tax which is assessed at the same rate as the First Category Tax (currently imposed at a rate of 16%).

Gain recognized in the transfer of Shares that have a high presence in the stock exchange, however, is not subject to capital gains tax in Chile, provided that the Shares are transferred in a local stock exchange, in other authorized stock exchanges (up to this date, the New York Stock Exchange, the London Stock Exchange and the Madrid Stock Exchange have been authorized for these purposes), or within the process of a public tender of shares governed by the Chilean Securities Market Act. The Shares must also have been acquired either in a stock exchange, within the referred process of a public tender of shares governed by the Chilean Securities Market Act, in an initial public offer of shares resulting from the formation of a corporation or a capital increase of the same, or in an exchange of convertible bonds. Shares are considered to have a high presence in the stock exchange when they (i) are registered in the Securities Registry, (ii) are registered in a Chilean Stock exchange, and (iii) have an adjusted presence equal to or above 25%. To calculate the adjusted presence of a particular Share, the aforementioned regulation states that, the number of days in which the operations regarding the stock exceeded, in Chilean pesos, the equivalent of 200 *Unidades de Fomento* (approximately US\$4,800) within the previous 180 business days of the stock market. That number must then be divided by 180, multiplied by 100, and expressed in a percentage value. The referred tax regime does not apply in case the transaction involves an amount of Shares that would allow the acquirer to take control of the publicly traded corporation, in which case the ordinary tax regime referred in the previous paragraph will apply, unless the sale complies with one of the following conditions: (i) the transfer is part of a tender offer

governed by the Chilean Securities Market Act; or (ii) the transfer is done in a Chilean stock exchange, without substantially exceeding the market price.

Capital gains obtained in the sale of shares that are publicly traded in a stock exchange are also exempt from capital gains tax in Chile when the sale is made by “foreign institutional investors”, such as mutual funds and pension funds, provided that the sale is made in a stock exchange or in accordance with the provisions of the Securities Market Law, or in any other form authorized by the *Superintendencia de Valores y Seguros* (“SVS”, equivalent to the Securities and Exchange Commission in the U.S.). To qualify as a foreign institutional investor, the referred entities must be formed outside of Chile, not have a domicile in Chile, and they must be at least one of the following:

- (a) An investment fund that offers its shares or quotas publicly in a country with an investment grade for its public debt, according to a classification performed by an international risk classification entity registered with the SVS;
- (b) An investment fund registered with a regulatory agency or authority from a country with an investment grade for its public debt, according to a classification performed by an international risk classification entity registered with the SVS, provided that its investments in Chile constitute less than 30% of the share value of the fund, including deeds issued abroad representing Chilean securities, such as ADRs of Chilean companies;
- (c) An investment fund whose investments in Chile represent less than 30% of the share value of the fund, including deeds issued abroad representing Chilean securities, such as ADRs of Chilean companies, provided that not more than 10% of the share value of the fund is directly or indirectly owned by Chilean residents;
- (d) A pension fund, i.e., those formed exclusively by natural persons that receive pensions out of an accumulated capital in the fund;
- (e) A Foreign Capital Investment Fund, as defined in Law N° 18.657; or
- (f) Any other foreign institutional investor that complies with the requirements set forth through general regulations for each category of investor, prior information from the SVS and the Chilean tax authority or *Servicio de Impuestos Internos* (“SII”).

The foreign institutional investor must not directly or indirectly participate in the control of the corporations issuing the shares it invests in nor possess or participate in 10% or more of the capital or the profits of the same corporations.

Other requirements for the exemption to apply are that the referred foreign institutional investors must execute a written contract with a bank or a stock broker, both incorporated in Chile. In this contract, the bank or stock broker undertake to perform the purchase and sale orders, as well as to verify the applicability of the tax exemption and inform the SII of the investors it operates with and the transactions it performs. Finally, the foreign institutional investor must register with the SII by means of a sworn statement issued by the entities referred above (bank or stock broker).

The tax basis of Shares received in exchange for ADRs will be the acquisition value of the Shares on the date of exchange. The valuation procedure set forth in the Deposit Agreement, which values Shares which are being exchanged at the highest price at which they trade on the Santiago Stock Exchange on the date of the exchange, will determine the acquisition value for this purpose. Consequently, the surrender of ADRs for Shares and the immediate sale of the Shares for the value established under the Deposit Agreement will not generate a capital gain subject to taxation in Chile.

The exercise of preemptive rights relating to the Shares will not be subject to Chilean taxation. Any gain on the sale of preemptive rights relating to the Shares will be subject to both the First-Category Tax and the Withholding Tax (the former being creditable against the latter).

Other Chilean Taxes

There are no Chilean inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of ADSs by a Foreign Holder, but such taxes generally will apply to the transfer at death or by gift of the Shares by a Foreign Holder. There are no Chilean stamp, issue, registration or similar taxes or duties payable by Foreign Holders of ADSs or Shares.

Withholding Tax Certificates

Upon request, Quiñenco will provide to Foreign Holders appropriate documentation evidencing the payment of the Chilean Withholding Tax (net of applicable First Category Tax).

United States Tax Considerations

The following is a summary of certain United States federal income tax consequences of the ownership of Shares or ADSs by an investor that is a U.S. Holder (as defined below) that holds the Shares or ADSs as capital assets. This summary does not purport to address all material tax consequences of the ownership of Shares or ADSs, and does not take into account the specific circumstances of any particular investors (such as tax-exempt entities, certain insurance companies, broker-dealers, traders in securities that elect to mark to market, investors liable for alternative minimum tax, investors that actually or constructively own 10% or more of the voting stock of the Company, investors that hold Shares or ADSs as part of a straddle or a hedging or conversion transaction or U.S. Holders (as defined below) whose functional currency is not the U.S. dollar), some of which may be subject to special rules. This summary is based on the tax laws of the United States (including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations there under, published rulings and court decisions) as in effect on the date hereof, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

For purposes of this discussion, a “U.S. Holder” is any beneficial owner of Shares or ADSs that is (i) a citizen or resident of the United States, (ii) a corporation or partnership organized under the laws of the United States or any State, (iii) an estate whose income is subject to United States federal income tax regardless of its source or (iv) a trust if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust. The discussion does not address any aspects of United States taxation other than federal income taxation. Investors are urged to consult their tax advisors regarding the United States federal, state and local and other tax consequences of owning and disposing of Shares and ADSs.

In general, assuming that the representations of the Depository are true and that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms, for United States federal income tax purposes, holders of ADRs evidencing ADSs will be treated as the owners of the Shares represented by those ADSs, and exchanges of Shares for ADSs, and ADSs for Shares, will not be subject to United States federal income tax.

Cash Dividends and Other Distributions

Under the United States federal income tax laws, and subject to the passive foreign investment company (“PFIC”) rules discussed below, U.S. Holders will include in gross income the gross amount of any dividend paid (after reduction for any Chilean First-Category Tax that is credited against Chilean

Withholding Tax, but before reduction for the net amount of Chilean Withholding Tax) by the Company out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) as ordinary income when the dividend is actually or constructively received by the U.S. Holder, in the case of Shares, or by the Depositary, in the case of ADSs. The dividend will not be eligible for the dividends-received deduction. The amount of the dividend distribution includible in income of a U.S. Holder will be the U.S. dollar value of the Chilean peso payments made, determined at the spot Chilean peso/U.S. dollar rate on the date such dividend distribution is includible in the income of the U.S. Holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in income to the date such payment is converted into U.S. dollars will be treated as ordinary income or loss. Such gain or loss will generally be from sources within the United States for foreign tax credit limitation purposes.

Subject to certain generally applicable limitations, the net amount of Chilean Withholding Tax (after reduction for the credit for Chilean First-Category Tax) paid over to Chile will be creditable against the U.S. Holder's United States federal income tax liability. For foreign tax credit limitation purposes, the dividend will be income from sources without the United States.

Pro rata distributions of Shares or preemptive rights generally are not subject to United States federal income tax. The basis of the new Shares or preemptive rights (if such rights are exercised or sold) generally will be determined by allocating the U.S. Holder's adjusted basis in the old shares between the old Shares and the new Shares or preemptive rights received, based on their relative fair market values on the date of distribution (except that the basis of the preemptive rights will be zero if the fair market value of the rights is less than 15% of the fair market value of the old Shares at the time of distribution, unless the U.S. Holder irrevocably elects to allocate basis between the old Shares and the preemptive rights). The holding period of a U.S. Holder for the new Shares or preemptive rights will include the U.S. Holders holding period for the old Shares with respect to which the new Shares or preemptive rights were issued.

Capital Gains

U.S. Holders will not recognize gain or loss on deposits or withdrawals of Shares in exchange for ADSs or on the exercise of preemptive rights. U.S. Holders will recognize capital gain or loss on the sale or other disposition of ADSs or Shares (or preemptive rights with respect to such Shares) held by the U.S. Holder or by the Depositary equal to the difference between the amount realized and the U.S. Holders tax basis in the ADSs or Shares. Any gain recognized by a U.S. Holder generally will be treated as United States source income. Consequently, in the case of a disposition of Shares or preemptive rights (which, unlike a disposition of ADRs, will be taxable in Chile), the U.S. Holder may not be able to claim the foreign tax credit for Chilean tax imposed on the gain unless it appropriately can apply the credit against tax due on other income from foreign sources. Loss generally would be treated as United States source loss.

PFIC Rules

Quiñenco believes that it should not be treated as a passive foreign investment company (a "PFIC") for United States federal income tax purposes, although this conclusion is subject to some uncertainty given the lack of definitive asset values for non publicly-traded or illiquid assets. This conclusion is a factual determination made annually and thus may be subject to change.

In general, the Company will be a PFIC with respect to a U.S. Holder if, for any taxable year in which the U.S. Holder held the Company's ADSs or Shares, either (i) at least 75% of the gross income of the Company for the taxable year is passive income or (ii) at least 50% of the value (determined on the

basis of a quarterly average) of the Company's assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income. If the Company is treated as a PFIC, a U.S. Holder would be subject to special rules with respect to (a) any gain realized on the sale or other disposition of Shares or ADSs and (b) any "excess distribution" by the Company to the U.S. Holder (generally, any distributions to the U.S. Holder in respect of the Shares or ADSs during a single taxable year that are greater than 125% of the average annual distributions received by the U.S. Holder in respect of the Shares or ADSs during the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the Shares or ADSs). Under these rules, (i) the gain or excess distribution would be allocated ratably over the U.S. Holder's holding period for the Shares or ADSs, (ii) the amount allocated to the taxable year in which the gain or excess distribution was realized would be taxable as ordinary income, (iii) the amount allocated to each prior year, with certain exceptions, would be subject to tax at the highest tax rate in effect for that year and (iv) the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such year.

Special rules apply with respect to the calculation of the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If the Company is treated as a PFIC, a U.S. Holder may be able to make a mark-to-market election if the Company's stock is treated as regularly traded on a registered national securities exchange or other exchange to the extent permitted by the IRS. If the election is made, the PFIC rules described above will not apply. Instead, in general, the electing U.S. Holder will be required to include as ordinary income each year the excess, if any, of the fair market value of the Shares or ADSs at the end of the taxable year over the U.S. Holder's adjusted tax basis in the Shares or ADSs. The electing U.S. Holder will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted tax basis in the Shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). An electing U.S. Holder's tax basis in the Shares or ADSs will be adjusted to reflect any such income or loss amounts.

Alternatively, a U.S. holder of shares or ADSs in a PFIC can sometimes avoid the rules described above by electing to treat the company as a "qualified electing fund" under section 1295 of the Internal Revenue Code. This option will not be available to U.S. Holders because the Company does not intend to comply with the requirements necessary to permit a U.S. Holder to make this election. U.S. Holders should consult their own tax advisors concerning the U.S. federal income tax consequences of holding shares or ADSs if the Company is considered a passive foreign investment company in any taxable year.

F. Documents on Display

All Company documents referred to in this Annual Report may be inspected at the Company's offices, located at Enrique Foster 20, 14th Floor, Las Condes, Santiago, Chile.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about the Company's risk management activities includes "forward-looking statements" that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

The Company faces material market risk exposures in four categories: interest rate risk, exchange rate risk, equity price risk and commodity price risk. None of the instruments, equity securities or commodities discussed below were entered into, acquired or held by the Company for trading purposes.

Interest Rate Risk

Of the Company's long-term interest bearing debt at December 31, 2001, Ch\$342,810 million was fixed rate and Ch\$240,754 million was variable rate; 90.9% of the Company's long-term interest bearing debt with fixed rate was indexed to the UF, 0.2% was indexed to the Chilean peso and 8.9% was indexed to foreign currencies. The Company's long-term interest bearing debt with variable rates was 91% indexed to the UF, 7% was dollar-denominated and tied to the LIBOR and 2% was other-denominated.

The following table summarizes the debt obligations held by the Company at December 31, 2001. The table presents principal payments obligations in thousands of Chilean pesos categorized by maturity date and the related weighted-average interest rates. U.S. dollar-denominated liabilities and notional amounts have been converted to Chilean pesos based on the observed exchange rate of December 31, 2001, which was US\$1.00 = Ch\$654.79.

Expected Maturity Date

On Balance Sheet Financial Instruments		<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007 and thereafter</u>	<u>Total</u>	<u>Fair Value</u>
		(in thousands)							
LONG-TERM DEBT									
Fixed rate									
US\$-denominated	Ch\$	2,319,108	22,889,256	2,045,150	2,812,090	2,616	-	30,068,220	32,501,037
Weighted average interest rate		11.96%	10.82%	12.22%	12.18%	8.23%	-	11.13%	
UF-denominated	Ch\$	11,055,088	93,637,046	42,686,236	19,720,260	17,235,852	127,291,734	311,626,216	306,983,157
Weighted average interest rate		6.57%	8.01 %	6.92%	6.50%	6.42%	6.40%	6.97%	
Ch\$-denominated	Ch\$	-	619,346	-	-	-	-	619,346	620,606
Weighted average interest rate		-	7.00 %	-	-	-	-	7.00 %	
Other-denominated	Ch\$	-	496,099	-	-	-	-	496,099	496,099
Weighted average interest rate		-	-	-	-	-	-	-	
Sub-total	Ch\$	13,374,196	117,641,747	44,731,386	22,532,350	17,238,468	127,291,734	342,809,881	340,600,899
Variable rate									
US\$-denominated	Ch\$	7,969,210	7,188,925	1,530,041	416,585	20,192	-	17,124,953	17,276,687
Weighted average interest rate		6.49%	7.34%	8.10%	9.15%	8.32%	-	7.06%	
UF-denominated	Ch\$	37,567,649	40,921,180	70,913,120	36,468,405	7,027,646	26,192,317	219,090,318	165,663,628
Weighted average interest rate		7.20%	7.18%	6.79%	7.21%	6.54%	7.25%	7.05%	
Other-denominated	Ch\$	487,764	3,148,945	801,509	100,990	-	-	4,539,208	4,557,049
Weighted average interest rate		12.79%	12.18%	6.40%	12.78%	-	-	11.24%	
Sub-total	Ch\$	<u>46,024,623</u>	<u>51,259,050</u>	<u>73,244,670</u>	<u>36,985,980</u>	<u>7,047,838</u>	<u>26,192,317</u>	<u>240,754,479</u>	<u>187,497,364</u>
Total	Ch\$	<u>59,398,819</u>	<u>168,900,797</u>	<u>117,976,056</u>	<u>59,518,330</u>	<u>24,286,306</u>	<u>153,484,051</u>	<u>583,564,360</u>	<u>528,098,263</u>

Foreign Currency Exchange Rate Risk

At December 31, 2001, approximately 57.2% of the Company's short and long-term interest bearing debt was exposed to risk from exchange rate fluctuations between the Chilean peso and the U.S. dollar. As of December 31, 2001, the Company had entered into 90 day forward contracts for Ch\$4,589 million (equivalent to US\$7.0 million) to limit the exposure to fluctuations between the Chilean peso and the U.S. dollar. As of the same date, the Company had entered into forward and swap contracts with maturities of 90 days and 540 days for Ch\$22,154 million (equivalent to US\$33.8 million) to limit the exposure between the U.S. dollar and the Brazilian real. In addition, certain liabilities are considered hedge instruments of investments abroad, in accordance with Technical Bulletin 64.

The following table summarizes the debt obligations sensitive to foreign currency exchange rates held by the Company at December 31, 2001 by maturity date. The table presents principal payment obligations in thousands of Chilean pesos by maturity date. The U.S. dollar-denominated debt, which have been converted to Chilean pesos based on the observed exchange rate of December 31, 2001, was US\$1.00 = Ch\$654.79.

On Balance Sheet Financial Instruments		Expected Maturity Date						Total
		2002	2003	2004	2005	2006	2007 and thereafter	
		(in thousands)						
US\$-denominated	Ch\$	90,806,636	30,078,181	3,575,191	3,228,675	22,808	-	127,711,491
Other currencies	Ch\$	4,855,213	3,645,044	801,509	100,990	-	-	9,402,756
Total	Ch\$	95,661,849	33,723,225	4,376,700	3,329,665	22,808	-	137,114,247

Equity Price Risk

At December 31, 2001 the Company's carrying value of investments under the cost method was Ch\$585 million. The market risk associated with these equity securities is the potential loss in fair value that would result from a decrease in their market price. As of December 31, 2001 a 10% decrease in the fair market value of these investments would not have a material impact on the results of operations of the Company.

Commodity Price Risk

Exposure to commodity price risk relates primarily to Madeco's inventories of copper and aluminum and Lucchetti's inventories of wheat and edible oil. Madeco uses significant amounts of copper and aluminum to manufacture its products. These metal inventories are subject to price-level restatements of its carrying amount with reference to trading prices at the London Metal Exchange. The differences arising from consecutive restatements appear as accounting gains or losses in Madeco's income statement's price-level restatements line. Market prices for copper and aluminum fluctuate widely and are affected by numerous factors beyond Madeco's control.

To reduce the effects of metal price fluctuations on operating income, Madeco seeks to sell its copper and aluminum products on a "cost plus" basis, with reference to current market prices.

Accordingly, Madeco's operating income has generally been determined by the value added to the final product since the price of copper and aluminum are components of the product's price and passed through directly to the final price of the product. However, operating margin (calculated as the percentage of operating income over net sales) is affected by changes in the prices of copper and aluminum since the product's price reflects the changes in metal prices.

In addition, purchases of copper and aluminum are carried out at fair values and therefore Madeco hedges naturally through its operations the metal inventories that are periodically purchased as raw material and sold as a component of final products. During 2001, Madeco sold 99,580 tons of copper and 25,276 tons of aluminum in the form of finished goods.

As of December 31, 2001 Madeco held inventories of copper and aluminum of 18,346 tons and 6,779 tons, respectively. A 10% adverse change during 2002 in metal prices with respect to 2001 year-end balances would result in a pre-tax accounting loss of approximately Ch\$2,602 million.

In addition, Lucchetti uses significant amounts of wheat and crude vegetable oil to produce pastas and edible oils, respectively. Lucchetti participates in a joint venture with its major competitor in order to negotiate advantageous terms in the purchase of wheat. As of December 31, 2001 Lucchetti had inventories of wheat and crude oil of 25,629 and 2,820 tons, respectively. A 10% adverse change in wheat and crude vegetable oil prices during 2002 with respect to 2001 year-end balances could have a material effect on Lucchetti's gross margins and results from operations should market conditions not allow it to transfer cost increases to the product prices.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not applicable.

Item 14. Material Modifications of the Rights of Security Holders and Use of Proceeds

Not applicable.

Item 15. (Reserved)

Not applicable.

Item 16. (Reserved)

Not applicable.

PART III

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

Reference is made to pages F-1 through F-82.

Item 19. Exhibits

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Exhibit No.

Exhibit

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| 1.1 | By-Laws of Quiñenco S.A. (incorporated by reference from Quiñenco S.A. Annual Report on Form 20-F for the year ended December 31, 2000, filed on June 29, 2001) |
| 10.1 | Banco de A. Edwards' Financial Statements at December 31, 2000 and 2001 and for the year ended December 31, 1999, 2000 and 2001 (incorporated by reference from Item 18 of the Banco de A. Edwards Annual Report on Form 20-F, filed on June 28, 2002). |
| 10.2 | Banco de A. Edwards' Guide 3 Data (incorporated by reference from Item 4 "Information on the Company – Selected Statistical Information" of the Banco de A. Edwards Annual Report on Form 20-F, filed on June 28, 2002). |
| 10.3 | Banco de Chile's Financial Statements at December 31, 2000 and 2001 and for the year ended December 31, 1999, 2000 and 2001 (incorporated by reference from Item 18 of the Banco de Chile's Annual Report on Form 20-F, filed on June 27, 2002). |
| 10.4 | Banco de Chile's Guide 3 Data (incorporated by reference from Item 4 "Information on the Company – Selected Statistical Information" of the Banco de Chile's Annual Report on Form 20-F, filed on June 27, 2002). |

QUIÑENCO S.A. AND SUBSIDIARIES

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Ch\$ - Chilean pesos

US\$ - United States dollars

UF - The UF is a Chilean inflation-indexed, peso-denominated monetary unit that is set daily in advance based on the previous month's inflation rate (Note 2b)

ThCh\$ - Thousands of Chilean pesos

ThUS\$ - Thousands of United States dollars

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Quiñenco S.A. and subsidiaries:

We have audited the accompanying consolidated balance sheet of Quiñenco S.A. and subsidiaries (the "Company") as of December 31, 2001 and the related consolidated statements of income and cash flows for the year then ended, all expressed in thousands of Chilean pesos. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the consolidated financial statements of Madeco S.A. and subsidiaries, which statements reflect total assets and total revenues of 25.9 percent and 70 percent in 2001, respectively, of the related consolidated totals. In addition, we did not audit the consolidated financial statements of Compañía Cervecerías Unidas S.A., the investment in which is reflected in the accompanying financial statements using the equity method of accounting. The investment in Compañía Cervecerías Unidas S.A. represents 13.2 percent of total assets and the equity in its net income represents 1.2 percent of net income in 2001. Those statements were audited by other auditors whose reports have been furnished to us and, our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

As described in Note 19 to the consolidated financial statements, Quiñenco S.A. has significant investments in Argentina, through its subsidiary Madeco S.A. and the related company Compañía Cervecerías Unidas S.A., which are affected by the economic and political uncertainties in that country. Also as described in Note 15 to the consolidated financial statements Quiñenco's manufacturing subsidiary, Madeco, is required by certain of its loan facilities to increase its capital by at least US\$60 million by September 30, 2002, as a condition of restructuring certain of its short-term and long-term indebtedness.

Accounting practices used by the Company in preparing the accompanying consolidated financial statements conform with accounting principles generally accepted in Chile, but do not conform with accounting principles generally accepted in the United States of America. A description of these differences and a reconciliation of consolidated net income for the year ended December 31, 2001 and shareholders' equity as of December 31, 2001, under accounting principles generally accepted in Chile to the corresponding amounts that would be reported in accordance with United States generally accepted accounting principles, except for the omissions, as allowed pursuant to Item 18 of Form 20-F, of adjustments necessary to eliminate the effect of price-level changes and the translation of non-Chilean operations described in Notes 2(b) and 26 (1.a), is set forth in Note 26 to these consolidated financial statements.

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Quiñenco S.A. and subsidiaries as of December 31, 2001, and the results of their operations and their cash flows for the year ended December 31, 2001, in conformity with accounting principles generally accepted in Chile.

LANGTON CLARKE

Santiago, Chile March 13, 2002

(except for notes 15, 25 and 26 for which the date is June 14, 2002)

PricewaterhouseCoopers
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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Quiñenco S.A.

We have audited the accompanying consolidated balance sheets of Quiñenco S.A. and its subsidiaries at December 31, 2000 and the related consolidated statements of income and of cash flows for the years ended December 31, 2000 and 1999, all expressed in thousands of constant Chilean pesos. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the 2000 financial statements of Madeco S.A., a majority-owned subsidiary, which statements reflect total assets of ThCh\$ 451,207,293 at December 31, 2000 and total revenues of ThCh\$ 312,292,607 for the year ended December 31, 2000. We also did not audit the 2000 financial statements of Banco de Chile and S.M. Chile, as investments which are recorded using the equity method of accounting (see Note 11) and for which the participation in their net income was ThCh\$588,221 and ThCh\$ 2,245,059, respectively, in 2000. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Madeco S.A., Banco de Chile and S.M. Chile, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in both Chile and United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Quiñenco S.A. and its subsidiaries as of December 31, 2000 and the results of their operations and their cash flows for the years ended December 31, 2000 and 1999, in conformity with accounting principles generally accepted in Chile.

As described in Note 2 b), the accompanying financial statements have been restated to reflect the effects of changes in the purchasing power of the Chilean peso on the Company's financial position and results of operations.

Accounting principles generally accepted in Chile vary in certain important respects from accounting principles generally accepted in the United States of America. The application of the latter, after the restatements referred to in Note 26, would have affected the determination of consolidated net income expressed in constant Chilean pesos for the years ended December 31, 2000 and 1999 and the determination of shareholders' equity, also expressed in constant Chilean pesos, at December 31, 1999 and 2000 to the extent summarized in Note 26 to the consolidated financial statements.

As described in Note 3 to the consolidated financial statements, in conformity with generally accepted accounting principles in Chile, during 2000 the Company changed its method of accounting for deferred income taxes.

PRICEWATERHOUSECOOPERS

Santiago, Chile

February 28, 2001, except for Note 25, as to which the date is April 30, 2001 and the restatements to December 31, 2001 constant pesos and of the US GAAP reconciliation referred to in Note 26, as to which the date is June 14, 2002

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**Deloitte
& Touche**

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Madeco S.A.

We have audited the consolidated balance sheets of Madeco S.A. and its subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income and of cash flows for the years then ended, all expressed in thousands of constant Chilean pesos. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated statements of income and of cash flows for the year ended December 31, 1999 were audited by other auditors whose report, dated February 4, 2000, expressed on unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in Chile and in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Madeco S.A. and its subsidiaries as of December 31, 2001 and 2000, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in Chile.

Accounting principles generally accepted in Chile vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net income (loss) for the years ended December 31, 2001 and 2000 and of shareholders' equity as of December 31, 2001 and 2000, to the extent summarized in Note 34 to the consolidated financial statements.

As indicated in Note 32 to the consolidated financial statements, after the close of the year ended December 31, 2001, Law No. 25,561 was enacted in Argentina, which, among other things, ended the parity that tied the Argentine peso to the U.S. dollar on a one to one basis. At December 31, 2001 total assets related to investments in Argentine companies amounted to approximately ThCh\$70,400,000, net of extraordinary provisions of ThCh\$12,460,412 accrued by the Company to reflect the effects that it believed at the time might result from the current crisis in Argentina. Nevertheless, since Argentina is going through a serious financial and economic crisis, the subsidiaries in that country are exposed to events that could affect the future value of their assets, of their liabilities and of their operations.

As indicated in Note 11c to the consolidated financial statements, the Board of Directors of the foregoing subsidiary Metalúrgica Industrial Argentina S.A. decided to temporarily suspend its Decker-Indelqui S.A. operations, and its production facilities located in Quilmes, Barracas, Lla vallol and San luis. The operations in the plant in Avellaneda had already been suspended. The total property, plant and equipment involved in closing operations for the aforementioned Argentine plants amounted to approximately ThCh\$25,180,000.

As indicated in Note 27 to the consolidated financial statements, at the date of issuance of these consolidated financial statements, the Company had obtained waivers with respect to its non-compliance with certain financial covenants imposed by certain bank loans and bonds.

Santiago, Chile
March 11, 2002 except for Notes 27, 32 and 34 as to which
the date is June 21, 2002.

ANDERSEN

**Arthur Andersen – Langton Clarke,
Auditores y Consultores Ltda**

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REPORT OF THE INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Sociedad Matriz of Banco de Chile S.A. and subsidiaries

We have audited the consolidated balance sheet of Sociedad Matriz of Banco de Chile S.A. and subsidiaries (“SM Chile”) as of December 31, 2000 and the related consolidated statements of income, and cash flows for the years ended December 31, 1999 and 2000. These financial statements (not presented separately herein) are the responsibility of the management of Sociedad Matriz of Banco de Chile S.A. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in note 2(a), in accordance with Law No. 19.396, the Subordinated Debt Obligation with the Central Bank of Chile, assumed by the subsidiary Sociedad Administradora de la Obligación SAOS S.A. as a result of the Chilean banking crisis during the 1980s, in the amount of ThCh\$ 864,358,782 as of December 31, 2000 has not been recorded as a liability in the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SM Chile as of December 31, 2000, and the results of their operations and their cash flows for the years ended December 31, 1999 and 2000 in conformity with accounting principles generally accepted in Chile.

ARTHUR ANDERSEN - LANGTON CLARKE
Santiago, Chile, January 24, 2001

ANDERSEN

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REPORT OF THE INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Banco de Chile and Subsidiaries:

We have audited the accompanying consolidated balance sheet of Banco de Chile and Subsidiaries (the “Bank”) as of December 31, 2000 and the related consolidated statements of income, cash flows and changes in shareholders’ equity for the years ended December 31, 1999 and 2000, all expressed in millions of Chilean pesos. These financial statements (not included separately herein) are the responsibility of the Bank’s Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank’s Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Accounting practices used by the Bank in preparing the accompanying consolidated financial statements conform with accounting principles generally accepted in Chile, but do not conform with accounting principles generally accepted in the United States of America. Note 30 presents reconciliations of shareholders’ equity and net income, under Chilean generally accepted accounting principles to the corresponding amounts that would be reported in accordance with accounting principles generally accepted in the United States of America as of December 31, 2000 and for the years ended December 31, 1999 and 2000, except for the omission, as allowed pursuant to Item 18 of Form 20-F of the Securities and Exchange Commission, of adjustments necessary to eliminate the effect of price-level changes and the translation of non-Chilean operations described in notes 1 (b) and 1(o).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banco de Chile and Subsidiaries as of December 31, 2000, and the consolidated results of their operations and their cash flows for the years ended December 31, 1999 and 2000, in conformity with accounting principles generally accepted in Chile.

ARTHUR ANDERSEN - LANGTON CLARKE

Santiago, Chile, January 24, 2001

(except for notes 22, 23 for which the date is July 28, 2001 and Note 30 for which the date is October 30, 2001)

QUIÑENCO S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Restated for general price-level changes and expressed
in constant December 31, 2001 Chilean pesos (Ch\$) and US dollars (US\$)

	At December 31,		
	2000	2001	2001
	(in thousands)		Note 2v)
Assets			
Current assets			
Cash.....	Ch\$ 5,001,981	Ch\$ 4,197,948	US\$ 6,411
Time deposits (Note 5).....	15,015,665	17,312,399	26,440
Marketable securities (Note 6).....	4,396,629	1,411,385	2,155
Accounts receivable, net (Note 7).....	108,617,404	91,740,281	140,106
Notes and accounts receivable from related companies (Note 21).....	6,053,408	9,143,803	13,964
Inventories, net (Note 8).....	86,798,820	78,672,562	120,150
Other current assets, net (Note 9).....	158,035,430	63,272,897	96,631
Total current assets.....	383,919,337	265,751,275	405,857
Property, plant and equipment, net (Note 10).....	422,122,943	417,784,430	638,043
Other assets			
Long-term notes and accounts receivable from related companies (Note 21).....	39,244	39,244	60
Investments in related and other companies (Note 11).....	407,642,668	475,337,796	725,939
Goodwill, net (Note 11).....	140,436,753	346,454,571	529,108
Other noncurrent assets (Note 12).....	52,309,505	55,875,859	85,334
Total other assets.....	600,428,170	877,707,470	1,340,441
Total assets.....	Ch\$ 1,406,470,450	Ch\$ 1,561,243,175	US\$ 2,384,341
Liabilities and Shareholders' Equity:			
Current liabilities			
Short-term bank loans (Note 13).....	Ch\$ 160,012,583	Ch\$ 121,809,898	US\$ 186,029
Current portion of long-term liabilities (Note 15).....	75,329,757	59,398,819	90,714
Accounts payable and supplier notes payable.....	71,826,687	46,491,818	71,002
Notes and accounts payable to related companies (Note 21).....	471,802	421,750	644
Accrued and other liabilities (Note 14).....	30,487,528	27,841,381	42,520
Total current liabilities.....	338,128,357	255,963,666	390,909
Long-term liabilities			
Long-term debt (Note 15).....	225,343,113	314,870,848	480,873
Bonds payable (Note 15).....	68,118,725	209,294,693	319,636
Accrued expenses (Note 14).....	12,617,667	13,863,899	21,173
Total long-term liabilities.....	306,079,505	538,029,440	821,682
Minority interest (Note 22).....	105,499,077	89,869,445	137,249
Commitments and contingencies (Note 19).....			
Shareholders' equity			
Common stock 1,079,740,079 shares authorized, issued and outstanding with no par value) (Note 17).....	441,499,289	441,499,289	674,261
Reserves (Note 17).....	17,286,010	24,618,505	37,598
Retained earnings (Note 17).....	197,978,212	211,262,830	322,642
Total shareholders' equity.....	656,763,511	677,380,624	1,034,501
Total liabilities and shareholders' equity.....	Ch\$ 1,406,470,450	Ch\$ 1,561,243,175	US\$ 2,384,341

The accompanying Notes 1 to 26 form an integral part of these consolidated financial statements.

QUIÑENCO S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Restated for general price-level changes and expressed
in constant December 31, 2001 Chilean pesos (Ch\$) and US dollars (US\$)

	Year Ended December 31			
	1999	2000	2001	2001
	(in thousands)			(Note 2v)
Operating Results:				
Net sales	Ch\$ 438,987,034	Ch\$ 465,770,480	Ch\$ 474,037,376	US\$ 723,953
Cost of sales	(357,163,849)	(371,847,851)	(376,604,193)	(575,152)
Gross margin	81,823,185	93,922,629	97,433,183	148,801
Administrative and selling expenses	(103,494,502)	(77,762,024)	(79,917,705)	(122,051)
Operating income (loss)	(21,671,317)	16,160,605	17,515,478	26,750
Non-Operating Results:				
Interest income	20,970,657	8,778,145	7,939,230	12,125
Non-operating income (Note 20).....	285,817,763	34,296,416	102,943,527	157,216
Interest expense	(43,135,828)	(38,099,193)	(59,009,265)	(90,119)
Non-operating expense (Note 20).....	(54,912,191)	(35,086,738)	(69,792,080)	(106,587)
Price-level restatement gain (loss), net (Note 4).....	13,580,629	(6,158,681)	(10,631,840)	(16,237)
Non-operating results	222,321,030	(36,270,051)	(28,550,428)	(43,602)
Income (loss) before taxes	200,649,713	(20,109,446)	(11,034,950)	(16,852)
Income taxes (Note 16)	(23,098,114)	7,321,588	4,750,039	7,254
Income (loss) before minority interest	177,551,599	(12,787,858)	(6,284,911)	(9,598)
Minority interest (Note 22)	(4,503,671)	6,964,671	21,794,293	33,284
Net income (loss)	Ch\$ 173,047,928	Ch\$ (5,823,187)	Ch\$ 15,509,382	US\$ 23,686

The accompanying Notes 1 to 26 form an integral part of these consolidated financial statements.

QUIÑENCO S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Restated for general price-level changes and expressed
in constant December 31, 2001 Chilean pesos (Ch\$) and US dollars (US\$)

	Year Ended December 31			
	1999	2000	2001	2001
	(in thousands)			(Note 2v)
Cash Flow From Operating Activities:				
Net income (loss)	Ch\$ 173,047,928	Ch\$ (5,823,187)	Ch\$ 15,509,382	US\$ 23,686
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation.....	39,655,718	31,093,665	30,768,362	46,990
Amortization of goodwill, net.....	7,332,006	9,617,918	18,488,516	28,236
Minority interest.....	4,503,671	(6,964,671)	(21,794,293)	(33,284)
Price-level restatement, net.....	(13,580,629)	6,158,681	10,631,840	16,237
(Gains) losses on sales of property, plant and equipment	(271,998)	750,391	(32,257)	(49)
Participation in earnings of investments under equity method	(15,741,914)	(17,281,062)	(36,252,410)	(55,365)
Dividends received from unconsolidated investments	10,895,626	11,206,528	19,734,026	30,138
Gains on sales of investments and marketable securities	(253,261,926)	(8,819,330)	(36,602,143)	(55,899)
Write-offs and provisions	43,197,238	9,232,165	9,695,403	14,807
Other	11,752,904	7,098,472	14,352,998	21,920
Decrease (increase) in accounts and notes receivable.....	7,988,237	(13,113,769)	20,007,540	30,556
Decrease (increase) in inventories.....	7,694,019	(6,458,976)	10,466,844	15,985
Increase in other assets.....	(16,600,110)	(35,746,620)	(33,685,210)	(51,444)
Increase (decrease) in accounts and notes payable.....	993,794	25,626,502	(8,224,832)	(12,561)
Increase (decrease) in other current liabilities	11,813,957	(8,436,873)	652,467	996
Net cash flow provided (used) by operating activities	19,418,521	(1,860,166)	13,716,233	20,949
Cash Flow From Investing Activities:				
Proceeds from sale of OHCH and VTR Hipercable	452,193,011	-	-	-
Proceeds from sales of other investments.....	23,097,484	60,831,797	158,439,739	241,970
Proceeds from sales of property, plant and equipment.....	3,639,690	7,677,127	1,526,823	2,332
Additions to property, plant and equipment.....	(60,219,118)	(33,987,792)	(31,150,779)	(47,574)
Investments in other companies	(386,556,221)	(54,438,638)	(157,509,667)	(240,550)
Investments in time deposits	(42,692,438)	-	(3,259,565)	(4,978)
Decrease (increase) in accounts receivable from related companies	10,117,939	(77,118)	(2,984,116)	(4,557)
Other investing activities (net)	4,464,704	(202,952)	(1,595,599)	(2,437)
Net cash flow provided (used) by investing activities	4,045,051	(20,197,576)	(36,533,164)	(55,794)
Cash Flow From Financing Activities:				
Borrowings from banks and others	211,033,413	318,726,511	246,849,495	376,990
Dividends paid	(21,527,233)	(52,614,869)	(1,694,947)	(2,589)
Payments of borrowings from banks	(234,938,016)	(273,802,695)	(432,856,777)	(661,062)
Increase in bonds payable	-	37,852,471	144,250,718	220,301
Repayments of bonds payable	(3,343,673)	(4,554,200)	(7,778,753)	(11,880)
Decrease in capital of VTR	(22,477,128)	-	-	-
Capital increase in subsidiaries contributed by				
Minority shareholders	2,911,408	3,690,325	723,802	1,105
(Increase) decrease in accounts payable to related companies	(3,356,903)	680,852	(1,055,288)	(1,611)
Other financing activities (net)	435,326	(2,432,914)	(7,215,425)	(11,019)
Net cash flow (used) provided by financing activities	(71,262,806)	27,545,481	(58,777,175)	(89,765)
Net (decrease) increase in cash and cash equivalents	(47,799,234)	5,487,739	(81,594,106)	(124,610)
Price-level restatement of cash and cash equivalents.....	18,333,336	(1,766,534)	(927,832)	(1,417)
Cash and cash equivalents at beginning of year	161,179,829	131,713,931	135,435,136	206,838
Cash and cash equivalents at end of year	Ch\$ 131,713,931	Ch\$ 135,435,136	Ch\$ 52,913,198	US\$ 80,811
Supplemental cash flow information:				
Interest paid.....	Ch\$ 42,783,933	Ch\$ 39,817,828	Ch\$ 56,095,359	US\$ 85,669
Income taxes paid.....	4,983,793	13,431,716	3,813,667	5,824

The accompanying Notes 1 to 26 form an integral part of these consolidated financial statements.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - THE COMPANY

The Company is a diversified company engaged in the industrial and financial services sectors primarily in the Southern Cone countries of South America. The Company provides banking and other financial services, through its unconsolidated investments in Banco de A. Edwards (“Banco Edwards”) and Banco de Chile; produces bottles and distributes beer, wine, soft drinks and other beverages through an equity method investment in Compañía Cervecerías Unidas S.A. (“CCU”); processes and distributes food through Empresas Lucchetti S.A. (“Lucchetti”); provides telecommunications services through VTR S.A. (“VTR”); manufactures copper and aluminum products and consumer product packaging through Madeco S.A. (“Madeco”); is engaged in hotel services through Hoteles Carrera S.A. (“Hoteles Carrera”); and develops residential real estate in Chile through its equity investment in Habitaria S.A. (“Habitaria”). References herein to “Quiñenco” or “The Parent Company” are to Quiñenco S.A. and references herein to the “Company” are to Quiñenco together with its consolidated subsidiaries and the companies in which Quiñenco holds significant equity interests.

Financial Services. LQ Inversiones Financieras S.A., a consolidated subsidiary, provides financial services in Chile through its equity method interests in Banco de Chile and Banco Edwards. Between September 2, 1999 and October 26, 1999, Quiñenco acquired a 51.17% controlling interest in Banco Edwards through a Purchase and Sale Agreement negotiated with Banco Edwards’ controlling shareholder group, subsequent purchases on the open market, and a private transaction. On December 9, 1999, Quiñenco subscribed to a capital increase of 814,635,802 shares, to maintain its 51.17% ownership interest. During 2000 and 2001, Quiñenco held a 51.17% interest in Banco Edwards.

In May 1999, Quiñenco sold its interest in OHCH, a joint venture holding company with Banco Central Hispanoamericano S.A. (“BCH”), providing financial services in Chile through its equity interest in Banco Santiago (see Note 11).

Quiñenco acquired shares of SM Chile and Banco de Chile between October 18, 1999 and March 27, 2001 and at December 31, 1999, 2000 and 2001 held effective interests of 8.47%, 12.38% and 52.66% in Banco de Chile, respectively. Banco de Chile, a large Chilean private bank with branches in New York and Miami provides a full range of services through its extensive nationwide service network in Chile. SM Chile is the holding company that, before the merger of Banco de Chile and Banco Edwards on January 1, 2002, owned a direct interest of 28% in Banco de Chile and indirectly held an additional 63.64% through its wholly-owned subsidiary Sociedad Administradora de la Obligación Subordinada SAOS S.A. (“SAOS”).

Food and Beverage. CCU, an equity investee, has beer production facilities in Chile and Argentina for the domestic markets in those countries, and it bottles and distributes its proprietary brands, PepsiCo and Cadbury Schweppes brand soft drinks and mineral water in Chile. CCU markets and distributes Budweiser brand beer and other Anheuser-Busch products through a licensing agreement with Anheuser-Busch Incorporated in Chile. Additionally, CCU produces Budweiser in Argentina and distributes it within Argentina and to other countries in the Southern Cone. CCU also owns a majority interest in Viña San Pedro, Chile’s third largest winery. Quiñenco owns its interest in CCU through a joint venture with Paulaner Salvator Beteiligungs A.G. (“Paulaner”), a major German brewer.

Lucchetti, a consolidated subsidiary, produces pasta, edible oil and packaged soups for the Chilean and Peruvian domestic market through its production facilities in Chile and Peru. In June 1999, Quiñenco purchased an additional interest of 10.21% in Lucchetti, giving Quiñenco an 81.6% interest.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In 1999 and 2001, Lucchetti carried out capital increases giving Quiñenco an ownership interest in Lucchetti of 86.18% and 93.25% as of those dates, respectively.

Telecommunications. VTR, a consolidated subsidiary, provides local telephone service in Regions VIII, IX, X and XI in the south of Chile through its 73.56%-owned subsidiary, Compañía Nacional de Teléfonos Telefónica del Sur S.A. (“Telsur”). On April 29, 1999, VTR Hiper cable’s stock was sold to UIH Latin America, Inc. (see Note 11). Until June 16, 1999, Quiñenco, SBC International Inc., a subsidiary of SBC Communications Inc, and Madeco owned 46.27%, 44.10% and 9.63%, respectively, of the common stock of VTR. On that date, Quiñenco purchased the shares of VTR common stock held by SBC Communications, increasing its ownership interest in VTR to 90.37%. In December 1999, Quiñenco purchased Madeco’s 9.63% interest, further increasing its ownership interest in VTR to 100%.

Manufacturing Madeco, a consolidated subsidiary, is a Chilean-based manufacturer of copper- and aluminum-based cable and wire products and other copper and aluminum products used in the telecommunications, construction, mining, energy and general industrial products sectors. Madeco is also a manufacturer of consumer products packaging. Until recently, Madeco has been engaged in the production of copper and aluminium wire and cable products and brassmills products in Argentina. As a result of the economic and political crisis in Argentina, Madeco decided to temporarily close its Argentine subsidiary Decker-Indelqui. In Peru, Madeco owns Indeco, a wire and cable manufacturer.

In recent years, the Company has expanded into Brazil by acquiring an interest in Ficap S.A. (“Ficap”), which is a manufacturer of conductive cable and wire and fiber optical cable. On March 27, 2001 Corning Inc. increased its interest in Ficap Optel from 25% to 50% by acquiring a 25% interest from Madeco, modifying its Ficap Optel JV agreement with Corning Inc. As part of the new JV arrangement, Ficap Optel changed its name to Optel S.A. and purchased 99.9% of Corning Argentina. As of December 31, 2001, Quiñenco held a 56.11% interest in Madeco.

Real Estate and Hotel Administration. Hoteles Carrera operates five hotels in Chile. These are the Hotel Carrera in central Santiago (307 guest rooms) and the Hotel El Araucano in Concepción (144 guest rooms), both of which Hoteles Carrera owns and operates, the La Serena Club Resort in La Serena (95 guest rooms), the Carrera Club Hotel in Iquique (77 guest rooms) and the Carrera Club Hotel in Antofagasta (137 guest rooms), which Hoteles Carrera leases and operates. Hotel Carrera in Santiago is a member of “The Leading Hotels of the World” program, which enables it to benefit from a worldwide cooperative reservations and promotion system. As at December 31, 2001, Quiñenco held an 89.95% interest in Hoteles Carrera.

During 2000, Quiñenco acquired a 39.42% equity interest in Plava Laguna d.d. (“Plava Laguna”), a hotel and resort chain located in Croatia, on the Adriatic Sea. Plava Laguna’s resorts have a total of 23,391 beds, and include hotels, apartments and campgrounds. On August 17, 2001, the Company sold its interest in Plava Laguna to Sutivan Investments Establishment (“Sutivan Investments”), a Company related to the Luksic Group for ThUS\$29,624.

Quiñenco owns a 50% equity interest in Habitaria, a developer of residential real estate for Chilean families in the middle-income and upper-middle income segments. Habitaria is a joint venture between the Company and Ferrovial Inmobiliaria Chile, Ltda., a subsidiary of the Spanish company Ferrovial S.A..

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Chile, and specific guidelines issued by the Superintendency of Securities and Insurance (“SVS”).

The consolidated financial statements of Quiñenco and its subsidiaries at December 31, 2000 and 2001 include the accounts of companies in which the Parent Company holds a direct or indirect ownership of more than 50%. However, they do not include the financial statements of Banco Edwards, Banedwards Compañía de Seguros de Vida S.A. (“Banedwards”), Banco de Chile and SM Chile because banking and insurance operations are generally not consolidated with non-financial businesses in Chile, primarily due to the dissimilarity of both the nature of the operations and the related accounting policies. The SVS has authorized the Company to not consolidate the financial statements of Banco Edwards, Banedwards, Banco de Chile and SM Chile. SM Chile’s wholly-owned subsidiary, SAOS has significant liabilities (the “subordinated debt obligation”) with the Chilean Central Bank in the amount of UF 54,119,909.34 as of December 31, 2001. Under Chilean GAAP, as permitted by law, such liabilities are not included in SM Chile’s financial statements. See note 11(a)

In addition, the Company has not consolidated the financial statements of the following subsidiaries of VTR, which are in the development stage: Telefónica del Sur Net S.A., Telefónica del Sur Seguridad S.A. and Telsur Call Center S.A., in accordance with Chilean GAAP.

The consolidated financial statements for the years 1999, 2000 and 2001 include the following subsidiaries:

	At December 31,		
	1999	2000	2001
	%	%	%
Percentage of Direct and Indirect Ownership:			
Lucchetti and subsidiaries.....	86.18	86.97	93.25
VTR and subsidiaries	100.00	100.00	100.00
Madeco and subsidiaries.....	56.50	56.11	56.11
Hoteles Carrera.....	87.19	87.19	89.95

All significant intercompany balances and transactions have been eliminated in consolidation, as well as any unrealized gains or losses arising from such transactions. The participation of minority shareholders in subsidiaries has been given effect in the consolidated financial statements under the caption Minority interest.

The preparation of financial statements in conformity with Chilean GAAP, along with the reconciliation to US GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In addition, certain reclassifications have been made in the 1999 and 2000 amounts to conform to the 2001 presentation.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

b) Price-level restatements

The consolidated financial statements, which are expressed in Chilean pesos, have been restated to reflect the effects of variations in the purchasing power of the local currency during each year. For this purpose, and in conformity with current Chilean regulations, nonmonetary assets and liabilities, equity accounts and income and expense accounts have been restated each year in terms of year-end constant pesos. The resulting net charge or credit to income arises as a result of the gain or loss in purchasing power from the holding of monetary assets and liabilities exposed to the effects of inflation. In accordance with Chilean tax regulations and accounting practices, the restatements were calculated based on the official Consumer Price Index of the National Association of Statistics, which was 2.6%, 4.7% and 3.1% for the years ended November 30, 1999, 2000 and 2001, respectively. The index is based on the "prior month rule"; pursuant to which the inflation adjustments are based on the Consumer Price Index at the close of the month preceding the close of the respective period or of the transaction.

This index is considered by the business community, the accounting profession and the Chilean government to be the index which most closely complies with the technical requirement to reflect the variation in the general level of prices in the country and, consequently, is widely used for financial reporting purposes in Chile. For comparative purposes, the consolidated financial statements for the years ended December 31, 1999 and 2000 and the amounts disclosed in the related footnotes have also been restated using the same index in terms of Chilean pesos of December 31, 2001 purchasing power.

The above-mentioned price-level restatements do not purport to present appraisal or replacement values and are only intended to restate all nonmonetary financial statement components in terms of local currency of a single purchasing power, and to include in the net result for each year the gain or loss in purchasing power arising from the holding of monetary assets and liabilities exposed to the effects of inflation.

Certain assets and liabilities are denominated in UFs (Unidades de Fomento). The UF is a Chilean inflation-indexed, peso-denominated monetary unit that is set daily in advance based on changes in the Consumer Price Index. The adjustments to the closing value of UF-denominated assets and liabilities are included in the Price-level restatement account in the Consolidated Statement of Income. Each UF was equivalent to Ch\$ 15,066.96 at December 31, 1999, Ch\$ 15,769.92 at December 31, 2000, and Ch\$16,262.66 at December 31, 2001. Price-level restatement also includes foreign exchange differences as described below.

c) Assets and liabilities in foreign currency

Balances in foreign currency included in the Consolidated Balance Sheets and detailed in Note 18 have been translated into Chilean pesos at the Observed Exchange Rates determined by the Central Bank of Chile in effect at each year end (historical rates of Ch\$ 573.65 per US\$ 1 at December 31, 2000 and Ch\$ 654.79 per US\$ 1 at December 31, 2001). Foreign exchange differences are included in the line item price-level restatement.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

d) Cash and cash equivalents

The Company considers all short-term, highly liquid investment securities with original maturities of three months or less to be cash equivalents for purposes of the Consolidated Statements of Cash Flows:

		At December 31,				
		1999	2000	2001		
Cash.....	Ch\$	5,796,868	Ch\$	5,001,981	Ch\$	4,197,948
Time deposits that are cash equivalents (Note 5) ..		97,075,970		15,015,665		17,312,399
Money market funds (Note 6).....		4,155,972		3,319,721		917,171
Securities purchased under agreements to resell (Note 9)		24,685,121		112,097,769		30,485,680
Total	Ch\$	131,713,931	Ch\$	135,435,136	Ch\$	52,913,198

e) Time deposits and marketable securities

Time deposits are stated at cost plus interest and monetary correction (indexation) accrued at each year-end.

Marketable securities are valued as follows:

Shares: At the lower of restated cost (cost plus price-level restatement) or market value of the portfolio at each year-end. Shares include the quoted shares of companies in which the Company's shareholding is less than 10% of the investee's capital.

Money market funds: At the quoted value of the respective share at each year-end.

f) Accounts receivable

Accounts receivables are shown net of the allowance for doubtful accounts. Allowances are recorded at the end of each period based on those balances considered to be of doubtful recovery due to the age of the receivable.

g) Inventories

Raw materials are valued at the lower of their restated cost or current replacement cost. Work-in-process and finished goods are shown at restated cost, which includes related direct and indirect manufacturing expenses. Supplies, spare parts and other inventories are shown at their restated cost. Installation projects of telephone cables in progress are accounted for by the percentage of completion method. Inventory values do not exceed net realizable values and are reflected in income on the basis of average cost. A provision has been made related to discontinued products and products with low turnover.

h) Other current assets

Corresponds principally to recoverable income taxes, deferred income taxes, disposable assets held for sale and reverse repurchase agreements. These securities represent investments in promissory notes issued by the Central Bank of Chile, which were purchased at a discount under agreements to resell at a fixed price. They are valued at their present value calculated on the basis of the discount rate used to determine the price of each instrument on the date of acquisition.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

i) Property, plant and equipment

Property, plant and equipment are stated at cost plus price-level restatements and include construction and financing costs incurred until the assets are in a condition to be used, applying the average cost of financing. Such costs exclude foreign exchange gains and losses that are included in the Consolidated Statements of Income in the caption Price-level restatement, net gain (loss).

In substantially all cases, depreciation is determined by the straight-line method based on the estimated useful lives of the assets and where applicable as a function of the production units for certain plants (see Note 10).

In accordance with instructions issued by the SVS, property, plant and equipment include the revaluation increment arising from the technical appraisals of certain assets carried out during 1979 and 1986.

Assets acquired under capital lease contracts are recorded at present value, which is calculated using the contracted monthly installments plus the purchase option at the interest rate implicit in the respective contract. The corresponding liability is shown net of deferred interest. Assets obtained under financial contracts are not the legal property of the Company until it decides to exercise the related purchase option. Therefore, the Company cannot freely dispose of them.

j) Investments in related companies

Investments in related companies over which the Company has significant influence, are included in Other assets and are recorded by the equity method. Accordingly, the Company's proportional share in the net income (or loss) of each investee is recognized in the non-operating income and expense classification in the Consolidated Statements of Income on an accrual basis, after eliminating any unrealized profits from transactions with the related companies.

Investments in majority-owned subsidiaries in the development stage are also recorded using the equity method on the balance sheet, but the Company's share of the investee's results of operations during the development stage are taken to a reserve which forms part of Shareholders' equity.

k) Other investments

Other investments of less than 10% of the voting stock of the investee which are considered to be permanent are valued at the lower of cost plus price-level restatements or market value. They are shown under the caption Other assets. Dividends from such investments are recognized as income when paid.

l) Goodwill and negative goodwill

Under Chilean GAAP, goodwill arises from the excess of the purchase price of companies acquired over their net book value; negative goodwill arises when net book value exceeds the purchase price of companies acquired. Goodwill and negative goodwill also arise from the purchase of investments accounted for by the equity method. Both goodwill and negative goodwill are normally amortized over the maximum period of twenty years considering the expected period of return of the investments. Chilean GAAP also provides that goodwill and negative goodwill amortization may be accelerated if the proportional net income or loss of the Investee Company exceeds the respective straight-line amortization amount.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

m) Bonds payable

Bonds payable are included in liabilities at their par value plus accrued monetary correction and interest. The discount that arises from the difference between par value and the proceeds actually received is included in Other assets and is being amortized by the straight-line method.

n) Employee severance indemnities

Certain subsidiaries with agreements to pay severance indemnities calculate the respective liability based on a present value method (accrued cost of the benefit method), assuming real annual discount rates of between 6% and 7%, and an estimated service period depending on the probable tenure of the employee until retirement or other termination of employment.

o) Employee vacations

The cost of employee vacations is recognized in the financial statements on an accrual basis as employees earn the vacations.

p) Deferred income tax

Effective January 1, 2000, the effects of deferred income taxes arising from temporary differences between the basis of assets and liabilities for tax and financial statement purposes are recorded in accordance with Technical Bulletin No. 60 of the Chilean Association of Accountants. The effects of deferred income taxes at January 1, 2000, which were not previously recorded are recognized in income beginning in 2000 as the temporary differences reverse (see Note 3).

Until December 31, 1999, deferred income taxes were recorded on the basis of timing differences between tax and financial results, but only for those items at year end which were not expected to be offset by similar new timing differences in future years.

q) Revenue recognition

The Company recognizes revenues when goods are shipped or services are provided. Revenues from telephone line installation contracts (Madeco) are recognized by the percentage of completion method based on the relationship of actual costs incurred to total costs estimated to be incurred over the duration of the contract. Provisions for anticipated contract losses are recognized at the time they become known.

In addition to services invoiced, Hoteles Carrera recognizes as operating revenues an estimate of services provided and not invoiced through year-end. This estimate has been valued using actual rates corresponding to the period in which the service was provided. Accordingly, the cost related to this service has been included in cost of sales in the income statement.

r) National and international long-distance traffic

The subsidiaries in the telecommunications sector maintain a policy of recognizing revenues when the services are provided. Accordingly, revenues for each year include both services billed and services provided but unbilled at the end of the year. The unbilled services are accrued based on a calculation of the unbilled time for domestic and international telephone and data transmission services and the average telephone rates in effect during the corresponding year in which the services are rendered. The related cost

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

of such services is included in Operating costs in the Consolidated Statement of Income. The estimated amounts recorded for unbilled services and related costs do not differ materially from the actual amounts of services normally billed within the following two months and the actual costs incurred and paid in the subsequent period.

s) Translation of foreign currency financial statements

In accordance with Technical Bulletin No. 64 of the Chilean Association of Accountants (BT 64), the financial statements of foreign subsidiaries whose activities do not constitute an extension of the Chilean operations, or which operate in countries that are exposed to significant risks, restrictions or inflation/exchange fluctuations are remeasured using the US dollar as the functional currency and then translated into Chilean pesos at the year end exchange rate. Accordingly, the financial statements of the Company's subsidiaries in South America (principally Argentina, Brazil and Peru) are prepared in accordance with Chilean GAAP, with the exception of monetary correction, and are then remeasured into US dollars as follows:

- Monetary assets and liabilities are translated at year-end rates of exchange between the US dollar and the local currency.
- All non-monetary assets and liabilities and shareholders' equity are translated at historical rates of exchange between the US dollar and the local currency.
- Income and expense accounts are translated at average rates of exchange between the US dollar and the local currency.
- Any exchange differences are included in the results of operations for the period.

On the Parent Company's books, price-level restatements based on Chilean inflation are applied to the beginning balance of the investment account and then the participation in the net income of the subsidiary (determined as described above) is recorded. The Parent Company then compares this value to its participation in the equity of the investee as remeasured into US dollars and translated into Chilean pesos. The difference is recorded as an adjustment to the investment account with a corresponding adjustment to the cumulative translation account in Shareholders' equity.

In addition, as required by Technical Bulletin No. 64 the Company records the effect of foreign exchange adjustments arising from hedge transactions that cover the exposure of foreign investments. Accordingly, the excess of exchange losses over related Price-level restatements is also charged to the Cumulative translation account.

t) Changes of interest when investee sells stock

When an investee increases capital through sales of additional shares, the Company's percentage ownership interest in the investee may increase or decrease depending on whether all shareholders subscribe their proportional amount. As a result, the Company's proportional carrying amount per share may vary; any differences that arise are reflected as non-operating gains or losses in the Consolidated Statements of Income in the period the change of interest transaction occurs.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

u) Accumulated deficit during development period

In accordance with Circular No. 981 of the Superintendency of Securities and Insurance, disbursements made during the organization and start-up stage that are not assignable to tangible or intangible assets are included in shareholders' equity in the Balance Sheets as Accumulated deficit during development period.

v) Basis of translation to US dollars

The Company maintains its accounting records and prepares its financial statements in Chilean pesos. The United States dollar amounts disclosed in the accompanying Consolidated Financial Statements (except the footnotes) as of and for the year ended December 31, 2001 are presented solely for the convenience of the reader at the December 31, 2001 exchange rate of Ch\$ 654.79 per US\$ 1. This translation should not be construed as representing that the Chilean peso amounts actually represent or have been, or could be, converted into United States dollars at such rate or any other rate. All other U.S. dollar amounts included in the footnotes represent the actual dollars at the date of the transaction.

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES

As of January 1, 1999, CNT Telefónica del Sur S.A. and its subsidiary, Compañía de Teléfonos de Coyhaique S.A. changed the useful lives of the principal components of their fixed assets. The net effect of the change resulted in an increase in depreciation expense of ThCh\$6,964,422.

Beginning January 1, 2000, the Company adopted Technical Bulletin No. 60 of the Chilean Association of Accountants, which requires the recording of deferred taxes. The net effect of this change resulted in an increase in net income of ThCh\$ 9,257,350 and ThCh\$ 7,737,845 during the years ended December 31, 2000 and 2001, respectively.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

NOTE 4 - PRICE-LEVEL RESTATEMENT

The price-level restatement account is determined under Chilean GAAP by restating the following nonmonetary accounts:

	Credit (charge)		
	Year Ended December 31,		
	1999	2000	2001
	(in thousands)		
Property, plant and equipment, net	Ch\$ 7,637,317	Ch\$ 12,615,040	Ch\$ 8,378,643
Inventories	4,401,151	1,966,740	(2,751,484)
Other current assets	20,078	789,000	1,056,769
Other assets.....	5,655,749	27,483,752	29,966,877
Other non-monetary liabilities	-	(4,996,921)	(6,023,411)
Shareholders' equity	(13,679,867)	(30,609,650)	(19,747,496)
Income and expense accounts in terms of period-end constant Chilean pesos.....	(3,391,167)	(453,194)	(94,756)
Net adjustment of assets and liabilities indexed in UFs	(5,853,430)	(11,411,598)	(14,567,592)
Subtotal	(5,210,169)	(4,616,831)	(3,782,450)
Net adjustment of assets and liabilities denominated in foreign currency.....	18,790,798	(1,541,850)	(6,849,390)
Price-level restatement, net	Ch\$ 13,580,629	Ch\$ (6,158,681)	Ch\$ (10,631,840)

NOTE 5 - TIME DEPOSITS

Time deposits are summarized as follows:

	At December 31,	
	2000	2001
	(in thousands)	
Time deposits in UF	Ch\$ 10,872,380	Ch\$ 9,966,400
Time deposits in Chilean pesos	-	141,881
Time deposits in US dollars.....	1,775,186	6,632,743
Time deposits in other foreign currency	2,368,099	571,375
Total	Ch\$ 15,015,665	Ch\$ 17,312,399

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

NOTE 6 - MARKETABLE SECURITIES

Marketable securities are summarized as follows:

	At December 31,	
	2000	2001
	(in thousands)	
Marketable equity securities	Ch\$ 1,054,071	Ch\$ 494,214
Money market funds	3,319,721	917,171
Other investments	22,837	-
Total marketable securities	Ch\$ 4,396,629	Ch\$ 1,411,385

NOTE 7 - ACCOUNTS RECEIVABLE

a) Accounts receivable are summarized as follows:

	At December 31,	
	2000	2001
	(in thousands)	
Trade accounts receivable	Ch\$ 101,051,258	Ch\$ 85,817,148
Notes receivable	15,833,857	13,254,734
Other accounts receivable.....	7,130,037	6,977,896
Allowance for doubtful accounts.....	(15,397,748)	(14,309,497)
Total	Ch\$ 108,617,404	Ch\$ 91,740,281

b) Changes in the allowance for doubtful accounts for the years ended December 31, 2000 and 2001 are as follows:

	2000 (in thousands)	2001 (in thousands)
Balance at beginning of year.....	Ch\$ 13,224,913	Ch\$ 15,397,748
Price-level restatements	-	(443,326)
Charged to expenses	5,260,668	5,744,171
Deductions	(3,087,833)	(6,389,096)
Balance at end of year	Ch\$ 15,397,748	Ch\$ 14,309,497

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

NOTE 8 - INVENTORIES

a) Inventories are summarized as follows:

	<u>At December 31,</u>	
	<u>2000</u>	<u>2001</u>
	(in thousands)	
Raw materials	Ch\$ 25,090,926	Ch\$ 26,863,091
Finished goods.....	21,968,354	23,848,809
Work-in-process	17,309,297	12,663,085
Supplies	11,547,963	10,377,656
Installation projects in progress	3,302,485	3,331
Other.....	7,579,795	4,916,590
Total	Ch\$ 86,798,820	Ch\$ 78,672,562

Inventories are presented net of the allowance for obsolescence and write-offs (ThCh\$ 2,306,240, ThCh\$ 3,460,939 and ThCh\$ 3,219,002 in 1999, 2000 and 2001, respectively).

b) Changes in the allowance for obsolescence for the year ended December 31, 2001 is as follows:

	<u>At December 31,</u>	
	<u>2000</u>	<u>2001</u>
	(in thousands)	(in thousands)
Balance at beginning of year.....	Ch\$ 1,693,150	Ch\$ 2,866,610
Price level restatements	-	(86,193)
Charged to expenses	1,224,625	899,666
Deductions	(51,165)	(604,467)
Balance at end of year	Ch\$ 2,866,610	Ch\$ 3,075,616

c) Write-offs of inventory for the years ended December 31, 2000 and 2001 were ThCh\$396,282 and ThCh\$ 143,386 respectively.

NOTE 9 - OTHER CURRENT ASSETS

Other current assets are summarized as follows:

	<u>At December 31,</u>	
	<u>2000</u>	<u>2001</u>
	(in thousands)	(in thousands)
Securities purchased under agreements to resell.....	Ch\$ 128,424,696	Ch\$ 30,485,680
Recoverable income taxes, net (see Note 16).....	12,594,876	8,869,675
Prepaid expenses	3,069,326	1,922,233
Deferred income taxes	2,697,330	6,535,623
Property, plant and equipment held for sale (see Note 10)	9,524,721	10,498,266
Other.....	1,724,481	4,961,420
Total	Ch\$ 158,035,430	Ch\$ 63,272,897

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized as follows:

	At December 31,	
	2000	2001
	(in thousands)	
Land.....	Ch\$ 24,550,105	Ch\$ 24,295,434
Buildings and infrastructure	204,300,160	194,047,033
Accumulated depreciation	(50,787,365)	(58,889,288)
Subtotal buildings and infrastructure, net	153,512,795	135,157,745
Machinery and equipment	341,981,670	372,120,344
Accumulated depreciation	(159,712,322)	(184,373,905)
Subtotal machinery and equipment, net.....	182,269,348	187,746,439
Other property, plant and equipment:		
Leased assets	21,005,090	26,779,249
Construction in progress	8,382,076	15,164,650
Furniture and fixtures	9,703,904	9,218,873
Office equipment	6,269,985	4,021,717
Tools and others	2,597,627	2,617,264
Computer software	1,598,777	1,654,239
Computers	1,269,572	2,414,380
Materials and replacement parts	1,432,166	1,404,825
Other property, plant and equipment	7,976,814	8,232,019
Accumulated depreciation	(18,367,580)	(21,312,500)
Subtotal other property, plant and equipment, net	41,868,431	50,194,716
Revaluation from technical appraisals:		
Land.....	5,553,491	5,730,705
Buildings and infrastructure	19,204,623	16,919,554
Machinery and equipment	2,061,802	2,008,563
Accumulated depreciation	(6,897,652)	(4,268,726)
Subtotal revaluation from technical appraisals, net	19,922,264	20,390,096
Total property, plant and equipment, net	Ch\$ 422,122,943	Ch\$ 417,784,430
Depreciation for the year:		
Operating expenses.....	26,952,107	27,573,903
Administration and sales expenses	4,141,558	3,194,459
Total	Ch\$ 31,093,665	Ch\$ 30,768,362

Depreciation aggregated ThCh\$ 39,655,718, ThCh\$ 31,093,665 and ThCh\$ 30,768,362 in 1999, 2000, and 2001, respectively, and included depreciation of the revaluation from technical appraisals of ThCh\$ 727,709, ThCh\$ 455,529, and ThCh\$ 451,624, in 1999, 2000, and 2001, respectively.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

Property, plant and equipment held for sale amounting to ThCh\$ 9,524,722 and ThCh\$ 10,498,276 were transferred to other current assets during 2000 and 2001 respectively, after they were adjusted to net realizable value.

During the month of January 2002, the production activities of the Quilmes, Barracas, San Luis and Llavallol properties of Madeco's subsidiary Decker Indelqui S.A. were suspended. Property, plant and equipment involved in the temporary shutdown have a net carrying value of approximately ThCh\$25,180,000.

In light of the economic situation in Argentina, a non-recurring provision has been accrued in the amount of ThCh\$12,460,412, which has been directly reduced from Property, plant and equipment and from Other long-term assets, and has been included in Other non-operating expenses (see note 19)

The estimated useful lives of the principal categories of property, plant and equipment are as follows:

	<u>Years</u>
Buildings and installations.....	60
Machinery and equipment	10 to 20
Telephone plant and equipment.....	10 to 30
Other fixed assets	10 to 20

The Revaluation from technical appraisals is being amortized over the remaining lives of the respective assets.

Financing costs capitalized during the construction period were ThCh\$ 1,243,741, ThCh\$ 339,002 and ThCh\$ 633,261 during 1999, 2000 and 2001, respectively.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

NOTE 11 - INVESTMENTS AND GOODWILL

a) Investments in related and other companies

Investments are summarized as follows:

	At December 31,			
	2000		2001	
	(in thousands)			
Investments in related companies.....	Ch\$	404,647,001	Ch\$	474,753,161
Other investments		2,995,667		584,635
Total	Ch\$	407,642,668	Ch\$	475,337,796

Investments in related companies at December 31 of each year are summarized as follows:

<u>Company</u>	<u>Percentage owned</u>		<u>Investment carrying value</u>			<u>Equity in net earnings of affiliated companies recognized in income (loss)</u>		
	2000	2001	2000	2001	1999	2000	2001	
	%	%				(in thousands)		
Inversiones y Rentas S.A. (1).....	50.00	50.00	Ch\$ 127,686,579	Ch\$ 126,796,409	Ch\$ 15,502,078	Ch\$ 8,141,572	Ch\$ 11,766,003	
OHCH (2)	-	-	-	-	(760,571)	-	-	
Banco Edwards (3).....	51.17	51.17	118,189,266	122,497,723	(2,050,800)	1,675,702	5,170,289	
Banco de Chile (4).....	1.00	4.27	3,950,116	16,990,347	-	588,221	3,710,101	
SM Chile series "A", "B", "D" and "E" (4)	11.91	51.35	36,106,994	158,517,289	-	2,245,059	11,816,842	
Entel (5)	13.68	5.69	64,917,731	28,531,859	2,765,323	3,943,559	3,081,299	
Lucchetti Argentina (6).....	100.00	0.00	18,476,897	-	-	(7,323,494)	-	
Plava Laguna (Croatia) (7).....	39.42	0.00	16,365,547	-	-	549,441	-	
Habitaria.....	50.00	50.00	6,903,749	8,014,175	(103,875)	(411,700)	208,654	
Other	Various	Various	12,050,122	13,405,359	389,759	549,208	499,222	
Total			Ch\$ 404,647,001	Ch\$ 474,753,161	Ch\$ 15,741,914	Ch\$ 9,957,568	Ch\$ 36,252,410	

- (1) A joint venture holding company through which the Company's ownership interests in CCU is held.
- (2) Quiñenco sold its 50% interest in OHCH on May 4, 1999 for US\$ 600 million (ThCh\$ 316,827,775) generating a non-recurring non-operating gain of ThCh\$ 164,775,659 (see Note 20) in 1999.
- (3) Between September 2, 1999 and October 26, 1999, Quiñenco acquired a 51.17% controlling interest in Banco Edwards through a Purchase and Sale Agreement negotiated with Banco Edwards' controlling shareholder group, subsequent purchases on the open market, and a private transaction.
- (4) As indicated below, until December 31, 1999 shares of SM Chile and Banco de Chile were recorded at the lower of cost or market. During 2000, additional purchases of shares of these investees enabled the Company to account for these investments under Chilean GAAP using the equity method at December 31, 2000. During 2001 Quiñenco increased its interest to 51.35% and 4.27% in SM Chile and Banco de Chile, respectively. As authorized by the SVS, the Company continues to use the equity method to account for these investees as banking and insurance operations are generally not consolidated with non-financial businesses in Chile, primarily due to the dissimilarity of both the nature of the operations and the related accounting policies.
- (5) During 1999, Quiñenco acquired a 14.31% interest in Entel S.A. ("Entel") through an agreement with Samsung Chile Holding Ltda. and open market purchases. During 2000 and 2001, Quiñenco sold 2,000,000 and 18,920,948 shares of Entel (equivalent to a 0.63% interest and 7.99%, respectively), generating non-operating income of ThCh\$ 7,605,515 in 2000 and ThCh\$ 49,568,998 in 2001 (see Note 20).
- (6) As authorized by the SVS, Lucchetti Argentina S.A. ("Lucchetti Argentina") was not consolidated as of and for the year ended December 31, 2000, because in February 2001, a contract to sell the subsidiary was signed. The investment was carried at net realizable value at December 31, 2000, resulting in a loss of ThCh\$ 7,323,494 during 2000. On June 25, 2001, Lucchetti completed the sale of its subsidiary, Lucchetti Argentina, to Molinos Rio de la Plata S.A. ("Molinos"), an Argentine-based food producer, for US\$ 29.7 million (value on the transaction date, net of debt). Lucchetti made a provision for the accounting loss it expected to incur upon the closing of the sale of Ch\$ 7,323 million in its financial statements as of December 31, 2000, of which an amount of ThCh\$ 1,007 million was reversed during 2001, in accordance with the final sales terms.
- (7) During 2000, Quiñenco acquired a 39.42% interest in Plava Laguna through a private transaction and a tender offer for the publicly held portion of Plava Laguna traded on the Croatian Stock Exchange for a total cost of approximately US\$ 27 million. This investment was sold to Sutivan Investments, a related party, on August 17, 2001 for ThUS\$ 29,624, resulting in a gain of Ch\$, 1280 million (ThUS\$ 1,955).

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

SM Chile and Banco de Chile

Between October 18, 1999 and December 30, 1999, Quiñenco acquired an 8.47% effective interest in Banco de Chile through the purchase of shares of Banco de Chile and its holding company SM Chile. Until December 31, 2001, prior to the merger of Banco de Chile and Banco Edwards on January 1, 2002, SM Chile directly owned 28% of Banco de Chile and indirectly held an additional 63.64% through its wholly owned subsidiary, SAOS. At December 31, 1999, the shares were classified as a long-term investment and accounted for at the lower of cost or market value

During 2000, Quiñenco acquired an additional effective 3.91% interest in Banco de Chile through the purchases of shares of Banco de Chile and SM Chile on the open market at a cost of Ch\$ 30,955 million. As a result of the increased participation, effective June 2000 the investments in SM Chile and Banco de Chile were accounted for using the equity method.

By way of a public tender offer which was completed on March 6, 2001, the Company acquired 28.4 million; 550.0 million; 21.5 million and 29.2 million series A, B, D and E shares of SM Chile for a total price of ThCh\$ 36,212,201. This investment was further increased by Quiñenco on March 27, 2001 through the acquisitions from Empresas Penta and other companies of 1,466.8 million shares of Banco de Chile and 79.5 million, 4,144.1 million, 90.7 million and 18.6 million series A, B, D and E shares of SM Chile respectively for a total price of ThCh\$ 304,127,162. The purchases during 2001 generated goodwill of ThCh\$ 220,679,155. As of December 31, 2001, the Company held a 51.35% interest in SM Chile and a further 4.27% interest in Banco de Chile. As a result, Quiñenco exercises control over Banco de Chile.

The voting rights of 41,179 million shares of Banco de Chile belonging to SM Chile and to SAOS are exercised by the shareholders of SM Chile who attend the bank's shareholders' meetings. The rights corresponding to the shares owned by SM Chile are exercised by all of the series' shareholders, (i.e. Series A, B, D, and E). Those rights corresponding to the shares owned by SAOS are exercised by Series A, B and D shareholders. As a consequence of the above, the Company held 52.66% of the total voting rights of Banco de Chile as of December 31, 2001.

Quiñenco does not consolidate Banco de Chile as under Chilean GAAP, banking operations are not generally consolidated with non-financial businesses, primarily due to the dissimilarity of both the nature of these businesses and the related accounting policies. As of and for the year ended December 31, 2001, SM Chile and Banco de Chile have been accounted for using the equity method.

Central Bank Subordinated Debt and dividend rights

During the 1982-1983 economic crisis, the Chilean banking system experienced significant instability due to, among other things, a recession in most of the world's major economies accompanied by high international interest rates, an overvalued peso, a lack of stringent banking regulation and ineffective credit policies at most Chilean banking organizations. The financial crisis required that the Central Bank and the Chilean government provide assistance to most Chilean private-sector banks.

Subsequent to the 1982-1983 economic crisis, most major Chilean banks sold certain of their non-performing loans to the Central Bank at face value on terms that included a repurchase obligation by such banks. This repurchase obligation was later exchanged for subordinated debt of the banks issued in favor of the Central Bank. Pursuant to Law 18,818 of 1989, banks were permitted to repurchase the portfolio of non-performing loans previously sold to the Central Bank for a price equal to the economic value of such

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

loans, provided that the bank assumed a subordinated obligation equal to the difference between the face value of the loans and the economic value paid.

The modification of the subordinated debt set forth in Law N° 18,818 on November 10, 1989, suspended the dividend rights of the Series A shares of SM Chile (SM Chile is the predecessor entity of Banco de Chile, and was formerly known as Banco de Chile at the time of the banking crisis) for the period of time during which the subordinated debt with the Chilean Central Bank has not been extinguished.

In accordance with the above, the surpluses generated by SM Chile after provision of the annual installment of the subordinated debt, can only be distributed as dividends to shareholders of Series B, D and E Shares of SM Chile. Series A shares have no right to receive dividends while the subordinated debt obligation is outstanding. As a result, the equity value of these shares is calculated based on the shareholders' equity of SM Chile, excluding income. As a result of the above, the participation of the Company in Banco de Chile's total dividend distribution was 17.80%, as of December 31, 2001.

Banco Edwards

Between September 2, 1999 and October 26, 1999, Quiñenco acquired a 51.17% controlling interest in Banco Edwards through a Purchase and Sale Agreement negotiated with Banco Edwards' controlling shareholder group, subsequent purchases on the open market, and a private transaction. These purchases totaling ThCh\$ 162,970,660 generated goodwill of ThCh\$ 83,960,112.

On December 9, 1999, Banco Edwards issued 1,591,836,735 new shares, through a rights offering. As a result of the offering, the Company acquired 814,635,802 shares for a total of ThCh\$ 39,571,395, thus maintaining its holding of 51.17%. In addition, the Company subscribed for an additional 414,018,557 shares and transferred them to J. Ergas Inversiones y Rentas Ltda. for a price of UF 1,238,290 pursuant to a three-year interest bearing note.

Merger of Banco de Chile and Banco Edwards

In shareholders' meetings held on December 6, 2001 and December 18, 2001, in Banco de Chile and Banco Edwards respectively, it was agreed to merge the two banks. Pursuant to authorizations from the Chilean Superintendency of Banks ("SBIF") and a majority of the shareholders from both banks, Banco de Chile, a 52.66%-owned subsidiary of the Company and Banco Edwards, a 51.17%-owned subsidiary of the Company, merged operations effective January 1, 2002. As a consequence of the merger, Banco de Chile, the surviving entity and legal successor, absorbed Banco Edwards. Under the terms of exchange, Banco Edwards constituted 34% and Banco de Chile, 66% of the assets, liabilities and equity of the surviving entity. Each Banco Edwards share was exchanged for 3.135826295 shares of Banco de Chile common stock. Following the merger, Banco de Chile had 68,079,783,605 shares outstanding of common stock, all of the same series.

As of January 1, 2002, the Company owns 52.16% of the voting rights and is entitled to 29.15% of the dividend rights in the merged bank.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

VTR

On April 29, 1999, VTR sold its 58.52% interest in its cable TV company, VTR Hipercable S.A. (“VTR Hipercable”), to UIH Chile Holding S.A., a subsidiary of UIH Latin America S.A., for US\$ 227,482,507 (ThCh\$135,365,236), generating a non-recurring non-operating gain of ThCh\$ 78,339,331 and an increase in net income of ThCh\$ 74,012,752 (net of taxes of ThCh\$ 4,326,579). See Note 20.

Plava Laguna

On March 1, 2000, Quiñenco purchased a 15.7% equity interest in Plava Laguna, a large tourist and hotel complex on the Adriatic Coast of Croatia for approximately US\$ 11 million. On the same date it launched a tender offer for the publicly held portion of Plava Laguna, traded on the Croatian Stock Exchange and acquired an additional 23.72% percentage of Plava Laguna for approximately US\$ 16 million. At December 31, 2000, through a wholly-owned subsidiary, Excelsa Establishment, Quiñenco held an aggregate interest in Plava Laguna of 39.42%.

On August 20, 2001, Quiñenco announced that it had sold its 39.42% interest in Plava Laguna to Sutivan Investments, a Luksic Group company, for ThUS\$ 29,624. The pre-tax gain on the sale of its interest was Ch\$ 1,280 million (ThUS\$ 1,955). Under the terms of the sales agreement, Quiñenco has an option to purchase 50% of Sutivan Investments in 2004.

Habitaria

On April 26, 2001, the Company participated in the proportional capital increase of the related company Habitaria, purchasing 2,090,300 shares in the amount of ThCh\$ 950,648, maintaining its participation of 50% of Habitaria’s capital.

Lucchetti Argentina

On February 13, 2001, Lucchetti signed an agreement with Molinos, an Argentine based food company, to sell its 100% interest in Lucchetti Argentina.

On June 25, 2001, Lucchetti completed the sale of its subsidiary, Lucchetti Argentina, to Molinos for US\$ 29.7 million (net of assumed debt). Lucchetti made a provision for the accounting loss it expected to incur upon the closing of the sale of ThCh\$ 7,323,494 in its 2000 year-end financial statements, which was included in other non-operating expenses. The actual sale resulted in a loss of ThCh\$ 6,316,494, resulting in the recognition of ThCh\$ 1,007,000 in income for the year ended December 31, 2001.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

b) Goodwill

Goodwill and negative goodwill are summarized as follows:

	At December 31,	
	2000	2001
	(in thousands)	
Goodwill.....	Ch\$ 161,410,452	Ch\$ 356,294,781
Negative goodwill.....	(20,973,699)	(9,840,210)
Total.....	Ch\$ 140,436,753	Ch\$ 346,454,571

Goodwill (net) at December 31 of each year arose from the purchase of the following investments:

	At December 31,	
	2000	2001
	(in thousands)	
Company		
Banco de Chile and SM Chile series "B", "D" and "E" (1).....	Ch\$ 31,485,765	Ch\$ 245,955,552
Banco Edwards	78,366,580	74,168,370
Madeco and subsidiaries.....	41,495,623	34,882,526
Entel (2).....	6,980,411	843,504
Others	3,082,073	444,829
Total.....	Ch\$ 161,410,452	Ch\$ 356,294,781

(1) During 2001, Quiñenco acquired an additional 39.44% and 3.27% interest in SM Chile and Banco de Chile.

(2) During 2001, the Company sold a 7.99% participation in Entel.

The amortization of goodwill is included in non-operating expense each year (ThCh\$ 9,369,626 in 1999, ThCh\$ 12,075,161 in 2000 and ThCh\$ 27,408,380 in 2001).

Negative goodwill (net) at December 31 of each year arose from the purchase of the following investments:

	At December 31,	
	2000	2001
	(in thousands)	
Company		
Banco de Chile y SM Chile	Ch\$ 197,677	Ch\$ 471,017
VTR and subsidiaries (2).....	5,411,309	4,949,728
Madeco and subsidiaries.....	190,399	183,868
Entel (1).....	13,625,588	1,632,433
Agrícola El Peñón S.A.	863,714	1,015,378
Other.....	685,012	1,587,786
Total.....	Ch\$ 20,973,699	Ch\$ 9,840,210

(1) During 2001, the Company sold a 7.99% participation in Entel.

(2) In June of 1999, Quiñenco purchased the VTR common stock held by SBC Communications for US\$ 128,616,126 (ThCh\$ 69,952,940), generating negative goodwill of ThCh\$ 6,429,277.

The amortization of negative goodwill is included in non-operating income each year (ThCh\$ 2,037,620 in 1999, ThCh\$ 2,457,243 in 2000 and ThCh\$ 8,919,864 in 2001).

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

Had the acquisition of VTR been consummated on January 1, 1999. Quiñenco's consolidated net sales, net income, minority interest, net income and net income per share on an unaudited pro forma basis, would have been as follows:

		<u>1999</u> (unaudited)
Net sales	ThCh\$	438,987,034
Net income	ThCh\$	203,047,733
Minority interest in net income.....	ThCh\$	23,654,638
Net income per share	Ch\$	188.05

NOTE 12 - OTHER NONCURRENT ASSETS

Other noncurrent assets are summarized as follows:

	<u>At December 31,</u>	
	<u>2000</u>	<u>2001</u>
(in thousands)		
Long-term notes and account receivable	Ch\$ 24,114,904	Ch\$ 23,671,088
Recoverable tax incentives in Argentina.....	7,996,107	5,138,156
Recoverable VAT in Lucchetti Peru and VTR	3,453,520	3,787,723
Intangibles, net	2,532,752	2,293,664
Bond issuance costs.....	3,681,711	9,383,680
Deposits in guarantee.....	1,522,367	1,637,482
Fixed assets held-for-sale (Note 10)	621,754	205,314
Promissory notes in judicial collection, net.....	2,005,526	269,648
Recoverable VAT in Argentina	1,241,185	50,665
Deferred income taxes (Note 16).....	4,078,994	7,774,796
Other.....	1,060,685	1,663,643
Total other noncurrent assets	Ch\$ 52,309,505	Ch\$ 55,875,859

Long-term notes receivable of ThCh\$ 24,114,904 and ThCh\$ 23,671,088 in 2000 and 2001, respectively, correspond primarily to the sale of 414,018,557 shares of Banco Edwards by the Company to J. Ergas Inversiones y Rentas Ltda. for UF 1,238,290, equivalent to ThCh\$ 20,137,896. The balance accrues interest at 8.98% per annum and is due March 31, 2003. The 414,018,557 shares were originally purchased by the Company on behalf of J. Ergas Inversiones y Rentas Ltda. and they serve as collateral on the loan.

NOTE 13 - SHORT-TERM BANK LOANS

Short-term bank loans are summarized as follows:

	<u>At December 31,</u>	
	<u>2000</u>	<u>2001</u>
(in thousands)		
Payable In:		
United States dollars.....	Ch\$ 66,679,287	Ch\$ 80,518,318
Other foreign currencies	4,140,691	4,367,449
Inflation-linked units (UFs)	86,457,783	17,472,684
Chilean pesos (not indexed)	2,734,822	19,451,447
Total short-term bank loans	Ch\$ 160,012,583	Ch\$ 121,809,898

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

	At December 31,	
	2000	2001
	%	%
Year-end weighted average interest rates:		
Loans in United States dollars	8.34	4.50
Loans in inflation-linked units (UFs)	6.73	6.46
Loans in Chilean pesos (not inflation indexed)	12.11	8.61
Other foreign currencies	14.89	7.13

NOTE 14 - ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities are summarized as follows

a) Current liabilities

	At December 31,	
	2000	2001
	(in thousands)	
Withholdings	Ch\$ 4,637,156	Ch\$ 3,204,066
Accrued employee vacation expenses	3,757,248	3,270,347
Purchase price accruals	3,550,300	3,719,647
Unearned income	477,374	146,794
Restructuring expenses	1,783,033	1,156,726
Provision for anticipated losses on construction contracts	1,521,463	135,719
Staff severance indemnities (1).....	842,088	681,716
Remuneration and consulting services.....	1,793,179	3,408,318
Project expenses, suppliers and other	2,704,753	3,000,826
Dividends payable	1,097,422	1,044,987
Advertising, promotions and corporate image	151,372	69,363
Employee benefits	332,442	332,770
Property, municipal and other taxes	1,540,232	878,087
Import and export costs	636,278	49,990
Telephone access charges.....	505,236	678,396
Exchange insurance Contract.....	521,928	3,275,454
Other.....	4,636,024	2,788,175
Total accrued expenses and other liabilities.....	Ch\$ 30,487,528	Ch\$ 27,841,381

b) Long-term liabilities

	At December 31,	
	2000	2001
	(in thousands)	
Provisions for probable losses (Note 19).....	Ch\$ 5,610,405	Ch\$ 6,245,678
Employee severance indemnities (1)	2,215,347	2,003,524
Provisions for pending lawsuits.....	3,615,784	3,179,220
Other.....	1,176,131	2,435,477
Total accrued expenses	Ch\$ 12,617,667	Ch\$ 13,863,899

- (1) Hoteles Carrera, Madeco and Lucchetti have entered into collective bargaining agreements with their employees, under which each employee is entitled to approximately one month's remuneration for each year of service whenever the employee ceases employment. These subsidiaries account for their obligation to pay these vested indemnities under a present value method using real discount rates of between 6% and 7% in 1999, 2000 and 2001.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

NOTE 15 - LONG-TERM DEBT AND BONDS PAYABLE

a) Long-term debt

Long-term debt is summarized as follows:

	<u>At December 31,</u>			
	<u>2000</u>		<u>2001</u>	
	(in thousands)			
Long-term bank loans	Ch\$	275,204,503	Ch\$	270,126,609
Long-term accounts payable		10,831,848		14,496,814
Other long-term liabilities.....		10,670,926		82,376,445
Total		<u>296,707,277</u>		<u>366,999,868</u>
Less: Current portion (1)		(71,364,164)		(52,129,020)
Long-term debt	Ch\$	<u>225,343,113</u>	Ch\$	<u>314,870,848</u>

(1) The current portion of long-term debt is reflected on the balance sheet together with the short-term portion of bonds payable totaling ThCh\$ 3,965,593 and ThCh\$ 7,269,799 at December 31, 2000 and 2001, respectively.

Year-end weighted average interest rates:

Long-term bank loans in United States dollars and others currencies ...	8.21%	6.09%
Long-term bank loans in UF.....	6.91%	6.56%
Long-term accounts payable.....	5.99%	6.82%
Other long-term liabilities.....	4.46%	8.50%

b) Bonds payable

Bonds have been issued by the following subsidiaries:

	<u>Original issuance in UFs</u>	<u>At December 31,</u>			
		<u>2000</u>		<u>2001</u>	
		(in thousands)			
Subsidiary:					
Compañía de Teléfonos de Coyhaique S.A ("Telcoy") (1)	130,000	Ch\$	1,208,634	Ch\$	932,970
Telsur (2).....	450,000		4,894,981		4,190,678
Telsur (3).....	300,000		4,386,712		4,196,357
Telsur (4).....	500,000		7,961,841		7,212,484
Telsur (5).....	500,000		8,321,794		8,323,776
Telsur (6).....	400,000		-		6,536,047
Telsur (7).....	600,000		-		9,804,071
Madeco (8)	693,000		4,427,983		3,112,676
Madeco (9)	2,500,000		40,882,373		40,777,317
Madeco (10).....	1,500,000		-		24,642,269
Quiñenco (11).....	2,000,000		-		32,872,573
Quiñenco (12).....	4,500,000		-		73,963,274
Total.....			<u>72,084,318</u>		<u>216,564,492</u>
Less: Current portion			<u>(3,965,593)</u>		<u>(7,269,799)</u>
Long-term portion.....		Ch\$	<u>68,118,725</u>	Ch\$	<u>209,294,693</u>

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

1) In September 1994, Telcoy, a subsidiary of Telsur, issued bonds under following terms:

Amount issued: UF 130,000 composed of 260 Series A bonds of UF 500 each.
Term: Ten years (two years of grace and eight years of principal repayment)
Principal amortization: Sixteen equal semi-annual installments from March 1, 1997. As of December 31, 2001, ten principal installments aggregating UF 73,747 had been paid.
Interest rate: 6.25% real annual rate, calculated and paid semi-annually on the outstanding UF-denominated principal.

2) In March 1995, Telsur issued bonds under the following terms:

Amount issued: UF 450,000 composed of 450 Series C bonds of UF 1,000 each.
Term: Twelve years (two years of grace and ten years of principal repayment),
Principal amortization: Twenty equal semi-annual installments from June 1, 1997. As of December 31, 2001, ten principal installments aggregating UF 193,494 had been paid.
Interest rate: 5.8% real annual rate, calculated and paid semi-annually on the outstanding UF-denominated principal.
Advance redemption: Telsur has the right to redeem the entire bond issue on any coupon payment date after June 1, 1997.

3) In March 1995, Telsur issued bonds under the following terms:

Amount issued: UF 300,000 composed of 300 Series D bonds of UF 1,000 each.
Term: Twenty-one years (three years of grace and eighteen years of principal repayment).
Principal amortization: Thirty-six equal semi-annual installments from June 1, 1998, As of December 31, 2001, eight principal installments aggregating UF 43,147 had been paid.
Interest rate: 5.8% real annual rate, calculated and paid semi-annually on the outstanding UF-denominated principal.
Advance redemption: Telsur has the right to redeem the entire bond issue on any coupon payment date after June 1, 2000.

4) In May 1997, Telsur issued bonds under the following terms:

Amount issued: UF 500,000 composed of 500 Series E bonds of UF 1,000 each,
Term: Twelve years (three years of grace and nine years of principal repayment).
Principal amortization: Eighteen equal semi-annual installments from August 1, 2000, As of December 31, 2001, three principal installment aggregating UF 66,754 had been paid.
Interest rate: 5.8% real annual rate, calculated and paid semi-annually on the outstanding UF-denominated principal.
Advance redemption: Telsur has the right to redeem the entire bond issue on any coupon payment date after August 1, 2000.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

5) In May 1997, Telsur issued bonds under the following terms:

Amount issued:	UF 500,000 composed of 500 Series F bonds of UF 1,000 each.
Term:	Twenty-one years (five years of grace and sixteen years of principal repayment).
Principal amortization:	Thirty-two equal semi-annual installments from August 1, 2002.
Interest rate:	5.8% real annual rate, calculated and paid semi-annually on the outstanding UF-denominated principal.
Advance redemption:	Telsur has the right to redeem the entire bond issue on any coupon payment date after August 1, 2002.

6) In April 2001, Telsur issued bonds under the following terms:

Amount issued:	UF 400,000 composed of 200 Series G1 bonds of UF 500 each and 60 Series G2 bonds of UF 5,000 each.
Terms:	Five years (two years of grace and three years of principal repayment).
Principal amortization:	Six equal semi-annual payments from June 1, 2003.
Interest rate:	6.00% real annual rate calculated and paid semiannually on the outstanding UF-denominated principal.

7) In April 2001, Telsur issued bonds under the following terms:

Amount issued:	UF 600,000 composed of 300 Series H1 bonds of UF 1,000 each and 60 Series H2 bonds of UF 5,000 each.
Terms:	Twenty-one years (six years of grace and fifteen years of principal repayment).
Principal amortization:	Thirty equal semi-annual payments from June 1, 2007.
Interest rate:	6.00% real annual rate calculated and paid semiannually on the outstanding UF-denominated principal.

8) In September 1991, Madeco issued bonds under the following terms:

Amount issued:	UF 693,000 composed of 693 Series B bonds of UF 1,000 each.
Terms:	Thirteen years (six years of grace and seven years of principal repayment).
Principal amortization:	Fourteen equal semi-annual payments from February 1, 1997, As of December 31, 2001, ten principal installments aggregating UF 506,201.85 had been paid.
Interest rate:	6.00% real annual rate calculated and paid semiannually on the outstanding UF-denominated principal.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

9) In April 2000, Madeco issued bonds under the following terms:

Amount issued:	UF 2,500,000 composed of 1,000 Series A1 bonds of UF 1,000 each and 300 Series A2 bonds of UF 5,000 each.
Term:	Fifteen years (three years of grace and twelve years of principal repayment).
Principal amortization:	Twelve equal semi-annual installments from September 15, 2003.
Interest rate:	7.25% real annual rate, calculated and paid semi-annually on the outstanding UF-denominated principal.
Advance redemption:	Madeco has the right to redeem the entire bond issue on any coupon payment date after September 15, 2003.

10) In August, 2001, Madeco issued bonds under the following terms:

Amount issued:	UF 1,500,000 composed of 500 Series C1 bonds of UF 1,000 each and 100 Series C2 bonds of UF 10,000 each.
Term:	Three years (five semi-annual installments interest payments and one installment of principal).
Principal amortization:	Six semi-annual installments from November 1, 2001.
Interest rate:	6.20% real annual rate calculated and paid semiannually on the outstanding UF-denominated principal.

11) In April 2001, Quiñenco issued bonds under the following terms:

Amount issued:	UF 2,000,000 composed of 180 Series A1 bonds of UF 10,000 each and 200 Series A2 bonds of UF 1,000 each.
Terms:	Twenty-one years (five years of grace and sixteen years of principal repayment).
Principal amortization:	Thirty-two equal semi-annual payments from October 30, 2005
Interest rate:	6.20% real annual rate calculated and paid semiannually on the outstanding UF-denominated principal.

12) In April 2001, Quiñenco issued bonds under the following terms:

Amount issued:	UF 4,500,000 composed of 400 Series B1 bonds of UF 10,000 each and 500 Series B2 bonds of UF 1,000 each.
Terms:	Eight years (three years of grace and five years of principal repayment).
Principal amortization:	Ten equal semi-annual payments from October 30, 2003.
Interest rate:	6.20% real annual rate calculated and paid semiannually on the outstanding UF-denominated principal.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

c) *Scheduled principal payments on long-term debt and bonds payable at December 31, 2001:*

	<u>At December 31, 2001</u> (in thousands)	
Principal payments during the fiscal years ending December 31, 2003.....	Ch\$	168,900,797
2004.....		117,976,057
2005.....		59,518,331
2006.....		24,286,305
2007 and there after.....		153,484,051
Total.....	Ch\$	<u>524,165,541</u>

Long-term debt and bonds payable, including the current portion, are payable in the following currencies:

	<u>At December 31,</u>	
	<u>2000</u>	<u>2001</u>
(in thousands)		
United States dollars.....	Ch\$ 112,940,563	Ch\$ 47,193,173
Inflation linked-units (UFs).....	254,895,031	530,716,534
Chilean pesos (not indexed).....	12,251	619,346
Other currencies (1).....	943,750	5,035,307
Total.....	Ch\$ <u>368,791,595</u>	Ch\$ <u>583,564,360</u>

(1) Others currencies include Peruvian Sols, Argentine Pesos, Brazilian Reals and Euros.

d) *Financial covenants*

As of December 31, 2001 Quiñenco and its group companies were in compliance with the financial covenants associated with existing bond issues and credit agreements with banks, with the exception of Madeco. Madeco's management obtained waivers and/or amendments with respect to the violation of its financial covenants as of December 31, 2001 as explained below.

(1) Madeco: At December 31, 2001, the main financial covenants associated with existing credit agreements with banks and bond issues Madeco were as follows:

- Current ratio, both at the consolidated and unconsolidated levels must be equal to or greater than one.
- Interest coverage ratio must be equal to or greater than 2.05.
- The ratio of total liabilities to net worth must be less than or equal to 1.75.
- The ratio of long-term liabilities to net worth plus long-term bank liabilities must be less than or equal to 0.55.
- Net worth must be equal to or greater than UF 7 million.
- Ratio of unencumbered assets to non-collateralized liabilities, both at the consolidated and individual level, must be equal to or greater than 1.3:1.
- Unencumbered assets, both at the consolidated and unconsolidated level, must be equal to or greater than 30% of the assets susceptible to being used as pledges or liens.

With respect to the Madeco's loan with an affiliate of Bank of Boston, Madeco was in default with certain financial covenants for the three quarters ended September 30, 2001, December 31, 2001 and

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

March 31, 2002. The defaults were related to the interest coverage ratio (ratio of EBITDA to interest expenses) and the ratio of total liabilities to net worth (shareholders' equity plus minority interest). For the three aforementioned periods, the bank waived the covenant non-compliance for each of the respective financial ratios. In each case, waivers were provided for the particular quarter period in which Madeco was in default. The amount of loan outstanding at December 31, 2001 was ThCh\$7,387,924.

For the quarter ended March 31, 2002, Madeco was in non-compliance with respect to a covenant pursuant to its loan with Citibank, which had a balance outstanding at that date of ThCh\$3,321,860 (in Chilean pesos as of March 31, 2002). Madeco's non-compliance related to the covenant requiring that the Company's debt to equity ratio be less than or equal to 1.6; Citibank waived the Company's non-compliance for this financial ratio covenant.

With respect to Madeco's series B bonds, it was in default at December 31, 2001 for non-compliance with several of this series' financial covenants, including covenants pertaining to the ratio of unencumbered assets to non-collateralized liabilities at the unconsolidated level and the ratio of total liabilities to net equity at the consolidated level. However, during April 2002, the bondholders approved an amendment to the applicable bond agreement, modifying the covenants through the maturity of the bonds. Currently, Madeco is in compliance with the covenants pursuant to the modifications of this series' Bond Issuance Agreement.

Under the terms of the renegotiated Series B Bonds, Madeco is required to complete a capital increase of at least US\$60 million by September 30, 2002. It is expected that in early July 2002 the Company's Board of Directors will call for an Extraordinary Shareholders' Meeting to approve an equity increase. Madeco expects to complete an equity increase of \$70 million through a preemptive rights offering by the Company to existing shareholders. Under Chilean law, preemptive rights can be exercised by a shareholder or sold or traded. It is expected that the proceeds of any capital increase would principally be used to reduce outstanding short-term and long-term debt.

In addition, a subsidiary of Madeco, Alusa S.A. ("Alusa"), which maintained medium-term credits with several international banks which in total amounted to Ch\$3,398 million as of December 31, 2001, was not in compliance with several covenants specified in the loan agreements during 2001. Alusa obtained a waiver and/or amendments to the credit agreements with the banks involved in 2001.

Certain of the Madeco's debt covenants have cross defaults to Alusa's credit facilities, making it important to Madeco that Alusa does not default on its credit facility covenants. Though there can be no assurance, Madeco expects that, given the recent covenant amendments, Alusa will be able to meet its credit facility covenants going forward.

(2) In addition, Quiñenco and other group companies are subject to certain financial covenants with respect to bond issues and credit agreements. The main financial covenants relating to Quiñenco and group companies as of December 31, 2001 were as follows:

Quiñenco:

- Maintain book value assets free of pledges of at least 1.3:1 of clean debt.
- Unconsolidated interest bearing debt of Quiñenco to total capitalization no greater than 0.45.
- Consolidated interest bearing debt to total capitalization no greater than 0.6.
- Minimum net worth of UF 33 million.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

- Minimum share coverage of 1.5 : 1 with topping up and closing out clauses, requiring Quiñenco to maintain security collateral with first pledge on shares with a total market value of 150% of the outstanding principal.
- Luksic Group must maintain control of Quiñenco.
- Quiñenco must maintain control of Banco de Chile (through its investment in LQ Inversiones Financieras S.A.).

Other group companies:

- Telsur is subject to certain financial covenants and restrictions associated with its bonds issues and credit agreements with banks, including a minimum current ratio, a maximum liabilities to equity ratio and a minimum level of unencumbered assets to non-collateralized debt.
- In Lucchetti, its syndicated loan agreement stipulates that certain financial covenants, including a minimum current ratio, maximum debt to equity ratio and a minimum interest coverage ratio must be maintained.
- LQ Inversiones Financieras S.A. is subject to certain financial covenants and restrictions associated with its credit agreements with banks, including a maximum ratio of interest bearing debt to total assets and a minimum net worth. Additionally, Quiñenco must maintain control of LQ Inversiones Financieras S.A., and LQ Inversiones Financieras S.A. must maintain control of Banco de Chile.

Quiñenco has indirect guarantees including joint and several liability guarantees for bank debts of certain wholly-owned intermediate holding companies incurred in connection with the acquisition of Banco de Chile shares in 2001. These debts include clauses regarding the use of proceeds and normal financial covenants for these types of debt agreements.

NOTE 16 - INCOME TAX AND OTHER TAXES

a) Income taxes payable:

Income taxes payable are summarized as follows:

		At December 31,	
		2000	2001
		(in thousands)	
Income tax payable.....	Ch\$	(1,206,770)	Ch\$ (2,960,740)
Monthly income tax installment payments		1,108,957	2,639,371
Other credits against taxes.....		9,978,214	5,775,785
Others tax recoverable.....		2,714,475	3,415,259
Recoverable income taxes, net (Note 9).....	Ch\$	12,594,876	Ch\$ 8,869,675

Recoverable income taxes and income taxes payable in different tax jurisdictions have been presented separately on the balance sheet.

The income tax liability has been determined based on current tax laws in each country in which the Company operates. The net (charge) credit to the results of operations for each year is summarized as follows:

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

	At December 31,		
	1999	2000	2001
	(in thousands)		
Current year provision for income tax	Ch\$ (23,155,815)	Ch\$ (2,181,737)	Ch\$ (2,960,740)
Deferred income tax	(27,337)	4,760,326	(1,061,060)
Change in statutory Chilean tax rate	-	-	(1,216,619)
Amortization of complementary accounts	-	1,401,247	729,215
Deferred tax assets and liabilities arising from changes in the valuation allowance	-	-	(3,495,021)
Tax benefit for tax loss carryforwards	-	3,095,777	12,781,330
Other	85,038	245,975	(27,066)
Net income tax (provision) benefit	Ch\$ (23,098,114)	Ch\$ 7,321,588	Ch\$ 4,750,039

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

b) Deferred income taxes

	2000				2001			
	Assets		Liabilities		Assets		Liabilities	
	Current Portion	Long-term portion	Current portion	Long-term portion	Current Portion	Long-term portion	Current portion	Long-term portion
	(in thousands)				(in thousands)			
Timing differences								
Accrued vacation expense.....	Ch\$ 309,436	Ch\$ -	Ch\$ -	Ch\$ -	Ch\$ 410,211	Ch\$ -	Ch\$ -	Ch\$ -
Amortization of intangibles assets	-	-	-	-	-	173,976	-	-
Allowance for doubtful accounts	1,137,754	-	-	-	1,264,924	-	-	-
Allowance for obsolescence of inventories	282,638	125,964	-	-	387,723	90,531	-	-
Unearned income	-	-	-	-	1,249	-	-	-
Unearned income, inventories.....	-	-	-	-	2,222	-	-	-
Fixed assets held for sale.....	-	-	-	-	140,046	241,443	-	-
Fixed assets under leasing.....	-	-	120,046	2,180,213	-	23,686	145,628	2,347,057
Production costs (inventories).....	-	-	535,047	-	-	-	187,298	58,262
Accelerated depreciation of fixed assets	-	2,970	-	13,215,698	-	-	-	15,223,460
Employee severance indemnities	-	-	3,966	670,909	8,581	-	4,165	569,294
Bonds issuance	-	-	-	-	-	-	-	491,181
Tax loss carryforwards.....	2,649,431	60,630,967	-	-	4,867,427	49,324,975	-	-
Other provisions.....	1,405,244	1,290,692	22,669	700,168	703,652	1,161,907	30,169	337,638
Complementary accounts- net of amortization....	(2,500,522)	(18,152,437)	(95,077)	(13,257,570)	(680,927)	(19,370,014)	(12,293)	(13,687,056)
Valuation allowance.....	-	(36,309,744)	-	-	(214,518)	(18,531,872)	-	-
Total deferred income taxes.....	Ch\$ 3,283,981	Ch\$ 7,588,412	Ch\$ 586,651	Ch\$ 3,509,418	6,890,590	Ch\$ 13,114,632	Ch\$ 354,967	Ch\$ 5,339,836

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS- (Continued)

NOTE 17 - SHAREHOLDERS' EQUITY

a) The changes in Shareholders' equity during the years 1999, 2000 and 2001 in historical amounts are summarized as follows:

	Number of Shares	Paid in Capital	Reserves			Retained Earnings			Total
			Other Reserves	Cumulative Translation Adjustment	Executive Incentive Plan	Accumulated Deficit During Development Period of Subsidiaries	Retained Earnings	Net Income (loss) for the year	
Balances at January 1, 1999	1,079,740,079	Ch\$ 398,636,720	Ch\$ 10,804,734	Ch\$ 1,477,930	Ch\$ -	Ch\$ (5,696,614)	Ch\$ 62,573,605	Ch\$ 26,339,138	Ch\$ 494,135,513
Allocation of 1998 net income	-	-	-	-	-	5,696,614	20,642,524	(26,339,138)	-
Payment of final dividend on 1998 net income	-	-	-	-	-	-	(7,901,743)	-	(7,901,743)
Price-level restatement of equity accounts	-	10,364,555	313,180	13,301	-	-	1,981,879	-	12,672,915
Proportional share of variations in equity of subsidiaries and investees	-	-	220,748	-	-	(225,666)	-	-	(4,918)
Realization of cumulative translation adjustments from sale of investment	-	-	1,019,904	(2,637,727)	-	-	-	-	(1,617,823)
Cumulative translation adjustments, net	-	-	-	3,767,205	-	-	-	-	3,767,205
Net income for the year	-	-	-	-	-	-	-	-	160,310,163
Balances at December 31, 1999	<u>1,079,740,079</u>	<u>Ch\$ 409,001,275</u>	<u>Ch\$ 12,358,566</u>	<u>Ch\$ 2,620,709</u>	<u>Ch\$ -</u>	<u>Ch\$ (225,666)</u>	<u>Ch\$ 77,296,265</u>	<u>Ch\$ 160,310,163</u>	<u>Ch\$ 661,361,312</u>
Restatement of December 31, 1999 balances to December 31, 2001 constant pesos	-	441,499,289	13,340,541	2,828,942	-	(243,596)	83,437,994	173,047,928	713,911,098
Balances at January 1, 2000	1,079,740,079	Ch\$ 409,001,275	Ch\$ 12,358,566	Ch\$ 2,620,709	Ch\$ -	Ch\$ (225,666)	Ch\$ 77,296,265	Ch\$ 160,310,163	Ch\$ 661,361,312
Allocation of 1999 net income	-	-	-	-	-	225,666	160,084,497	(160,310,163)	-
Payment of final dividend on 1999 net income	-	-	-	-	-	-	(48,093,048)	-	(48,093,048)
Price-level restatement of equity accounts	-	19,223,060	580,853	123,173	-	-	9,762,196	-	29,689,282
Proportional share of variations in equity of subsidiaries and investees	-	-	(64,086)	-	-	(948,892)	(427,498)	-	(1,440,476)
Cumulative translation adjustments, net	-	-	-	5,806,606	-	-	-	-	5,806,606
Realization of cumulative translation adjustments from sale of investment	-	-	-	-	-	-	-	-	-
Executive incentive plan	-	-	-	-	(4,659,565)	-	-	-	(4,659,565)
Net loss for the year	-	-	-	-	-	-	-	(5,648,096)	(5,648,096)
Balances at December 31, 2000	<u>1,079,740,079</u>	<u>Ch\$ 428,224,335</u>	<u>Ch\$ 12,875,333</u>	<u>Ch\$ 8,550,488</u>	<u>Ch\$ (4,659,565)</u>	<u>Ch\$ (948,892)</u>	<u>Ch\$ 198,622,412</u>	<u>Ch\$ (5,648,096)</u>	<u>Ch\$ 637,016,015</u>
Restatement of December 31, 2000 balances to December 31, 2001 constant pesos	-	441,499,289	13,274,468	8,815,553	(4,804,011)	(978,308)	204,779,707	(5,823,187)	656,763,511
Balances at January 1, 2001	1,079,740,079	Ch\$ 428,224,335	Ch\$ 12,875,333	Ch\$ 8,550,488	Ch\$ (4,659,565)	Ch\$ (948,892)	Ch\$ 198,622,412	Ch\$ (5,648,096)	Ch\$ 637,016,015
Allocation of 2000 net income	-	-	-	-	-	-	(5,648,096)	5,648,096	-
Deficit from development period	-	-	-	-	-	(2,153,073)	-	-	(2,153,073)
Price-level restatement of equity accounts	-	13,274,954	399,135	265,065	(144,446)	(29,416)	5,982,204	-	19,747,496
Proportional share of variations in equity of subsidiaries and investees	-	-	(957,119)	8,257,545	-	-	-	-	7,300,426
Cumulative translation adjustments, net	-	-	-	-	-	-	(71,691)	-	(71,691)
Executive incentive plan	-	-	-	-	32,069	-	-	-	32,069
Net income for the year	-	-	-	-	-	-	-	15,509,382	15,509,382
Balances at December 31, 2001	<u>1,079,740,079</u>	<u>Ch\$ 441,499,289</u>	<u>Ch\$ 12,317,349</u>	<u>Ch\$ 17,073,098</u>	<u>Ch\$ (4,771,942)</u>	<u>Ch\$ (3,131,381)</u>	<u>Ch\$ 198,884,829</u>	<u>Ch\$ 15,509,382</u>	<u>Ch\$ 677,380,624</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

b) As of December 31, 1999, 2000 and 2001, the Cumulative translation adjustment account included the exchange differences resulting from the application of Technical Bulletin 64 of the Chilean Association of Accountants as follows:

Balance at December 31, 1998	ThCh\$	1,477,930
Price-level restatement.....		13,301
Translation gain (net) on foreign investments		6,604,770
Reversal arising from sale of investment in OHCH.....		(2,637,727)
Exchange losses on bank loans designated as hedges of foreign investments		<u>(2,837,565)</u>
Balance at December 31, 1999	ThCh\$	2,620,709
Price-level restatement.....		123,173
Translation gain (net) on foreign investments		5,956,745
Exchange losses on bank loans designated as hedges of foreign investments		<u>(150,139)</u>
Balance at December 31, 2000	ThCh\$	8,550,488
Price-level restatement.....		265,065
Translation gain (net) on foreign investments		8,257,545
Balance at December 31, 2001	ThCh\$	<u><u>17,073,098</u></u>

c) The Accumulated deficit during development period of subsidiaries for the years ended December 31, 1999, 2000 and 2001 included the recognition of the proportional share of the results of operations of certain subsidiaries in the development stage.

d) As required by the Chilean Companies Act, unless otherwise decided by the unanimous vote of the holders of all of the issued and subscribed shares, open stock corporations must distribute a cash dividend in an amount equal to at least 30% of their net income for each year, as determined in accordance with Chilean GAAP, unless and except to the extent that the Company has accumulated losses.

e) As required by Chilean Law, Paid-in capital has been modified to reflect the proportional capitalization of the price-level restatement of equity accounts.

f) During March 2000, Quiñenco established an executive incentive plan in which an aggregate loan of ThCh\$ 4,659,565 (historic) was granted to eligible employees to acquire Quiñenco's stock and the stock of some of its subsidiaries at fair market value. The loan denominated in UFs is payable in annual installments and the acquired shares are pledged to guarantee payment of the loan or may be tendered.

g) There are no additional restrictions on the payment of dividends under the terms of the various loan agreements with banks and other financial institutions.

h) The shareholders at the Ordinary Shareholders' Meeting of April 30, 1999 approved the payment of a final dividend on net income for the year 1998 amounting to ThCh\$ 7,901,743 (historic).

i) The shareholders at the Ordinary Shareholders' Meeting of April 5, 2000 approved the payment of a final dividend on net income for the year 1999 amounting to ThCh\$ 48,093,048 (historic).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 18 - FOREIGN CURRENCY AND UF-INDEXED ASSETS AND LIABILITIES

a) Balances denominated or measured in foreign currency (principally US dollars) at December 31, 2000 and 2001 are included in these financial statements in thousand Chilean peso equivalents as follows:

	At December 31,	
	2000	2001
	(in thousands)	
Current assets:		
Cash and time deposits	Ch\$ 7,512,692	Ch\$ 10,915,319
Accounts receivable.....	55,577,304	42,391,566
Inventories	52,797,359	47,524,227
Other Current assets.....	18,541,780	20,864,150
Long-term assets:		
Fixed assets and other non-monetary assets.....	151,326,722	148,920,747
Other monetary assets.....	72,427,301	51,056,757
Total assets	358,183,158	321,672,766
Current liabilities:		
Short-term bank loans and current portion of long-term liabilities ...	124,946,710	95,661,849
Accounts payable and supplier notes payable.....	48,366,335	26,540,268
Other.....	11,741,410	8,897,465
Long-term liabilities		
Long-term debt	52,131,973	33,866,599
Other.....	15,334,503	14,952,636
Total liabilities.....	252,520,931	179,918,817
Net asset position in US dollars.....	Ch\$ 105,662,227	Ch\$ 141,753,949

Certain of the US dollar-denominated obligations included in the above table are considered to be hedges covering the exposure of foreign investments as permitted by Technical Bulletin 64. As a result, portions of the exchange losses that arise from such obligations are charged directly against equity to the Cumulative translation account within Shareholders' equity (see Note 17 b).

The inventories and fixed assets and other non-monetary assets included above relate to assets of foreign investments for which the financial statements are translated to US dollars in accordance with Technical Bulletin 64, described in note 2 s). Accordingly, there is exposure to variations in the exchange rate between the US dollar and the Chilean peso.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

b) Balances denominated in UFs are included in the accompanying December 31, 2000 and 2001 financial statements as follows:

	<u>At December 31,</u>	
	<u>2000</u>	<u>2001</u>
	(in thousands)	
Current assets:		
Time deposits and marketable securities	Ch\$ 15,242,621	Ch\$ 10,598,400
Accounts receivable.....	20,385,745	26,618,092
Inventories	6,927,563	9,524,860
Other current assets	90,040,406	30,191,848
Long-term assets:		
Other assets.....	22,068,101	22,761,266
Total assets	<u>154,664,436</u>	<u>99,694,466</u>
Current liabilities:		
Short-term bank loans and current portion of long-term liabilities ...	103,695,214	58,825,622
Bonds payable	3,965,593	7,269,799
Accounts payable and supplier notes payable.....	4,219,294	4,397,659
Other.....	2,247,293	2,485,923
Long-term liabilities:		
Long-term debt	221,963,975	396,025,411
Other.....	13,664,337	87,839,705
Total liabilities.....	<u>349,755,706</u>	<u>556,844,119</u>
Net liability position in UFs	Ch\$ <u>(195,091,270)</u>	Ch\$ <u>(457,149,653)</u>

NOTE 19 - COMMITMENTS AND CONTINGENCIES

a) Pledges of shares

The Company has pledged shares of subsidiaries and equity investees to cover obligations at December 31, 2001 as follows:

Beneficiary	<u>Balance of secured loan</u>	<u>Number of Shares</u>	<u>Company</u>
Banco Santiago	ThCh\$28,261,529	1,227,293,606	SM Chile series B
Penta and Others	ThCh\$75,424,335	1,406,752,189	Banco de Chile
		79,490,585	SM Chile series A
		4,144,103,808	SM Chile series B
		90,669,413	SM Chile series D
		18,621,091	SM Chile series E
BBVA Banco BHIF	ThCh\$26,670,762	574,264,000	Banco de Edwards
Banco Estado	ThCh\$94,630,486	84,958,931	Madeco S.A.
		1,985,308,702	Banco Edwards
CTC Chile S.A.	ThCh\$8,580,932	37,034,839	Telsur (1)

(1) On April 29, 1999, VTR and its subsidiary, Telsur sold their investment in VTR Hipercable to UIH Latin America Inc. As part of the sale, Quiñenco signed an Indemnification Agreement in which it agreed to indemnify UIH Latin America for losses of VTR and its subsidiary in excess of US\$5 million which might be incurred by UIH and related parties as a result of:

- (i) Noncompliance by VTR with the terms established in the Promise agreement dated October 15, 1998.
- (ii) Inaccuracies in the warranties and/or guarantees stipulated in Section 5 of the Promise Agreement.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

This obligation is limited to 55.9% of the total of these losses.

The guarantees in section 5 of the Promise Agreement relate primarily to the legal constitution of VTR the accuracy of the VTR Hipercable financial statements, and the preferential right granted to UIH to purchase the Telsur shares in case VTR decides to sell its investment in this company.

b) Mortgages and pledges

The Company has granted mortgages over certain assets and pledges over machinery, buildings, trademarks, raw materials and semi-finished products with a net book value of ThCh\$17,762,206.

Additionally, the Company's subsidiary, Lucchetti Chile has guarantees to a number of banks in accordance with a syndicated loan agreement for UF 2,369,359 signed on December 10, 2001. Those guarantees include liens on machinery, equipment, land and buildings owned by Lucchetti. As part of the aforementioned syndicated loan agreement, Lucchetti Chile pledged 50.1% of its shares and the rights to the trade brands Lucchetti, Talliani, Miraflores, Oro Vegetal and Naturezza.

c) Guarantees to third parties

Alusa, a subsidiary of Madeco, acts as joint and several guarantor liable for bank loans amounting to ThCh\$6,076,104 for its subsidiaries, Alusa Overseas S.A. and Aluflex S.A., from Rabobank Curacao N.V., ABN Amro Bank and Citibank.

In connection with the sale of VTR Larga Distancia S.A. to CTC, on October 14, 1998, VTR and VTR Larga Distancia S.A. entered into a Liberation, Contingencies and Guarantees agreement. On December 27, 1999, VTR and Globus S.A. (previously known as VTR Larga Distancia S.A.) signed a new agreement modifying the previous agreement and establishing that VTR is solely responsible during a period starting December 27, 1999 for any payments that Globus S.A. might have to make in relation to any situation or circumstance originating between January 1994 and the date of the agreement that do not correspond to the specific contingencies and issues identified in the agreement. The above-mentioned responsibility is limited to US\$ 13 million. In order to guarantee compliance with the agreement, VTR has issued bank guarantees, which as of December 31, 2001 totaled UF 88,659.

Subsequently on June 16, 1999, in connection with the Company's acquisition of shares in VTR held by SBC International, both parties assumed certain reciprocal obligations including those relating to the sale of VTR Larga Distancia S.A. and other related tax contingencies. Management has established a provision for these obligations, which it believes, is adequate to cover such contingencies.

The subsidiary Hoteles Carrera has rental and administrations contracts with respect to it hotel business in the north of Chile. The contracts that expire in 2004 contain certain clauses that specify a fixed annual rental amount and a variable rental component if certain levels are met. The fixed portion of the rental agreement amounts to UF 22,922.89 in 2001, UF 25,539.86 in 2002 and 2003 and UF 10,963.95 in 2004 for the La Serena Club Resort and UF 15,000 annually for The Carrera Hotel Antofagasta and Carrera Hotel Iquique.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

As of December 31, 2001 and 2000, Telsur has service contracts with long-distance traffic carriers in which Telsur commits, among other things, to carry out collections on behalf of those carriers. However, Telsur does not have any responsibility for these long-distance services.

Madeco has granted deposits, performance bonds and guarantees for a total of ThCh\$ 11,496,558, in 2001 (ThCh\$ 3,260,945 in 2000).

d) Litigation

Lucchetti Peru is currently a party to disputes in Peru which involve, among other issues, a resolution by the Municipality of Lima to close Lucchetti's Peruvian plant operations based on accusations that the plant's functioning interferes with the special characteristics of the wetlands adjacent to the plant. At present the outcome of this dispute cannot be determined.

In addition, Lucchetti Peru could be held civilly liable for the claims filed against certain of its executives and shareholders. As of December 31, 2001, the case is still pending. The Company's management believes, in the event that this civil case is resolved unfavorably, that the resulting liability will not have a significant effect on the consolidated financial statements of Lucchetti taken as a whole.

The Company is also party to various lawsuits arising in the ordinary course of its business. Management considers it unlikely that any losses associated with the pending lawsuits described above will significantly affect the Company's results of operations, financial position and cashflows, although no assurance can be given to such effect. Accordingly, the Company has not established a provision for these lawsuits.

e) Contingencies in Argentina for Madeco and CCU

Argentina is immersed in a difficult economic situation; including a large amount of foreign debt, high interest rates, a significant decrease in deposit levels, a new foreign exchange regime, restrictions to circulation of cash and transfer of currency abroad, a country risk index that has exceeded the normal averages, and an economic recession that has lasted for over 3 years. This situation has generated a significant decline in the demand for products and services and a significant increase in the unemployment level. Additionally, the Argentine government's capacity to meet its debt service obligations and obtain access to lines of credit from banks has been severally hindered by these circumstances.

As a result of the conditions described above, it is not possible to predict the future changes that will occur in the Argentine national economy, or the consequences on the economic and financial positions of the Company's subsidiaries in that country. Therefore, these consolidated financial statements do not include any adjustments that could result from these adverse conditions, and should therefore be read taking these circumstances into consideration.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 20 - NON-OPERATING INCOME AND EXPENSES

Non-operating income and expenses for each year are summarized as follows:

	At December 31,		
	1999	2000	2001
	(in thousands)		
Non-operating income:			
Proportional share of net income of equity			
method investments (Note 11).....	Ch\$ 18,805,426	Ch\$ 18,234,218	Ch\$ 36,395,635
Gain on sale of OHCH (Note 11).....	164,775,659	-	-
Gain on sale of VTR Hiper cable S.A. (Note 11).....	78,339,331	-	-
Gain on sale of Entel shares (Note 11).....	-	7,605,515	49,568,998
Gain on sale of Plava Laguna (Note 11).....	-	-	1,280,114
Gain on sale of other investments.....	11,884,077	1,722,290	4,747,408
Amortization of negative goodwill.....	2,037,620	2,457,243	8,919,864
Amortization of unrealized gains.....	3,547,381	-	155,453
Tax refunds.....	1,735,032	2,078,539	14,552
Other.....	4,693,237	2,198,611	1,861,503
Total.....	Ch\$ <u>285,817,763</u>	Ch\$ <u>34,296,416</u>	Ch\$ <u>102,943,527</u>
Non-operating expenses:			
Amortization of goodwill.....	Ch\$ 9,369,626	Ch\$ 12,075,161	Ch\$ 27,408,380
Proportional share of net loss of equity method			
investments (Note 11).....	3,063,512	8,276,650	143,225
Restructuring costs and severance indemnities.....	8,699,192	1,849,507	5,401,444
Losses on sales of investments, fixed assets and other	1,739,984	2,216,655	961,796
Costs of plant closings and moving.....	783,080	-	-
Financial, legal and other consulting services.....	5,114,621	755,226	4,367,401
Adjustment to market value of shares.....	1,229,993	1,127,141	101,026
Directors' compensation.....	802,261	141,240	428,751
Adjustment of property, plant and equipment to net			
realizable value (Note 10).....	5,657,426	515,500	2,629,546
Provisions for probable losses.....	5,429,202	-	-
Payment under contract.....	2,876,245	-	-
Provision for losses on loans and recoverable taxes of			
foreign subsidiaries.....	2,278,170	-	1,085,311
Adjustment to realizable value of inventories			
(Argentina and Uruguay).....	1,419,643	-	-
Losses on construction contracts.....	1,041,720	1,282,227	871,254
Allowance for uncollectable debts.....	-	4,045,410	659,564
Amortization of non-recurring expenses.....	-	232,794	1,313,546
Financial consulting and other expenses for sale of			
Argentine subsidiary.....	-	-	524,138
Labor lawsuits.....	623,287	187,683	3,809,813
Legal expenses for defense of Lucchetti Peru.....	-	-	2,316,850
Valuation allowance for fixed and other assets,			
Argentina.....	-	-	12,460,412
Other.....	4,784,229	2,381,544	5,309,623
Total.....	Ch\$ <u>54,912,191</u>	Ch\$ <u>35,086,738</u>	Ch\$ <u>69,792,080</u>

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 21 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Balances with related companies at December 31 of each year are as follows:

a) Current assets

Notes and accounts receivable from related companies:

Company	Nature of relationship	Nature of transaction	At December 31,	
			2000	2001
			(in thousands)	
Inversiones y Rentas S.A.....	Equity method Investment	Current account in UFs and Dividends receivable	Ch\$ 3,305,664	Ch\$ 3,201,132
Teléfono del Sur Net S.A..	Subsidiary in development stage	Services	1,501,245	4,332,243
Other related companies.....	Various	Various	1,246,499	1,610,428
Total.....			Ch\$ <u>6,053,408</u>	Ch\$ <u>9,143,803</u>

b) Long-Term assets

Notes and accounts receivable from related companies:

Company	Nature of relationship	Nature of transaction	At December 31,	
			2000	2001
			(in thousands)	
Promosol S.A.	Equity method Investment	Services	Ch\$ 39,244	Ch\$ 39,244
Total.....			Ch\$ <u>39,244</u>	Ch\$ <u>39,244</u>

c) Current Liabilities

Notes and accounts payable to related companies:

Company	Nature of relationship	Nature of transaction	At December 31,	
			2000	2001
			(in thousands)	
Colada Continua Chilena S.A.	Investment (equity method)	Sales of products and services	Ch\$ 234,412	Ch\$ 326,013
Other related companies.....	Various	Various	237,390	95,737
Total.....			Ch\$ <u>471,802</u>	Ch\$ <u>421,750</u>

The December 31, 2000 and 2001 balances maintained with Banco Edwards are included in bank loans for an amount of ThCh\$ 8,436,522 and of ThCh\$ 9,072,590, respectively and time deposits for an amount of ThCh\$ 643,765 and of ThCh\$ NIL at the end of each year.

The December 31, 2000 and 2001 balances maintained with Banco de Chile are included in bank loans for an amount of ThCh\$ 15,112,976 and of ThCh\$ 14,735,491, respectively and time deposits for an amount of ThCh\$ 9,284,063 and of ThCh\$ 7,225,866 at the end of each year.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Significant transactions with related parties are summarized as follows:

<u>Company</u>	<u>Transaction</u>	<u>Revenue (Expenses) for the year-ended December 31,</u>		
		<u>1999</u>	<u>2000</u>	<u>2001</u>
		(in thousands)		
CCU.....	Sales of products and services	Ch\$ 40,042	Ch\$ 19,657	Ch\$ 7,724
Compañía Minera Carolina de Michilla S.A.	Services	Ch\$ 33,920	Ch\$ -	Ch\$ 59,480
Minera Los Pelambres S.A.....	Services	Ch\$ 1,476,914	Ch\$ 74,867	Ch\$ 138,842
Banco Santiago (1).....	Interest paid or received	Ch\$ (347,752)	Ch\$ -	Ch\$ -
Embotelladoras Chilenas Unidas (ECUSA)	Sales of products and services	Ch\$ (272,575)	Ch\$ (15,600)	Ch\$ (27,992)
Telefónica del Sur Net S.A.	Sales of products and services	Ch\$ -	Ch\$ 422,981	Ch\$ (1,171,220)
Cobrecon S.A.....	Sales of products and services	Ch\$ -	Ch\$ -	Ch\$ 1,174,174
Promosol S.A.....	Sales of products and services	Ch\$ (3,307,231)	Ch\$ (1,416,307)	Ch\$ (1,681,192)
Others.....	Various	Ch\$ 568,498	Ch\$ 194,205	Ch\$ 850,732

- (1) During 1999 the investment in Banco Santiago was sold, therefore amounts included in the table represent transactions made in 1999 until the date of sale.

On August 20, 2001, Quiñenco announced that it had sold its 39.4% interest in Plava Laguna to Sutivan Investments, a Luksic Group company, for ThUS\$ 29,624. The pre-tax gain on the sale of its interest was Ch\$ 1,280 million (ThUS\$ 1,955). Under the terms of the sales agreement, Quiñenco has an option to purchase 50% of Sutivan Investments in 2004.

In accordance with Article 89 of the Chilean Companies Act, the Company's transactions with related parties must be carried out on an "arm's length" or market basis.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 22 - MINORITY INTEREST

Minority interest is summarized as follows:

	At December 31,			
	2000		2001	
	(in thousands)			
Balance Sheet Data:				
Madeco and subsidiaries.....	Ch\$	83,348,106	Ch\$	64,608,716
VTR and subsidiaries		14,898,285		15,287,796
Lucchetti and subsidiaries.....		4,820,441		3,182,033
Hoteles Carrera.....		1,286,032		978,975
Other.....		1,146,213		5,811,925
Total.....	Ch\$	<u>105,499,077</u>	Ch\$	<u>89,869,445</u>

	For the Year Ended December 31,					
	1999		2000		2001	
	(in thousands)					
Income Statement Data:						
Madeco and subsidiaries.....	Ch\$	25,639,974	Ch\$	7,460,579	Ch\$	23,269,688
VTR and subsidiaries		(32,813,980)		(2,150,092)		(2,403,257)
Lucchetti and subsidiaries.....		2,448,425		1,341,579		672,259
Hoteles Carrera.....		93,249		105,200		98,202
Other.....		128,661		207,405		157,401
Minority interest participation in net (income) loss	Ch\$	<u>(4,503,671)</u>	Ch\$	<u>6,964,671</u>	Ch\$	<u>21,794,293</u>

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 23 - CONDENSED FINANCIAL STATEMENTS

Set forth below are condensed financial statements for the significant investments in CCU held through Quiñenco's 50% owned company Inversiones y Rentas S.A. ("IRSA")

**CCU
CONDENSED CONSOLIDATED BALANCE SHEET**

The condensed consolidated financial statements of CCU at December 31, 2000 and 2001 and for the years ended December 31, 1999, 2000 and 2001 are as follows:

	At December 31,			
	2000		2001	
	(in millions)			
Assets				
Current assets.....	Ch\$	197,023	Ch\$	201,032
Property, plant and equipment, net.....		339,722		342,551
Other assets.....		106,988		85,820
	Ch\$	<u>643,733</u>	Ch\$	<u>629,403</u>

	At December 31,			
	2000		2001	
	(in millions)			
Liabilities and Shareholders' Equity				
Current liabilities.....	Ch\$	111,670	Ch\$	105,456
Long-term liabilities.....		84,245		72,502
Minority interest.....		33,402		39,870
Shareholders' equity.....		414,416		411,575
	Ch\$	<u>643,733</u>	Ch\$	<u>629,403</u>

**CCU
CONDENSED CONSOLIDATED STATEMENT OF INCOME**

	Year Ended December 31,					
	1999		2000		2001	
	(in millions)					
Net sales.....	Ch\$	313,480	Ch\$	327,216	Ch\$	343,562
Cost of sales.....		(146,943)		(157,020)		(168,537)
Administrative and selling expenses.....		(123,288)		(129,491)		(131,373)
Non-operating results.....		13,096		(8,222)		3,709
Minority interest.....		(4,127)		(783)		(1,838)
Income tax.....		(7,764)		(5,175)		(7,146)
Net income.....	Ch\$	<u>44,454</u>	Ch\$	<u>26,525</u>	Ch\$	<u>38,377</u>

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

CCU

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1999	2000	2001
	(in millions)		
Cash Flows From Operating Activities			
Net income	Ch\$ 44,454	Ch\$ 26,525	Ch\$ 38,377
Charges (credits) to income that do not represent cash flows	31,749	44,336	34,856
Changes in assets	(11,858)	(9,950)	(11,336)
Changes in liabilities	11,959	7,656	3,138
Minority interest	4,127	783	1,838
Cash flows from operating activities	80,431	69,350	66,873
Cash flows from investing activities	(62,319)	(52,022)	5,189
Cash flows from financing activities	(16,451)	(26,296)	(61,186)
Price-level restatement of cash and cash equivalents..	(949)	(1,769)	(2,671)
Net increase in cash and cash equivalents	712	(10,737)	8,205
Cash and cash equivalents at beginning of year.....	58,788	59,500	48,763
Cash and cash equivalents at end of year.....	Ch\$ <u>59,500</u>	Ch\$ <u>48,763</u>	Ch\$ <u>56,968</u>

The reconciliation between the equity holding in IRSA and the net assets and income of CCU is as follows:

	At or for the Year Ended December 31,,		
	1999	2000	2001
	(in millions)		
Balance sheet data:			
Net worth of CCU.....	Ch\$ 409,319	Ch\$ 414,416	Ch\$ 411,575
Minority interest in CCU	(157,255)	(159,213)	(158,127)
Minority interest in IRSA.	(126,086)	(127,686)	(126,724)
Other income (expense) in IRSA.....	108	170	72
Investment in IRSA by equity method (Note 11)	Ch\$ <u>126,086</u>	Ch\$ <u>127,687</u>	Ch\$ <u>126,796</u>
Income statement data:			
Net income of CCU	Ch\$ 44,454	Ch\$ 26,525	Ch\$ 38,377
Minority interest in CCU	(16,937)	(10,190)	(14,744)
Minority interest in IRSA.	(15,502)	(8,142)	(11,816)
Other income and expenses of IRSA.	(90)	(51)	(51)
Gain from not participating in capital increase of CCU ..	3,577	-	
Equity in net earnings of IRSA (Note 11)	Ch\$ <u>15,502</u>	Ch\$ <u>8,142</u>	Ch\$ <u>11,766</u>
IRSA's investment in CCU.....	61.58%	61.58%	61.58%
Quiñenco's investment in IRSA	50.00%	50.00%	50.00%

In May 1999, CCU had an additional capital increase to which IRSA did not subscribe, thus reducing its holding from 62.48%, to 61.58%, As a result, IRSA recorded a gain of ThCh\$ 3,577,125.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 24 - SEGMENT REPORTING:

Quiñenco provides disclosures in accordance with Statement of Financial Standards No. 131, “Disclosures About Segments of an Enterprise and Related Information” (“SFAS 131”) which establishes standards for reporting information about operating segments in annual financial statements as well as related disclosures about products and services and geographic areas. Operating segments are defined as components of an enterprise about which separate financial statement information available is evaluated regularly by the chief operating decision maker in making decisions about allocating resources and assessing performance. In accordance with SFAS 131, Quiñenco has five segments: Financial Services (Banco Edwards-Banco de Chile), Food and Beverage (Lucchetti-CCU), Telecommunications (Telsur), Manufacturing (Madeco), and Other. Other includes real estate and hotel administration as well as Quiñenco and intermediate holding companies.

The accounting policies of each segment are the same as those as described in the “Summary of Significant Accounting Policies”(Note 2).

For Financial Services, interest revenue and expense are recognized on the accrual basis using the effective interest method. The carrying amounts of loans, investments and liabilities include accrued interest and the indexation adjustment applicable to balances that are denominated in UFs or other indexes. The effect of changes in the UF index on interest-bearing assets and liabilities are reflected in the income statement as an increase or decrease in interest revenue or expense.

The banks generally suspends the accrual of interest and indexation adjustment of principal on loans beginning on the first day that such loans are overdue and on amounts not yet due for loans on which any installments of principal or interest are 90 days overdue. Previously accrued interest remains on the Bank's books and is considered to be a part of the loan balance when determining the Allowance for loan losses. Payments received on overdue loans are recognized as income, after reducing the recorded balance of accrued interest receivable, if applicable, to the extent of interest earned but not recorded.

Fees and expenses related to loans, as well as fees for services rendered, are deferred and recognized in income over the term of the loans to which they relate, and to the period that the services are performed. Prior to January 1, 2000, these fees and expenses were recognized in income as the fee was received or the expense incurred.

CCU recognizes revenues relating to domestic sales of beer, soda, mineral water, juice products and wine upon delivery and physical acceptance of the product, at which time title passes to the customer. Viña San Pedro S.A. generally recognizes revenues relating to export sales of wine when the wine is shipped, which in accordance with established sales terms is when title passes to the customer.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

In CCU, advertising and sales promotion costs are expensed as incurred. Inventory is stated at replacement cost, which does not exceed estimated net realizable value. Bottles and containers are reported at restated cost, net of write-offs due to breakage and allowances. Deposits received on bottles and containers in circulation are classified as long-term liabilities. The amount of these deposits is determined based on an annual inventory of the bottles and cases in the possession of customers.

The following segment information is presented in accordance with US GAAP reporting requirements, however, it has been determined in accordance with Chilean GAAP.

Segment information is presented below:

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Year ended December 31, 1999

	Financial Services	Food and beverage	Telecommunications	Manufacturing	Elimination of Companies not Consolidated (1)	Other (2) (3)	Eliminations Intersegment	Consolidated
(in thousands)								
Statement of Income Data:								
Sales to unaffiliated customers..... Ch\$	-	411,189,405	44,614,677	270,874,192	(313,190,625)	25,499,385	-	438,987,034
Intersegment sales.....	-	309,007	-	340,590	(288,636)	231,012	(591,973)	-
Total revenues..... Ch\$	-	411,498,412	44,614,677	271,214,782	(313,479,261)	25,730,397	(591,973)	438,987,034
Operating (Loss) income before general corporate expenses...	-	193,301,099	21,252,625	26,277,051	(166,536,467)	7,528,877	-	81,823,185
General corporate expenses.....	-	(151,953,309)	(14,614,788)	(39,924,537)	123,288,326	(20,882,167)	591,973	(103,494,502)
Operating (loss) income.....	-	41,347,790	6,637,837	(13,647,486)	(43,248,141)	(13,353,290)	591,973	(21,671,317)
Interest income.....	-	9,260,078	280,212	3,986,080	(9,144,970)	28,194,194	(11,604,937)	20,970,657
Non-operating income.....	-	11,834,836	10,253,425	14,353,357	(11,230,297)	260,606,442	-	285,817,763
Interest expense.....	-	(16,200,084)	(3,386,137)	(21,108,043)	6,526,663	(20,573,164)	11,604,937	(43,135,828)
Non-operating expense.....	-	(5,106,570)	(1,905,852)	(26,290,429)	3,545,807	(25,155,147)	-	(54,912,191)
Financial Services								
Net interest revenue and expenses.....	311,628,000	-	-	-	(311,628,000)	-	-	-
Provision from loan losses.....	(119,953,000)	-	-	-	119,953,000	-	-	-
Income from services, net.....	56,570,000	-	-	-	(56,570,000)	-	-	-
Other operating income, net.....	24,303,000	-	-	-	(24,303,000)	-	-	-
Other income and expenses.....	6,290,000	-	-	-	(6,290,000)	-	-	-
Operating expenses.....	(209,525,000)	-	-	-	209,525,000	-	-	-
Price-level restatement.....	(8,113,000)	2,398,145	(102,160)	(11,794,117)	5,319,337	25,872,424	-	13,580,629
Income tax.....	861,000	(8,112,364)	(386,690)	(2,879,135)	6,903,167	(19,484,092)	-	(23,098,114)
Minority interest.....	-	(4,126,580)	(208,406)	1,203,954	4,126,580	(5,499,219)	-	(4,503,671)
Net income..... Ch\$	62,061,000	31,295,251	11,182,229	(56,175,819)	(106,514,854)	230,608,148	591,973	173,047,928
Balance Sheet Data (at December 31):								
Identifiable assets..... Ch\$	7,293,606,563	667,133,791	108,826,025	374,585,114	(7,808,346,125)	145,835,874	-	781,641,242
Cash and cash equivalents.....	602,176,000	60,032,021	6,226,806	12,930,605	(661,675,679)	112,024,178	-	131,713,931
Accounts receivable from related companies.....	-	3,929,492	-	686,605	(3,214,775)	2,784,021	-	4,185,343
Investments in related and other companies and goodwill.....	3,901,304	64,140,203	2,035	48,296,634	(67,847,405)	435,375,040	-	483,867,811
Total assets..... Ch\$	7,899,683,867	795,235,507	115,054,866	436,498,958	(8,541,083,984)	696,019,113	-	1,401,408,327

(1) This column includes the elimination of CCU, Banco de Chile and Banco Edwards

(2) This column includes real estate and hotel administration as well as Quiñenco and intermediate holding companies.

(3) The net equity investments in CCU, Banco de Chile and Banco de Edwards are included in the column entitled "Other" in the caption "Non-Operating income".

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Year ended December 31, 2000									
Financial Services	Food and beverage	Telecommunications	Manufacturing	Elimination of Companies not Consolidated (1)	Other (2) (3)	Eliminations Intersegment	Consolidated		
(in thousands)									
Statement of Income Data:									
Sales to unaffiliated customers	Ch\$	-	426,556,462	42,876,857	310,061,862	(327,200,399)	13,475,698	-	465,770,480
Intersegment sales	Ch\$	-	15,600	1,127	2,230,745	(15,600)	509,463	(2,741,335)	-
Total revenues	Ch\$	-	426,572,062	42,877,984	312,292,607	(327,215,999)	13,985,161	(2,741,335)	465,770,480
Operating (Loss) income before general corporate expenses		-	201,278,531	24,090,758	39,414,255	(170,196,430)	(664,485)	-	93,922,629
General corporate expenses		-	(157,041,359)	(11,813,088)	(29,116,085)	129,491,017	(12,023,844)	2,741,335	(77,762,024)
Operating (loss) income		-	44,237,172	12,277,670	10,298,170	(40,705,413)	(12,688,329)	2,741,335	16,160,605
Interest income		-	5,282,169	274,586	2,033,173	(4,704,564)	23,622,627	(17,729,846)	8,778,145
Non-operating income		-	7,707,129	356,845	3,369,310	(7,692,995)	30,556,127	-	34,296,416
Interest expense		-	(16,283,431)	(2,753,993)	(18,950,180)	7,192,900	(25,034,335)	17,729,846	(38,099,193)
Non-operating expense		-	(24,430,275)	(350,265)	(9,690,857)	13,317,622	(13,932,963)	-	(35,086,738)
Financial Services									
Net interest revenue and expenses		318,288,000	-	-	-	(318,288,000)	-	-	-
Provision from loan losses		(75,910,000)	-	-	-	75,910,000	-	-	-
Income from services, net		65,910,000	-	-	-	(65,910,000)	-	-	-
Other operating income, net		20,484,000	-	-	-	(20,484,000)	-	-	-
Other income and expenses		9,253,000	-	-	-	(9,253,000)	-	-	-
Operating expenses		(233,108,000)	-	-	-	233,108,000	-	-	-
Price-level restatement		(16,621,000)	(977,023)	(428,654)	(5,751,174)	16,730,039	889,131	-	(6,158,681)
Income tax		(524,000)	1,474,545	(1,587,542)	1,501,427	5,699,461	757,697	-	7,321,588
Minority interest		-	(783,027)	(123,402)	(116,652)	783,027	7,204,725	-	6,964,671
Net income	Ch\$	87,772,000	16,227,259	7,665,245	(17,306,783)	(114,296,923)	11,374,680	2,741,335	(5,823,187)
Balance Sheet Data (at December 31):									
Identifiable assets	Ch\$	8,020,114,000	629,643,033	115,721,228	402,422,327	(8,533,286,037)	82,248,690	-	716,863,241
Cash and cash equivalents		695,423,000	51,656,167	460,278	8,687,390	(744,185,646)	123,393,947	-	135,435,136
Accounts receivable from related companies		-	6,204,658	1,501,245	507,705	(5,420,812)	3,299,856	-	6,092,652
Investments in related and other companies and goodwill		3,840,000	94,993,679	2,035	39,589,871	(80,217,921)	489,871,757	-	548,079,421
Total assets	Ch\$	8,719,377,000	782,497,537	117,684,786	451,207,293	(9,363,110,416)	698,814,250	-	1,406,470,450

- (1) This column includes the elimination of CCU, Banco de Chile and Banco Edwards
- (2) This column includes real estate and hotel administration as well as Quiñenco and intermediate holding companies.
- (3) The net equity investments in CCU, Banco de Chile and Banco de Edwards are included in the column entitled "Other" in the caption "Non-Operating income".

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

		Year ended December 31, 2001							
		Financial Services	Food and beverage	Telecommunications	Manufacturing	Eliminations of Companies not Consolidated (1)	Other (2) (3)	Eliminations Intersegment	Consolidated
		(in thousands)							
Statement of Income Data:									
Sales to unaffiliated customers.....	Ch\$	-	429,752,867	45,339,241	331,162,997	(343,497,768)	11,280,039	-	474,037,376
Intersegment sales		-	63,840	1,503	748,879	(63,840)	473,880	(1,224,262)	-
Total revenues	Ch\$	-	429,816,707	45,340,744	331,911,876	(343,561,608)	11,753,919	(1,224,262)	474,037,376
Operating (Loss) income before general corporate expenses ..		-	200,802,595	26,965,452	45,024,087	(175,024,807)	(334,144)	-	97,433,183
General corporate expenses		-	(154,503,864)	(13,524,005)	(34,358,057)	131,372,654	(9,201,466)	297,033	(79,917,705)
Operating (loss) income.....		-	46,298,731	13,441,447	10,666,030	(43,652,153)	(9,535,610)	297,033	17,515,478
Interest income.....		-	3,750,136	361,086	1,921,673	(3,428,023)	22,050,387	(16,716,029)	7,939,230
Non-operating income.....		-	20,736,128	583,064	3,999,933	(19,857,620)	97,482,022	-	102,943,527
Interest expense		-	(15,459,454)	(2,945,589)	(21,269,528)	6,207,342	(42,258,065)	16,716,029	(59,009,265)
Non-operating expense.....		-	(16,502,619)	(634,858)	(33,064,249)	10,970,838	(30,561,192)	-	(69,792,080)
Financial Services									
Net interest revenue and expenses		335,500,000	-	-	-	(335,500,000)	-	-	-
Provision from loan losses		(90,548,000)	-	-	-	90,548,000	-	-	-
Income from services, net.....		76,962,000	-	-	-	(76,962,000)	-	-	-
Other operating income, net		11,050,000	-	-	-	(11,050,000)	-	-	-
Other income and expenses		20,064,000	-	-	-	(20,064,000)	-	-	-
Operating expenses		(245,649,000)	-	-	-	245,649,000	-	-	-
Price-level restatement		(9,950,000)	(654,731)	(372,019)	(13,214,361)	12,348,842	1,210,429	-	(10,631,840)
Income tax		(358,000)	(4,360,294)	(1,790,540)	(418,358)	7,503,864	4,173,367	-	4,750,039
Minority interest.....		-	(1,837,594)	(160,872)	1,282,776	1,837,615	20,672,368	-	21,794,293
Net income	Ch\$	97,071,000	31,970,303	8,481,719	(50,096,084)	(135,448,295)	63,233,706	297,033	15,509,382
Balance Sheet Data (at December 31):									
Identifiable assets	Ch\$	8,450,767,000	630,196,845	125,094,425	356,987,484	(8,964,463,770)	78,772,579	-	677,354,563
Cash and cash equivalents		527,949,000	59,297,072	772,560	4,446,088	(584,917,561)	45,366,039	-	52,913,198
Accounts receivable from related companies.....		-	956,225	5,341,983	517,166	(867,400)	3,235,073	-	9,183,047
Investments in related and other companies and goodwill		5,206,000	58,183,194	522,191	42,748,612	(63,076,506)	778,208,876	-	821,792,367
Total assets	Ch\$	8,983,922,000	748,633,336	131,731,159	404,699,350	(9,613,325,237)	905,582,567	-	1,561,243,175

(1) This column includes the elimination of CCU, Banco de Chile and Banco Edwards

(2) This column includes real estate and hotel administration as well as Quiñenco and intermediate holding companies.

(3) The net equity investments in CCU, Banco de Chile and Banco de Edwards are included in the column entitled "Other" in the caption "Non-Operating income".

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Depreciation for each of the segments was as follows:

	Year ended December 31,		
	1999	2000	2001
	(in thousands)		
Segment			
Financial Services			
Banco de Chile	Ch\$ 8,640,000	Ch\$ 7,884,000	Ch\$ 7,837,000
Banco Edwards	4,151,138	5,334,731	7,417,792
Food and Beverage			
CCU	35,394,777	38,593,713	40,197,684
Lucchetti	5,379,863	5,061,324	4,497,724
Telecommunications			
Telsur	13,897,390	9,532,072	9,454,713
Manufacturing			
Madeco	15,625,911	14,166,476	14,772,331
Other ¹	4,752,553	2,333,793	2,043,594
Elimination of non-consolidated companies ²	(48,185,914)	(51,812,444)	(55,452,476)
Total depreciation	Ch\$ <u>39,655,718</u>	Ch\$ <u>31,093,665</u>	Ch\$ <u>30,768,362</u>

Capital expenditures, comprised of additions to property plant and equipment, for each of the segments were as follows:

	Year ended December 31,		
	1999	2000	2001
	(in thousands)		
Segment:			
Financial Services			
Banco de Chile	Ch\$ 7,454,336	Ch\$ 5,860,720	Ch\$ 9,817,900
Banco Edwards	6,275,491	18,163,500	6,381,800
Food and Beverage			
CCU	63,144,485	52,457,196	33,107,387
Lucchetti	8,453,991	2,136,277	1,749,912
Telecommunications			
Telsur	9,923,515	14,138,942	19,802,934
Manufacturing			
Madeco	13,027,099	16,051,483	8,406,328
Other ¹	28,814,513	1,661,090	1,191,605
Elimination of non-consolidated companies. ²	(76,874,312)	(76,481,416)	(49,307,087)
Total capital expenditures	Ch\$ <u>60,219,118</u>	Ch\$ <u>33,987,792</u>	Ch\$ <u>31,150,779</u>

¹ Includes real estate and hotel administration as well as Quiñenco and intermediate holding companies.

² Includes the elimination of non-consolidated companies CCU, Banco de Chile and Banco Edwards.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Sales, which relate to non-financial companies, detailed by major geographic areas were as follows:

Sales (1)	Year ended December 31,		
	1999	2000	2001
	(in thousands)		
Chile	Ch\$ 524,010,697	Ch\$ 525,120,374	Ch\$ 552,773,610
Argentina	113,024,997	115,628,736	106,821,859
Peru	40,788,273	43,217,314	51,339,044
Brazil	74,642,329	109,019,142	106,664,471
Elimination of non-consolidated companies(2)	(313,479,262)	(327,215,086)	(343,561,608)
Total	Ch\$ <u>438,987,034</u>	Ch\$ <u>465,770,480</u>	Ch\$ <u>474,037,376</u>

(1) The table above does not include Banco de Chile and Banco Edwards.

(2) Includes the elimination of CCU.

Property, plant and equipment for each of the segments were as follows:

Segment:	Year ended December 31,		
	1999	2000	2001
	(in thousands)		
Financial Services			
Banco de Chile.....	Ch\$ 87,944,919	Ch\$ 84,214,039	Ch\$ 85,106,200
Banco Edwards	48,881,875	63,602,600	59,431,200
Food and Beverage			
CCU	341,920,727	339,721,873	342,551,527
Lucchetti	101,345,004	73,801,499	72,396,966
Telecommunications			
Telsur	92,132,213	96,276,472	103,594,358
Manufacturing			
Madeco	209,745,941	208,390,673	199,976,684
Other (1)	51,378,059	43,654,299	41,816,422
Elimination of non-consolidate companies (2)	(478,747,521)	(487,538,512)	(487,088,927)
Total capital expenditures	Ch\$ <u>454,601,217</u>	Ch\$ <u>422,122,943</u>	Ch\$ <u>417,784,430</u>

(1) Includes the real estate and hotel administration as well as Quiñenco and intermediate holding companies.

(2) Includes the elimination of CCU, Banco de Chile and Banco Edwards.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

NOTE 25 - SUBSEQUENT EVENTS

On January 6, 2002, the Congress of the Republic of Argentina approved Law No. 25,561 entitled Public Emergency and Reform of the Exchange Regime. The law established: the end of convertibility at parity of the Argentine peso 1 to 1 with the US dollar, fees for public services are converted into Argentine pesos at a rate of exchange of 1 to 1, the indexation clauses based on price indices of other countries are no longer in effect, and the Argentine Government's Executive is authorized to renegotiate concession contracts with public service companies.

By function of the powers conferred to the Executive by this law, an official exchange rate was established at 1.40 Argentine pesos per US dollar for settled foreign commerce transactions and another rate that is "free" from restriction for all other transactions. The "free" floating exchange rate of the US dollar on the day the exchange market opened was 1.70 Argentine pesos per US dollar.

Subsequently, the Executive Branch agreed to convert all assets and liabilities using a conversion rate into Argentine pesos of 1 to 1, except for deposits maintained in the financial system.

At the date of issuance of these financial statements and considering the unstable political and economic situation in Argentina, there is uncertainty regarding the correct application of transactions at the official or "free" floating exchange rate. Thus, it is not possible to determine the current extent of the effects of the situation in Argentina with certainty, or the future changes that could result. The exchange rate as of June 14, 2002 was 3.4 Argentine pesos to 1 US dollar.

NOTE 26 - DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Accounting principles generally accepted in Chile ("Chilean GAAP") vary in certain important respects from accounting principles generally accepted in the United States ("US GAAP"). Such differences involve certain methods for measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP.

The principal differences between Chilean GAAP and U.S. GAAP are described below together with explanation, where appropriate, of the method used in the determination of the adjustments that affect net income and total shareholders' equity. Under Chilean GAAP, banking operations are not generally consolidated with non-financial businesses primarily due to the dissimilarity of both the nature of the businesses and the related accounting policies. However, under US GAAP consolidation of the Company's banking operations would be required under Statement of Financial Accounting Standards 94 ("SFAS 94"), which deals with the consolidation of all majority-owned subsidiaries. As a result, where appropriate, such adjustments are disclosed on a gross basis with a separate adjustment for taxes, providing separate disclosure for items that would impact several balance sheet accounts under US GAAP separated between the Company's banking operations and non-financial businesses. Additional disclosure is provided in Note 26 (2)(a) of the consolidation of majority-owned subsidiaries required under US GAAP on a Chilean GAAP basis. References below to "SFAS" are to United States Statements of Financial Accounting Standards.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

I. Differences in measurement methods

The principal methods applied in the preparation of the accompanying financial statements, which have resulted in amounts which differ from those that would have otherwise been determined under US GAAP, are as follows:

(a) Inflation accounting

Chilean accounting principles require that financial statements be restated to reflect the full effects of loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The method, described in Note 2b, is based on a model which permits the calculation of net inflation gains or losses caused by monetary assets and liabilities exposed to changes in the purchasing power of the local currency by restating all non-monetary accounts in the financial statements. The model prescribes that the historical cost of such accounts be restated for general price-level changes between the date of origin of each item and the year-end.

Although the cumulative inflation rate in Chile as measured by the Consumer Price Index for the three-year period ended December 31, 2001 was only approximately 10.75%, the inclusion of price-level adjustments in the accompanying financial statements is considered appropriate under the prolonged inflationary conditions that have affected the Chilean economy in the past. Accordingly, the effect of price-level changes is not eliminated in the reconciliation to US GAAP.

(b) Deferred income taxes

On January 1, 2000 the Company began applying Technical Bulletin No. 60 of the Chilean Association of Accountants concerning deferred taxes. Technical Bulletin No. 60 requires the recognition of deferred income taxes for all temporary differences arising after January 1, 2000, whether recurring or not, using an asset and liability approach. For US GAAP purposes, in prior years the Company applied SFAS 109, "Accounting for Income Taxes", whereby income taxes are also recognized using substantially the same asset and liability approach with deferred income tax assets and liabilities established for temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities based on enacted rates at the dates that the temporary differences arose.

Prior to implementation of Technical Bulletin No. 60, no deferred income taxes were recorded under Chilean GAAP if the related timing differences were expected to be offset in the year that they were projected to reverse by new timing differences of a similar nature.

Furthermore, deferred income tax assets under US GAAP should be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The valuation allowance should be sufficient to reduce the deferred income tax asset to an amount that is more likely than not to be realized. A similar valuation allowance is now provided under Chilean GAAP for deferred income tax assets arising after January 1, 2000.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Because the effects of deferred income taxes are only recognized in the results of operations for temporary differences arising after January 1, 2000, after that date. Chilean GAAP and US GAAP differ primarily due to the recognition for US GAAP purposes of the reversal of deferred income taxes included in the US GAAP reconciliation in prior years.

The effect of differences in accounting method is included in paragraph I bb) below and certain disclosures required under FAS 109 are set forth under paragraph III b) below.

(c) Minimum dividend

As required by the Chilean Companies Act, unless otherwise decided by the unanimous vote of the issued and subscribed shares, an open stock corporation must distribute a cash dividend in an amount equal to at least 30% of the company's net income for each year as determined in accordance with Chilean GAAP. Since the payment of the 30% dividend out of each year's income is a legal requirement in Chile, provision has been made in the accompanying US GAAP reconciliation in I bb) below to recognize the corresponding decrease in net equity at December 31 for each year for the difference between 30% of net income and interim dividends paid during the year. The effects are shown in the paragraph I bb) below.

(d) Revaluation of property, plant and equipment

As mentioned in Note 2 i), certain property, plant and equipment are reported in the financial statements at amounts determined in accordance with a technical appraisal. Revaluation of property, plant and equipment is an accounting principle that is not generally accepted in the United States. The effects of the reversal of this revaluation, as well as of the related accumulated depreciation and depreciation expense for each year is shown below in paragraph I bb) below.

(e) Investment securities

e-1) Non-Financial Services

Under Chilean GAAP, investments in other companies reported in the financial statements are valued at the lower of restated cost or market value. Unrealized losses on such investments are reflected in the statements of income.

Under US GAAP, SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"), requires that debt and equity securities be classified in accordance with the Company's intent and ability to hold the security, as follows:

- Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are reported at amortized cost.
- Debt and equity securities that are bought and held by the Company, principally for the purpose of selling them in the near term, are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.
- Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

excluded from earnings and reported in a separate component of shareholders' equity net of the deferred income tax effects.

The Company held a 14.31%, 13.68% and 5.69% ownership interest in Entel at December 31, 1999, 2000 and 2001 respectively. Under Chilean GAAP, the Company has recorded its equity participation in the net income of Entel S.A., under the equity method. Under US GAAP, these investments would be classified as available-for-sale marketable securities and held at fair value. Due to the sale of 7.99% of its investment in 2001 and the distinct methods used to account for the investments, there is also an adjustment between Chilean GAAP and US GAAP relating to the gain on the sale. The effect of differences in accounting method and the gain in the sale are included in paragraph I bb) below.

e-2) Financial Services

Under Chilean GAAP, the Company's banking operations classify certain investments as permanent. These investments are stated at fair market value with unrealized gains and losses included in a separate component of shareholders' equity, with realized gains and losses included in other operating results. Investments with a secondary market are carried at market value, and all other financial investments are carried at acquisition cost plus accrued interest and UF indexation adjustments.

Under US GAAP, based upon the criteria above, the banks have determined that under US GAAP, its investments should be classified as "trading", "available-for-sale" and "held-to-maturity". Consequently, investments classified as permanent are considered to be "available-for-sale" and all other investments are considered to be "trading", with the exception of certain Central Bank securities and other investments, maintained by banking branches in the United States of America, some of which are classified as "held-to-maturity". The effect of eliminating the market value adjustment for these investments is included in the reconciliation of consolidated net income and shareholders' equity in paragraph I bb) above.

(f) Employee severance indemnities

For Chilean GAAP purposes, the Company provides for severance indemnities when rights to such benefits have been formally guaranteed to employee groups. Those obligations are based on the present value of the liability determined at the end of each year based on the current salary and number of years of service of each employee. The Company uses a real discount rate and a projected employee service life based on probable tenure for vested employees. The real annual discount rate does not include a projection of inflation and accordingly, future salary increases are also excluded from the calculation of the obligation, because all such future increases are expected to approximate the increase in inflation over a long-term period.

For US GAAP purposes, the severance indemnities described above should be determined based on the vested benefits to which the employees are entitled if they separate immediately (settlement basis). The effect of differences in accounting method is included in paragraph I bb) below.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(g) Deficit during development stage

For Chilean GAAP purposes, investments in majority-owned subsidiaries in the development stage are recorded by the equity method and the investor's proportional share of the subsidiary's results of operations are taken to a reserve which forms part of the investor's stockholders' equity. For US GAAP purposes, majority-owned subsidiaries in the development stage are consolidated and the results of their operations charged directly to income. The effect of differences in accounting method is included in paragraph I bb) below. No disclosure of the effect of consolidation of such subsidiaries has been made considering that the effects are not material.

(h) Gain on the sale of VTR Hiper cable

In April 1999, VTR sold its interest in VTR Hiper cable to UIH Chile Holding S.A., a subsidiary of UIH Latin America S.A. The carrying value of VTR's interest in VTR Hiper cable was higher under US GAAP than Chilean GAAP due to the recognition of a deferred tax asset, goodwill recorded on the acquisition of the VTR Hiper cable, an adjustment to fair market value of property, plant and equipment and the deferred gain on the partial sale of VTR's cable companies under US GAAP. This resulted in a decrease of US GAAP net income of ThCh\$ 8,007,243, the effects of which are set forth in paragraph I bb) below.

(i) Gains on the sale of shares by OHCH

During 1996, OHCH issued shares to BCH in exchange for BCH's contributions of several foreign banks to the joint venture. The transactions resulted in the reduction of the Company's holding in OHCH because it subscribed to only part of the shares to which it was entitled. The shares were issued by OHCH at a price per share in excess of the book value of the existing shares. Under both Chilean GAAP and US GAAP, such a transaction gives rise to a gain in a change in interest transaction by the OHCH joint venture. However, under Chilean GAAP, the gains are not considered to have been realized at December 31, 1996 considering that a significant portion of the contributions made by BCH consisted of goodwill. Accordingly, under Chilean GAAP the gains were being deferred and amortized to income over 10 years, which was similar to the amortization period of the goodwill in OHCH. Under US GAAP, the contributions were accounted for at fair market value and the gain was recognized in 1996 because the goodwill was part of BCH's cost and future revenues were expected to exceed the future amortization of the goodwill. The effects of reversing the amortization were recorded in income in 1998 for US GAAP purposes.

During 1999, Quiñenco sold its interest in OHCH and as a result, the gain on the issuance of shares by OHCH was included in the reconciling item relating to the US GAAP effects of the gain on the sale of OHCH.

(j) Advertising costs

During 1998, Lucchetti capitalized corporate image advertising costs incurred in connection with the obtaining of a municipal license for the construction of a plant in Lima, Peru. During 1999 Lucchetti

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started amortizing the capitalized advertising costs. For US GAAP purposes, those costs cannot be capitalized. The effect of differences in accounting method is included in paragraph I bb) below.

(k) Restructuring costs

As indicated in paragraph III h) below, during 1999, the Company decided to restructure a portion of its operations. As part of this process, certain operating plants were either closed or transferred and merged with other plants. At December 31, 1999, some steps related to this process were not complete and accordingly, the Company recorded provisions for the estimated costs to completion. The estimated costs related to employee benefits such as severance and termination benefits and costs associated with the relocation of plant facilities. During 2000 and 2001, other subsidiaries of the Company implemented a restructuring plan.

The recognition of liabilities related to a restructuring process under US GAAP is prescribed primarily by Emerging Issue Task Force 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" ("EITF 94-3"). In order to recognize a liability for employee termination benefits and other restructuring costs, EITF 94-3 requires that, prior to the date of the financial statements, certain specific conditions be met or exist.

At December 31, 1999, 2000 and 2001, some of the required conditions had not been met or did not exist with respect to the restructuring process of the Company and its subsidiaries described in paragraph III h) below. Therefore, an adjustment to reverse a portion of the restructuring provisions was included in the reconciliation to US GAAP in each of those years.

(l) Investment in Lucchetti

In February, 1998, Lucchetti, together with Quiñenco and Inversiones Nacionales Limitada ("INL"), which is the intermediate holding company that holds Quiñenco's shares in Lucchetti, entered into an Association Agreement with Findim Investments S.A. ("Findim"), a subsidiary of the Findim Group, an Italian producer of tomato sauces, soups, and creams. Under the Association Agreement, Findim agreed to increase its ownership in Lucchetti to at least 10%, with the right to increase its ownership to 35%. Prior to signing the agreement, Findim owned 1.9% of Lucchetti's ordinary shares through purchases in the open market. In addition, Findim was granted the option to sell its shares in Lucchetti to Quiñenco (through INL) at any time before March 31, 1999 under certain circumstances, or at any time after March 31, 1999 with no restrictions. The Association Agreement established a selling price at a multiple of 1.5 times book value for the first 10% of Findim's stake in Lucchetti. Under the Association Agreement, Quiñenco was also given the right to purchase Findim's shares at any time at a pre-specified multiple of book value.

In June, 1998, Lucchetti completed a capital increase through a rights offering in Chile, to which Findim was given the right by INL to subscribe the shares allocated to INL. Findim purchased an 8.4% interest in Lucchetti for the equivalent of US\$ 13.6 million, thus increasing its total ownership in Lucchetti to 10.2%. The capital increase raised a total of US\$ 14.5 million for Lucchetti.

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In April 1999, Findim informed Quiñenco and Lucchetti of its intention to exercise its option to sell its 10.2% stake in Lucchetti to Quiñenco. On June 7, 1999, Quiñenco (through INL) purchased Findim's interest in Lucchetti for the equivalent of approximately US\$ 11.4 million. Following the transaction, Quiñenco's ownership interest in Lucchetti was 81.6%.

Under Chilean GAAP, Quiñenco recorded a gain in 1998 as a result of not subscribing to Lucchetti's capital increase. When Quiñenco purchased the shares from Findim in 1999, Quiñenco recorded goodwill on the transaction. For US GAAP purposes, the gain would be deferred in 1998 and would offset the goodwill recorded in 1999. During 2000, Quiñenco amortized the remaining balance of goodwill under Chilean GAAP. Because under US GAAP, the goodwill balance had already been reversed, an adjustment to US GAAP was necessary in 2000. The effects of the US GAAP adjustments are included in paragraph I bb) below.

(m) Goodwill

Under Chilean GAAP, the excess of cost over the net book value of a purchased company is recorded as goodwill and amortized to income over a maximum period of twenty years. Amortization of goodwill may be accelerated if the acquiring company generates sufficient income to absorb the additional amortization in any given year. The excess of net book value over the cost of an investment is considered to be negative goodwill under Chilean GAAP and is also amortized to income over a maximum period of twenty years. The amortization of negative goodwill may be accelerated if the acquired company sustains losses.

Under US GAAP, the cost of an investment should be assigned to the tangible and identified intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. An excess of cost over the fair value of net assets acquired should be recorded as goodwill, which may then be amortized over a period not exceeding 40 years based on the expected period of future benefit. If an excess of acquired net assets over cost arises, the excess should be allocated to reduce proportionally the values assigned to noncurrent assets (except long-term investments in marketable securities) in determining their fair values. If the allocation reduces the non-current assets to zero value, the remainder of the excess over cost (negative goodwill) should be classified as a deferred credit and amortized systematically to income over the period estimated to be benefited but not in excess of 40 years.

The effect of differences in accounting method is included in paragraph I bb) below.

In 1999, VTR sold its ownership interests in VTR Larga Distancia and VTR Hipercable, respectively. The effects of writing off the goodwill previously recorded under US GAAP on those acquisitions are included in the adjustment to the gain on sale of those companies in paragraph I bb) below.

(n) Investment in SM Chile and Banco de Chile

At December 31, 2001, the Company held a 51.35% and 4.27% interest in shares of SM Chile and Banco de Chile, respectively, through a series of step acquisitions occurring during the three years in the period ended December 31, 2001. Under Chilean GAAP, during the period ended December 31, 1999

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these investments were recorded at cost, while for the two years ended December 31, 2000 and 2001 these investments were accounted for using the equity method.

Under US GAAP, for the years ended December 31, 1999 and 2000, the Company previously reported these investments at cost. On March 27, 2001 the Company acquired a controlling interest in these companies. As a result of SM Chile and Banco de Chile becoming majority-owned subsidiaries in 2001, in accordance with Accounting Principles Board Opinion No. 18 (“APB 18”), the years ended December 31, 1999 and 2000 have been retroactively restated using the equity method. The effect of this restatement and the effect of recording Company’s equity participation in the results of operations of SM Chile and Banco de Chile prior to March 27, 2001 are included in paragraph I bb) below.

Had the acquisition of Banco de Chile taken place on January 1, 2000 and January 1, 2001 respectively, the impact on Quiñenco’s consolidated revenues, net income and net income per share under Chilean GAAP, for the years ended December 31, on an unaudited pro forma basis would have been as follows:

		2000 (unaudited)		2001 (unaudited)
Net sales	Ch\$	465,770,480	Ch\$	474,037,376
Net income	Ch\$	36,237,078	Ch\$	48,506,330
Net income per share (in single pesos)	Ch\$	33.5	Ch\$	44.9
Based on weighted average shares outstanding		1,079,740,079		1,079,740,079

Under Chilean GAAP, Quiñenco uses the equity method to account for Banco de Chile and does not consolidate the bank. Therefore, consolidated revenues are not impacted by the purchase but the effect can be seen in the net income line.

(o) Revenue recognition

Under Chilean GAAP revenue is recognized at the time that goods are shipped. Revenue, which the Company has billed and collected in advance, is deferred until the related goods are shipped. Under US GAAP and in accordance with SEC Staff Accounting Bulletin No. 101 (“SAB 101”), revenue is realized or realizable and earned when persuasive evidence of an arrangement exists, the seller’s price is fixed or determinable, collectibility is reasonably assured and delivery has occurred. Delivery is considered to have occurred when title has been taken by the customer and risks and rewards of ownership of the products are assumed by the customer. Madeco had recorded certain export sales, whose terms are CIF, for which delivery had not occurred under US GAAP at December 31, 2000 and 2001. Paragraph I bb) below includes an adjustment to reverse those export sales. This accounting change is effective for 2000 and does not affect retroactively the financial statements of the Company.

(p) Executive incentive plan

During 2000, Quiñenco established an executive incentive plan for eligible employees. Under the plan, Quiñenco granted a loan to employees to acquire shares of the Company’s stock and the stock of some of its subsidiaries at fair market value. Under both Chilean and US GAAP, the aggregate loan was

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deducted from equity. However, under US GAAP, the dividends paid to employees under the plan should be treated as compensation cost and the monetary correction should be credited to paid-in capital. The effect of differences in accounting method is included in paragraph I bb) below.

(q) Investment in Plava Laguna

During 2000, Quiñenco purchased an aggregate interest of 39.42% in Plava Laguna, a Croatian hotel chain. For Chilean GAAP, the purchase was accounted for as a book value purchase and the investment was recorded by the equity method. For US GAAP purposes the investment is also accounted for by the equity method. However, as required under US GAAP, a purchase price allocation was performed and ThCh\$ 12,667,397 of negative goodwill was calculated and allocated to the property, plant and equipment and is being amortized against depreciation expense over the useful lives of the assets.

On August 17, 2001, the Company sold its 39.42% interest in the public Croatian Company Plava Laguna to Sutivan Investments, a related party, and as a result the income effect in Chile GAAP has been adjusted for the difference in basis under US GAAP. The effect of differences in accounting method is included in paragraph I bb) below.

(r) Purchase of companies with tax loss carryforwards

During 2000, the Company purchased a company with tax operating loss carryforwards. Under Chilean GAAP, the acquisition was treated as a purchase of a company in which goodwill totaling ThCh\$ 3,202,549 was recorded on the purchase. For US GAAP purposes, the transaction is not considered a business combination. A gross deferred tax asset should be recorded for the expected tax benefit and the difference between this amount and the purchase price paid for the company represents a deferred credit which should be amortized to income tax expense in proportion to the amount of the tax benefit realized each year.

The effects of conforming to US GAAP are included in paragraph I bb) below.

(s) Effects of US GAAP adjustments in equity investees

Under Chilean GAAP, when an investment accounted for by the equity method is acquired, the proportionate net book value of the investee company is recorded as an investment and the difference between the cost of the investment and the proportionate net book value of the investee is recorded as goodwill. The goodwill is then amortized to income over a maximum period of twenty years. The investment account is adjusted to recognize the investor's share of the earnings or losses of the investee determined under Chilean GAAP subsequent to the date of the purchase.

Under US GAAP, the carrying amount of an investment accounted for under the equity method is initially recorded at cost and shown as a single amount in the balance sheet of the investor. It is adjusted to recognize the investor's share of the earnings or losses of the investee determined under US GAAP subsequent to the date of investment. The amount of the increase or decrease is included in the determination of net income by the investor. It reflects adjustments similar to those made in preparing consolidated financial statements, including adjustments to eliminate intercompany gains and losses and to

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account for the differences, if any, between the investor's cost and the underlying equity in net assets of the investee at the date of investment. The investment is also adjusted to reflect the investor's share of changes in the investee capital accounts.

The differences between recognizing the investor's share of the earnings of investees under Chilean GAAP and under US GAAP for the Company's investments in CCU, in which the Company had a 30.79% economic interest at December 31, 2001 is included in paragraph I bb) below. The significant differences between Chilean and US GAAP relate to deferred income taxes, goodwill amortization, the adjustment for staff severance indemnities, the effects of US GAAP adjustments in its equity investment in Embotelladoras Chilenas Unidas S.A. and the adjustment for capitalization of interest costs.

(t) Derivatives

t-1) Non-Financial Services

In its non-financial services operations, the Company maintains forward foreign exchange contracts and foreign exchange swap contracts to cover the risks of fluctuation in foreign exchange between the dollar and the Chilean peso and the US dollar and the Brazilian real.

Under Chilean GAAP, these foreign forward exchange contracts and swaps exchange rate contracts, have been recorded on the balance sheet at the closing spot exchange rate, with gains and losses included in earnings as "Other non-operating income and expense". The initial discount or premium is amortized over the life of the contract as interest expense. The contracts that are designated by the management as hedges of future cash flow or forecasted transactions in Chilean GAAP do not meet the conditions to be considered as true hedges, therefore these contracts are required to be marked-to-spot with the resulting gains and losses being recorded immediately in income.

Under US GAAP, for the years ended December 31, 1999 and 2000, foreign forward exchange contracts and swaps exchange rate contracts are recorded on the balance sheet at the closing forward exchange rate. The effects of the difference between using the closing spot rate and the closing forward rate were not considered material to the consolidated financial statements.

t-2) Financial Services

In terms of the Company's banking operations, the use of derivatives in Chile is regulated by the Chilean Central Bank, which requires that all foreign exchange forward contracts be made only in U.S. dollars and other major foreign currencies. Currently, Chilean banks are permitted to use foreign exchange forward contracts (covering either foreign currencies against the U.S. dollar, the UF against the Chilean peso or the UF and the Chilean peso against the U.S. dollar), forward rate agreements and interest rate swaps.

The banks enter into derivative transactions for its own account and to meet customers' risk management needs. Generally the banks enter into forward contracts in U.S. dollars against the Chilean peso or the UF, however, occasionally, forward contracts are also made in other currencies, but only when the banks act as intermediaries. During the year ended December 31, 2001, the banks entered into interest

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rate and foreign currency swaps agreements as a means of hedging their short-term deposits against its long-term loans.

Under Chilean GAAP, the accounting for derivative transactions in the Company's banking operations is established by the Superintendency of Banks and Financial Institutions. The banks account for forward contracts between foreign currencies and U.S. dollars at fair value with realized and unrealized gains and losses on these instruments recognized in other income. Forward contracts between the U.S. dollar and the Chilean peso for the U.F. are valued at the closing spot exchange rate of each balance sheet date, with the initial discount or premium being amortized over the life of the contract in accordance with Chilean hedge accounting criteria. Under Chilean GAAP the Banks generally record differences between interest income and interest expense on interest rate swaps transactions, in net income in the period that such differences originate.

The effects of the adjustments with respect to foreign exchange and interest rate swap transactions contracts on the income and net equity of the Company are included in paragraph I bb) below.

Under US GAAP, for the years ended December 31, 1999 and 2000, the banks recorded their swap agreements at their estimated fair value and forward contracts between the U.S. dollar and the Chilean peso were valued at the fair value based on the forward exchange rate.

While the Banks enter into derivatives for the purpose of mitigating its global interest and foreign currency risks, these operations do not meet the requirements to qualify for hedge accounting under US GAAP. Therefore changes in the respective fair values of all derivative instruments are reported in earnings when they occur.

t-3) Adoption of SFAS 133

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities". In June 1999, the FASB issued Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133". In June 2000, the FASB issued Statement 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133". SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative instrument's gains and losses to offset related results on the hedged item in the income statement, to the extent effective, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

The Company records the foreign exchange gains and losses from liabilities relating to investments in foreign countries, which are denominated in the same currency as the investment, in the cumulative translation adjustment account in shareholders' equity. Otherwise, the Company does not apply hedge accounting under US GAAP. Therefore changes in the respective fair values of derivatives are reported in earnings when they occur, apart from the net investment hedge described above.

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The Company adopted SFAS No. 133, as amended, on January 1, 2001. SFAS No. 133 requires that as of the date of initial adoption, the difference between the market value of derivative instruments recorded on the balance sheet and the previous carrying amount of those derivatives be reported in net income or other comprehensive income, as appropriate, as the cumulative effect of a change in accounting principle in accordance with Accounting Principles Board Opinion No. 20, "Accounting Changes." Statement 133 cannot be applied retroactively. SFAS No. 133 must be applied to (a) derivative instruments and (b) certain embedded derivative instruments. As permitted under this standard, the Company has applied SFAS No. 133 to only those embedded instruments that were issued, acquired, or substantively modified after January 1, 1999.

Currently the only host contracts that the Company has which have implicit or explicit terms that must be separately accounted for at fair value are in its financial services operations. These contracts are service type contracts related to computer services agreements, which are recorded as freestanding derivative instruments at their estimated fair values recognizing changes in earnings when they occur.

The effect of adopting SFAS No. 133 as of January 1, 2001, resulted in a cumulative effect on net income which is presented net of deferred taxes and minority interest under the caption "Cumulative effect of change in accounting principles." The effects of the adjustment with respect to financial derivatives, commodity derivatives, and embedded derivatives for the year ended December 31, 2001 is included in the net income and shareholders' equity reconciliation to US GAAP under paragraph I bb) below.

(u) Fair value of Financial Service assets and liabilities acquired in business combinations

Under Chilean GAAP, assets acquired and liabilities assumed are recorded at their carrying value, and the excess of the purchased price over the carrying value are recorded as goodwill. Under US GAAP, in a business combination accounted for under the purchase method of accounting, the acquired company's identifiable assets and liabilities are adjusted to give effect to the purchase price paid by the acquiring company. If, after the assets and liabilities of the acquired company have been adjusted to their fair value at the acquisition date, the purchase price exceeds the amount of such fair value, the excess is recorded as goodwill.

The fair value of the assets and liabilities of Banco de Chile and Banco Edwards at the time of the purchases by the Company have been calculated based on appropriate market values and by estimations where the asset or liability makes reference to future cash flows. In a business combination accounted for by the purchase method involving the acquisition of a banking or thrift institution, intangible assets acquired that can be separately identified are assigned a portion of the total cost of the acquired enterprise if the fair values of those assets can be reliably determined. The identified intangible assets shall be amortized over the estimated lives of those existing relationships. The adjustments to fair value arising from the acquisitions of Banco de Chile and Banco Edwards relate to the following assets and liabilities:

u-1) Core deposit, brand and other intangibles

In determining the fair value of the assets and liabilities of Banco de Chile and Banco Edwards, the Company has considered the value of its long-term customer relationships (core deposit intangibles) in estimating the fair value of its deposits. In addition, independent valuations were carried out to assess the

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value of the brand names and other intangible assets. The effect of recording such assets at their fair value and their subsequent amortization is recorded in paragraph I bb) below:

u-2) Fair value of bank premises and equipment

In determining the fair value of the assets and liabilities of Banco de Chile and Banco Edwards, the Company has considered the fair value of the Banks' tangible assets such as the Head Office and other owned branches. The effect of recording such assets at their fair value and their subsequent amortization is recorded in paragraph I bb) below:

u-3) Fair value of loans

In determining the fair value of the assets and liabilities of Banco de Chile and Banco Edwards, the Company has considered the fair value of the Banks' loan portfolios based on future cash flows and using market based discount rates. The effect of recording the loan portfolio at fair value and their subsequent amortization is recorded in paragraph I bb) below:

u-4) Fair value of subordinated debt obligation

In determining the fair value of the assets and liabilities of Banco de Chile the Company has considered the fair value of the subordinated debt arising from the economic crisis in 1982-1983. At that time Banco de Chile sold certain of its non-performing loans to the Chilean Central Bank (the "Central Bank") at face value on terms that included a repurchase obligation. The repurchase obligation was later exchanged for subordinated debt of each participating bank issued in favor of the Central Bank. In 1996, a reorganization took place by which Banco de Chile was converted to a holding company named SM Chile that in turn organized a new wholly-owned banking subsidiary named Banco de Chile to which it contributed all of its assets and liabilities other than the Central Bank subordinated debt. SM Chile then created a second wholly owned subsidiary, SAOS, that, pursuant to a prior agreement with the Central Bank, assumed a new repayment obligation in favor of the Central Bank which replaced the Central Bank subordinated debt in its entirety.

Under Chilean GAAP, the Company is not required to record Banco de Chile's subordinated debt obligation on its books. Under US GAAP, the Company records the subordinated debt obligation at fair value in connection with the purchase accounting for the acquisition of the bank. The effect of recording the subordinated debt at fair value and its subsequent amortization is recorded in paragraph I bb) below:

u-5) Fair value of other financial assets and liabilities

In determining the fair value of the assets and liabilities of Banco de Chile and Banco Edwards, the Company has considered the value of its other financial assets and liabilities such as financial investments, mortgage finance bonds and deposits. The effect of recording such assets and liabilities and their subsequent amortization is recorded in paragraph I bb) below

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u-6) Loan origination fees and costs

Under Chilean GAAP, in accordance with regulations issued by the Superintendency of Banks and Financial Institutions, during 2001, the Bank has begun to defer and amortize certain loan fee income and loan origination costs, over the term of loans to which they relate, and the period that the service are performed. In prior years, the bank recognized origination fees on credit card loans, lines of credit and letters of credit when collected and recorded the related direct costs when incurred.

Under SFAS No 91, "Accounting for Nonrefundable Fees and Costs Associated with Origination of Acquiring Loans and Initial Direct Costs of Leases", loan origination fees and certain direct loan origination costs should be recognized over the term of the related loan as an adjustment to yield. The effect of accounting for net loan origination fees in accordance with US GAAP is included in the reconciliation of consolidated net income and shareholders' equity in paragraph I bb) below.

(v) Investments in other companies

Banco de Chile and Banco Edwards participate in shared service companies with other banks in the Chilean financial system, through equity investments each of which represents an ownership interest of less than 20% in a particular company. Under Chilean GAAP, these investments have been accounted for under the equity method. As these investments are long-term in nature and are not traded, under US GAAP these investments would generally be accounted for at cost less any non-temporary impairment in value. The effect of recording these assets in accordance with US GAAP is included in the reconciliation of consolidated net income and shareholders' equity in paragraph I bb) below.

(w) Assets received in lieu of payment

Under Chilean GAAP, assets received in lieu of payment are carried at cost and have been restated for price-level changes, less a global valuation allowance if the total of the market value of those assets is lower than the carrying amount. Market value is determined based on appraiser valuations, as required by the Superintendency of Banks. Beginning January 1, 2001, if the asset is not sold within one year, then recorded asset amounts must be written-off on at least a straight-line basis over the following 18-month period.

Under US GAAP, assets received in lieu of payment are initially recorded at fair value less any estimated costs to sell at the date of foreclosure, on an individual asset basis. The effect of recording these assets in accordance with US GAAP is included in the reconciliation of consolidated net income and shareholders' equity in paragraph I bb) below.

(x) Mortgage finance bonds

Under Chilean GAAP, other financial investments include mortgage finance bonds issued by the Bank and held for future sale. Under US GAAP, mortgage finance bonds issued by the Bank would be offset against the corresponding liability.

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As instructed by the Superintendency of Banks, mortgage finance bonds issued by the banks are carried at market value. Under US GAAP, such mortgage finance bonds are offset against the corresponding liability; consequently, had US GAAP been applied, no such adjustment would have been made. The effects of this difference between Chilean and US GAAP have been included in the reconciliation to US GAAP in paragraph I bb) below.

(y) Allowance for loan losses

Under Chilean GAAP, the allowance for loan losses is calculated according to specific guidelines set out by the rules of the Superintendency of Banks. Under US GAAP allowances for loan losses should be in amounts adequate to cover inherent losses in the loan portfolio at the respective balance sheet dates. Under US GAAP, the banks have estimated their required reserve using historical loan data, in order to estimate the inherent losses in their loan portfolio, using patterns and trends based upon historical loan movements (“migration analysis”).

In addition, specific additional provisions were determined for loans considered impaired under SFAS No. 114, “Accounting by Creditors for Impairment of a Loan” (“SFAS No. 114”). Under this analysis, each bank’s commercial loans and leasing operations were valued at the present value of the expected future cash flows discounted at the loan’s effective contractual interest rate, or at market rates in the case of those loans were considered to be collateral dependent, while the related loan loss provisions for mortgage and consumer loans were determined based on historical loan charge-offs, after considering the recoverability of the underlying collateral.

(z) Minority interest

The effects on the minority interest of the US GAAP adjustments in subsidiaries that are not wholly-owned by the Company have been reflected in Minority interest and are included in paragraph I bb) below.

(aa) Comprehensive income

On January 1, 1998 the Company adopted FAS No. 130, “Reporting Comprehensive Income”, which establishes guidelines for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements, FAS No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Net unrealized losses on securities are presented in other comprehensive income net of deferred taxes of ThCh\$ 9,912,497, ThCh\$ 5,703,799 and ThCh\$ 11,382,215 for the years ended December 31, 1999, 2000 and 2001, respectively. The disclosures required under US GAAP are set forth in paragraph I bb) below.

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(bb) Effects of conforming to US GAAP

The adjustments to reported net income required to conform with US GAAP are as follows (all amounts are expressed in Chilean pesos of December 31, 2001 purchasing power). Parenthetical references are to Note 26 part I.

	Year ended December 31,					
	1999		2000		2001	
			(in thousands)			
Net income (loss) as shown in the Chilean GAAP financial statements	Ch\$	173,047,928	Ch\$	(5,823,187)	Ch\$	15,509,382
NON-FINANCIAL SERVICES						
Deferred income taxes (paragraph b).....		13,835,954		(3,974,158)		529,899
Reversal of depreciation of the revaluation of property, plant and equipment (paragraph d)		200,940		189,865		203,722
Reversal of revaluation increment on property, plant and equipment (paragraph d)		(127,914)		-		-
Available-for-sale securities, net of deferred income taxes (paragraph e)		(939,477)		1,950		-
Reversal of effects for investment in Entel (paragraph e-1).....		(2,930,301)		(5,563,491)		1,632,250
Employee severance indemnities (paragraph f)		424,372		(2,595,419)		(223,711)
Deficit during development stage (paragraph g).....		(243,596)		(978,308)		(2,153,073)
Reduction of gain on the sale of VTR Hiper cable (paragraph h).....		(8,007,243)		-		-
Deferred income taxes from sale of VTR Hiper cable (paragraph h).....		(2,369,684)		-		-
Gain on the sale of OHCH (paragraph i)		14,462,182		-		-
Reversal of amortization of advertising costs (paragraph j)		218,119		232,794		252,024
Reversal of restructuring costs (paragraph k)		3,694,251		(2,024,218)		1,706,693
Reversal of effects for investment in Lucchetti (paragraph l).....		59,897		2,344,447		-
Goodwill on certain acquisitions (paragraph m).....		(20,181,080)		(113,877)		(85,379)
Reversal of revenue recognition (paragraph o).....		-		(60,096)		(16,859)
Executive incentive plan (paragraph p)		-		249,802		-
Investment in Plava Laguna (paragraph q)		-		203,206		(203,206)
Purchase of Companies with tax loss carryforwards (paragraph r).....		-		52,765		(52,765)
Derivatives (paragraph t-1).....		-		-		(553,460)
Net effects of US GAAP adjustments in equity investees (paragraph s).....		946,930		386,170		(1,190,641)
FINANCIAL SERVICES						
Deferred income taxes (paragraph b).....		286,618		(873,000)		(4,331,181)
Investment securities (paragraph e-2).....		252,595		266,000		(6,668,000)
Employee severance indemnities (paragraph f)		-		-		470,000
Goodwill (paragraph m)		111,511		992,266		(1,536,355)
Net effect of US GAAP adjustments in Banco de Chile and SM Chile (paragraph n)		(521,749)		(2,820,498)		(7,066,569)
Derivatives (paragraph t-2).....		858,823		(1,305,000)		(7,598,000)
Core deposits, brand and other intangibles (paragraph u-1).....		(782,606)		(3,130,425)		(11,289,018)
Fair value of bank premises and equipment (paragraph u-2).....		-		-		(125,653)
Fair value of loans (paragraph u-3)		768,304		3,035,266		13,965,969
Fair value of subordinated debt obligation (paragraph u-4)		-		-		6,494,088
Fair value of other financial assets and liabilities (paragraph u-5)		(461,198)		(1,457,807)		(65,436)
Loan origination fees and costs (paragraph u-6).....		835,110		30,000		(686,000)
Investments in other companies (paragraph v)		217,541		88,000		68,000
Assets received in lieu of payment (paragraph w)		370,129		2,071,000		(1,432,000)
Mortgage finance bonds issued by the Bank (paragraph x).....		-		-		56,000
Allowance for loan losses (paragraph y).....		-		(2,309,000)		11,408,000
Net effects of US GAAP adjustments on minority interest (paragraph z).....		9,864,475		2,988,910		3,894,932
Income (loss) in accordance with US GAAP before cumulative effect of change in accounting principle.....	Ch\$	183,890,831	Ch\$	(19,896,043)	Ch\$	10,913,653

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(bb) Effects of conforming to US GAAP, continued:

	1999		2000		2001	
Net income (loss) under US GAAP before cumulative effect of change in accounting principle	Ch\$	183,890,831	Ch\$	(19,896,043)	Ch\$	10,913,653
Cumulative effect of change in accounting principle, net of taxes		-		-		2,000
Net income (loss) under US GAAP		183,890,831		(19,896,043)		10,915,653
Other comprehensive income, net of tax						
Foreign currency translation adjustment		1,071,829		5,910,624		8,043,150
Net unrealized gains (losses) on securities, net of tax (paragraph e)		56,170,818		32,321,530		(61,550,239)
Other comprehensive income		-		-		(206,819)
		<u>57,242,647</u>		<u>38,232,154</u>		<u>(53,713,908)</u>
Comprehensive income (loss) under US GAAP	Ch\$	<u>241,133,478</u>	Ch\$	<u>18,336,111</u>	Ch\$	<u>(42,798,255)</u>

The adjustments required to conform net equity amounts to US GAAP are as follows (all amounts are expressed in Chilean pesos of December 31, 2001 purchasing power):

	At December 31,			
	2000	2001		
	(in thousands)			
Net equity as shown in the Chilean GAAP financial statements	Ch\$	656,763,511	Ch\$	677,380,624
NON-FINANCIAL SERVICES				
Deferred income taxes (paragraph b)		(2,278,974)		(1,749,075)
Minimum dividend (paragraph c)		-		(4,652,815)
Reversal of the revaluation of property, plant and equipment (paragraph d)				
Fixed assets (paragraph d)		(14,828,447)		(14,701,835)
Accumulated depreciation (paragraph d)		3,345,945		3,423,055
Available-for-sale securities, net of deferred income taxes (paragraph e-1)		88,523,790		27,092,085
Reversal of effects for investment in Entel (paragraph e-1)		(8,756,946)		(7,124,696)
Employee severance indemnities (paragraph f)		(4,877,268)		(5,100,979)
Reversal of advertising costs (paragraph j)		(549,254)		(504,049)
Reversal of restructuring costs (paragraph k)		1,670,033		3,376,726
Reversal of effects for investment in Lucchetti (paragraph l)		-		-
Goodwill on certain acquisitions (paragraph m)		538,241		452,862
Reversal of revenue recognition (paragraph o)		(60,096)		(76,955)
Investment in Plava Laguna (paragraph q)		203,206		-
Purchase of Companies with tax loss carryforwards (paragraph r)		52,765		-
Derivatives (paragraph t-1)		-		(553,460)
Net effects of US GAAP adjustments in equity investees (paragraph s)		1,246,617		55,976
FINANCIAL SERVICES				
Deferred income taxes (paragraph b)		(395,904)		20,756,999
Investment securities (paragraph e-2)		-		(6,691,538)
Employee severance indemnities (paragraph f)		-		(12,576,503)
Goodwill (paragraph m)		(12,364,608)		114,765,468
Net effect of US GAAP adjustments in Banco de Chile and SM Chile (paragraph n)		(3,498,791)		-
Derivatives (paragraph t-2)		(446,000)		(8,042,000)
Core deposits, brand and other intangibles (paragraph u-1)		14,869,520		153,410,536
Fair value of bank premises and equipment (paragraph u-2)		-		10,483,333
Fair value of loans (paragraph u-3)		(4,525,893)		(63,545,489)
Fair value of subordinated debt obligation (paragraph u-4)		-		(232,148,005)
Fair value of other financial assets and liabilities (paragraph u-5)		1,101,316		225,732
Loan origination fees and costs (paragraph u-6)		865,000		179,000
Investments in other companies (paragraph v)		305,000		373,000
Assets received in lieu of payment (paragraph w)		2,442,000		1,010,000
Mortgage finance bonds issued by the Bank (paragraph x)		-		56,000
Allowance for loan losses (paragraph y)		(2,309,000)		9,099,000
Net effects of US GAAP adjustments on minority interest (paragraph z)		4,267,025		8,468,899
Net equity in accordance with US GAAP	Ch\$	<u>721,302,788</u>	Ch\$	<u>673,141,896</u>

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The changes in net equity accounts determined under US GAAP are summarized as follows (all amounts are expressed in thousands of Chilean pesos of December 31, 2001 purchasing power):

Balance at January 1, 1999	Ch\$	517,082,162
Reversal of accrued minimum dividend at December 31, 1999.....		8,751,359
Distribution of final 1998 dividend		(8,718,075)
Accrued minimum dividend at December 31, 2000		(51,914,378)
Market value adjustment of available-for-sale securities (OHCH)		(1,746,370)
Translation adjustment for the year (net)		4,184,551
Net change in unrealized gains and losses on available-for-sale securities, net of deferred income taxes		56,170,818
Net income for the year		183,890,830
Balance at December 31, 1999	Ch\$	<u>707,700,897</u>
Reversal of accrued minimum dividend at December 31, 1999.....		51,914,378
Distribution of final 1999 dividend		(51,021,868)
Translation adjustment for the year (net)		283,894
Net change in unrealized gains and losses on available-for-sale securities net of deferred income taxes		32,321,530
Net loss for the year		(19,896,043)
Balance at December 31, 2000	Ch\$	<u>721,302,788</u>
Accrued minimum dividend at December 31, 2000		(4,652,815)
Translation adjustment for the year (net)		7,333,328
Net change in unrealized gains and losses on available-for-sale securities, net of deferred income taxes		(61,550,239)
Other comprehensive income		(206,819)
Net income for the year		10,915,653
Balance at December 31, 2001	Ch\$	<u><u>673,141,896</u></u>

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Restatement of Reconciliation to US GAAP

During 2001, the Company changed the amounts previously reported in the US GAAP reconciliations for 1999 and 2000 to include reconciling items for the retroactive restatement of the investment in Banco de Chile and SM Chile, as discussed in note 26 I(n) under APB 18. The effects of these adjustments on previously reported US GAAP consolidated net income (loss) and shareholders' equity is set forth below:

	For the year ended December 31,	
	1999	2000
US GAAP net income (loss) as previously reported	Ch\$ 184,252,659	Ch\$ (13,174,242)
Differences due to:		
Retroactive restatement of investment in Banco de Chile and SM Chile under APB 18	(521,750)	(3,522,305)
Adjustment to Purchase accounting, and goodwill amortization of Banco Edwards	-	(3,096,752)
Restatement of investment in Banco Edwards (reissuance)	159,921	(102,744)
US GAAP net income (loss) as adjusted	Ch\$ 183,890,830	Ch\$ (19,896,043)
Earnings (loss) per share under US GAAP as previously reported (in single pesos)	Ch\$ 170.64	Ch\$ (12.19)
Earnings (loss) per share under US GAAP as adjusted (in single pesos)	Ch\$ 170.31	Ch\$ (18.43)
US GAAP other comprehensive income as previously reported	Ch\$ 57,399,182	Ch\$ 30,406,606
Retroactive restatement of investment in Banco de Chile and SM Chile under APB 18	(156,535)	7,988,269
Restatement of investment in Banco Edwards (reissuance)	-	(162,721)
US GAAP other comprehensive income as adjusted	Ch\$ 57,242,647	Ch\$ 38,232,154
US GAAP shareholders' equity as previously reported		720,783,501
Differences due to:		
Retroactive restatement of investment in Banco de Chile and SM Chile under APB 18		3,721,583
Adjustment to Purchase accounting, and goodwill amortization of Banco Edwards		(3,096,752)
Restatement of investment in Banco Edwards (reissuance)		(105,544)
US GAAP shareholders' equity as adjusted		Ch\$ 721,302,788

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

II. Consolidation of Subsidiaries

a) Consolidation of Banco Edwards (1999)

The condensed consolidated statements of income set forth below consolidate the operations of Quiñenco and Banco Edwards, its 51.17 - owned banking subsidiary. As indicated in paragraph 1 m) above and Note 2 a), banking operations are not generally consolidated with non-financial businesses in Chile primarily due to the dissimilarity of both the nature of the businesses and the related accounting policies. The information presented below, which does not include any US GAAP adjustments, shows the consolidation of Banco Edwards based on Chilean GAAP that would be required for US GAAP purposes under Statement of Financial Accounting Standards 94 ("FAS 94") which deals with the consolidation of all majority-owned subsidiaries.

Consolidated Statements of Income (with Banco Edwards)

	For the year ended December 31, 1999			
	Quiñenco	Banco Edwards	Consolidation Adjustments	Consolidated Balance Sheet
	(in thousands)			
Non-Financial Services				
Operating results:				
Net sales	Ch\$ 438,987,034	Ch\$ -	Ch\$ -	Ch\$ 438,987,034
Cost of sales	(357,163,849)	-	-	(357,163,849)
Administrative and selling expenses	(103,494,502)	-	-	(103,494,502)
Operating income (loss)	<u>(21,671,317)</u>	<u>-</u>	<u>-</u>	<u>(21,671,317)</u>
Non-operating results:				
Interest income	20,970,657	-	(223,180)	20,747,477
Non-operating income	285,817,763	-	-	285,817,763
Interest expense	(43,135,828)	-	117,563	(43,018,265)
Non-operating expense	(54,912,191)	-	1,600,569	(53,311,622)
Price-level restatement loss, net	13,580,629	-	(93,702)	13,486,927
Non-operating results	<u>222,321,030</u>	<u>-</u>	<u>1,401,250</u>	<u>223,722,280</u>
Income from non-financial services before income taxes and minority interest	Ch\$ <u>200,649,713</u>	Ch\$ <u>-</u>	Ch\$ <u>1,401,250</u>	Ch\$ <u>202,050,963</u>
Financial Services				
Net interest revenue	-	109,941,692	(84,679,645)	25,262,047
Provision for loan losses	-	(68,961,575)	46,153,077	(22,808,498)
Income from services, net	-	14,607,562	(10,683,506)	3,924,056
Other operating income, net	-	6,762,841	(3,566,814)	3,196,027
Other income and expenses	-	1,707,139	(1,768,055)	(60,916)
Operating expenses	-	(70,984,396)	53,071,038	(17,913,358)
Price-level restatement loss, net	-	<u>(2,525,985)</u>	<u>1,866,284</u>	<u>(659,701)</u>
Income (loss) from financial services before income taxes and minority interest	<u>-</u>	<u>(9,452,722)</u>	<u>392,379</u>	<u>(9,060,343)</u>
Income (loss) before income taxes	<u>200,649,713</u>	<u>(9,452,722)</u>	<u>1,793,629</u>	<u>192,990,620</u>
Income taxes (expense) benefit	<u>(23,098,114)</u>	<u>2,862,780</u>	<u>1,525,507</u>	<u>(18,709,827)</u>
Income (loss) before minority interest	177,551,599	(6,589,942)	3,319,136	174,280,793
Minority interest	<u>(4,503,671)</u>	<u>(534,388)</u>	<u>3,805,194</u>	<u>(1,232,865)</u>
Net income (loss)	Ch\$ <u><u>173,047,928</u></u>	Ch\$ <u><u>(7,124,330)</u></u>	Ch\$ <u><u>7,124,330</u></u>	Ch\$ <u><u>173,047,928</u></u>

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Banco Edwards column in the condensed income statement above includes the operations of the Bank for the entire year. The consolidating adjustments include the elimination of transactions prior to the date of purchase and accordingly the consolidated income statement column includes the operations of Banco Edwards for only the last quarter of 1999.

b) Consolidation of Banco Edwards and other unconsolidated subsidiaries (2000)

The condensed financial statements set forth below consolidate the operations of Quiñenco, Banco Edwards, a 51.17% owned banking subsidiary and Banedwards, a 100% - owned insurance subsidiary. As indicated in paragraph 1 m) above and Note 2 a), banking and insurance operations are not generally consolidated with non-financial businesses in Chile primarily due to the dissimilarity of both the nature of the businesses and the related accounting policies. In addition, as indicated in Note 25, as a result of the anticipated sale of Lucchetti Argentina the balance sheet as of December 31, 2000 was not consolidated for Chilean GAAP purposes and the investment was included at net realizable value under investments in related companies. Because Lucchetti Argentina was not sold until 2001 and was not considered a separate segment for US GAAP purposes, the condensed financial statements below consolidate the balance sheet of Lucchetti Argentina. The information presented below, which does not include any US GAAP adjustments, shows the consolidation of Banco Edwards, Banedwards and Lucchetti Argentina based on Chilean GAAP that would be required for US GAAP purposes under FAS 94.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Consolidated Balance Sheet (with Banco Edwards and other unconsolidated subsidiaries)

At December 31, 2000

	Quiñenco	Banco Edwards	Banedwards	Lucchetti Argentina	Consolidation Adjustments	Consolidated Balance Sheet
	(in thousands)					
Liabilities and Shareholders' Equity:						
Non-Financial Services:						
Current liabilities						
Debt payable within one year	Ch\$ 235,342,340	Ch\$ -	Ch\$ -	Ch\$ 8,225,324	Ch\$ (6,444,821)	Ch\$ 237,122,843
Accounts and notes payable	72,298,489	-	-	850,036	(111,139)	73,037,386
Accrued and other liabilities.....	30,487,528	-	-	1,055,812	-	31,543,340
Total current liabilities	<u>338,128,357</u>	<u>-</u>	<u>-</u>	<u>10,131,172</u>	<u>(6,555,960)</u>	<u>341,703,569</u>
Long-term liabilities:						
Long term debt	293,461,838	-	-	709,387	(1,991,701)	292,179,524
Other liabilities.....	12,617,667	-	-	-	-	12,617,667
Total long-term liabilities.....	<u>306,079,505</u>	<u>-</u>	<u>-</u>	<u>709,387</u>	<u>(1,991,701)</u>	<u>304,797,191</u>
Total non-financial services liabilities.....	Ch\$ <u>644,207,862</u>	Ch\$ <u>-</u>	Ch\$ <u>-</u>	Ch\$ <u>10,840,559</u>	Ch\$ <u>(8,547,661)</u>	Ch\$ <u>646,500,760</u>
Financial Services:						
Deposits.....	-	1,748,797,545	81,068	-	(643,765)	1,748,234,848
Borrowings.....	-	749,724,225	-	-	-	749,724,225
Other liabilities.....	-	185,106,734	602,877	-	-	185,709,611
Total financial services liabilities	<u>-</u>	<u>2,683,628,504</u>	<u>683,945</u>	<u>-</u>	<u>(643,765)</u>	<u>2,683,668,684</u>
Minority interest	<u>105,499,077</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>120,057,030</u>	<u>225,556,107</u>
Shareholders' equity						
Common stock	441,499,289	224,847,081	1,865,053	9,820,391	(236,532,526)	441,499,288
Reserves	17,286,010	2,825,914	-	17,241,079	(20,066,992)	17,286,011
Retained earnings.....	197,978,212	3,274,400	(140,546)	(1,287,396)	(1,846,458)	197,978,212
Total shareholders' equity	<u>656,763,511</u>	<u>230,947,395</u>	<u>1,724,507</u>	<u>25,774,074</u>	<u>(258,445,976)</u>	<u>656,763,511</u>
Total liabilities and shareholders' equity.....	Ch\$ <u>1,406,470,450</u>	Ch\$ <u>2,914,575,899</u>	Ch\$ <u>2,408,452</u>	Ch\$ <u>36,614,633</u>	Ch\$ <u>(147,580,372)</u>	Ch\$ <u>4,212,489,062</u>

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Consolidated Statements of Income (with Banco Edwards and other unconsolidated subsidiaries)

For the year ended December 31, 2000

	Quiñenco	Banco Edwards	Banedwards	Lucchetti Argentina	Consolidation Adjustments	Consolidated Balance Sheet
	(in thousands)					
Non-Financial Services						
Operating results:						
Net sales	Ch\$ 465,770,480	Ch\$ -	Ch\$ -	Ch\$ -	Ch\$ -	Ch\$ 465,770,480
Cost of sales	(371,847,851)	-	-	-	-	(371,847,851)
Administrative and selling expenses	(77,762,024)	-	-	-	-	(77,762,024)
Operating income	<u>16,160,605</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,160,605</u>
Non-Operating results:						
Interest income	8,778,145	-	-	-	(247,483)	8,530,662
Non-operating income	34,296,416	-	-	-	(1,675,702)	32,620,714
Interest expense	(38,099,193)	-	-	-	764,754	(37,334,439)
Non-operating expense	(35,086,738)	-	-	-	-	(35,086,738)
Price-level restatement loss, net	(6,158,681)	-	-	-	92,060	(6,066,621)
Non-operating results	<u>(36,270,051)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,066,371)</u>	<u>(37,336,422)</u>
(Loss) from non-financial services before income taxes and minority interest	<u>(20,109,446)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,066,371)</u>	<u>(21,175,817)</u>
Financial Services						
Net interest revenue	-	108,013,245	-	-	(468,879)	107,544,366
Provision for loan losses	-	(36,427,057)	-	-	-	(36,427,057)
Income from services, net	-	17,285,349	-	-	-	17,285,349
Other operating income, net	-	9,214,816	612,767	-	-	9,827,583
Other income and expenses	-	(1,145,958)	1,599	-	-	(1,144,359)
Operating expenses	-	(87,127,963)	(794,644)	-	-	(87,922,607)
Price-level restatement income (loss), net	-	(7,199,627)	14,930	-	-	(7,184,697)
Income (loss) from financial services before income taxes and minority interest and subordinated debt	<u>-</u>	<u>2,612,805</u>	<u>(165,348)</u>	<u>-</u>	<u>(468,879)</u>	<u>1,978,578</u>
(Loss) income before income taxes	(20,109,446)	2,612,805	(165,348)	-	(1,535,250)	(19,197,239)
Income taxes	7,321,588	1,026,186	24,802	-	-	8,372,576
(Loss) income before minority interest	(12,787,858)	3,638,991	(140,546)	-	(1,535,250)	(10,824,663)
Minority interest	6,964,671	(364,591)	-	-	(1,598,604)	5,001,476
Net (loss) income	<u>Ch\$ (5,823,187)</u>	<u>Ch\$ 3,274,400</u>	<u>Ch\$ (140,546)</u>	<u>Ch\$ -</u>	<u>Ch\$ (3,133,854)</u>	<u>Ch\$ (5,823,187)</u>

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

At December 31, 2001

	Quiñenco	Banco Edwards	SM Chile	Banedwards	Consolidation Adjustments	Consolidated Balance Sheet
	(in thousands)					
Assets:						
Non-Financial Services:						
Current assets						
Cash and time deposits.....	Ch\$ 21,510,347	Ch\$ -	Ch\$ -	Ch\$ -	Ch\$ (7,677,045)	Ch\$ 13,833,302
Marketable securities.....	1,411,385	-	-	-	-	1,411,385
Accounts and notes receivable, net.....	100,884,084	-	-	-	-	100,884,084
Inventories.....	78,672,562	-	-	-	-	78,672,562
Other current assets.....	63,272,897	-	-	-	-	63,272,897
Total current assets.....	Ch\$ 265,751,275	Ch\$ -	Ch\$ -	Ch\$ -	Ch\$ (7,677,045)	Ch\$ 258,074,230
Net property, plant and equipment.....	417,784,430	-	-	-	-	417,784,430
Other assets:						
Investments in and advances to related companies	475,337,796	-	-	-	(299,877,915)	175,459,881
Goodwill, net.....	346,454,571	-	-	-	-	346,454,571
Other non-current assets.....	55,915,103	-	-	-	-	55,915,103
Total other assets.....	877,707,470	-	-	-	(299,877,915)	577,829,555
Total non-financial services assets.....	1,561,243,175	-	-	-	(307,554,960)	1,253,688,215
Financial Services:						
Cash and due from banks.....	-	243,920,000	527,948,970	11,500	-	771,880,470
Investments.....	-	360,397,000	1,649,713,823	3,083,980	-	2,013,194,803
Loans, net.....	-	2,124,912,000	3,726,447,869	-	(23,808,081)	5,827,551,788
Other assets.....	-	167,241,000	183,390,224	734,764	-	351,365,988
Total financial services assets.....	-	2,896,470,000	6,087,500,886	3,830,244	(23,808,081)	8,963,993,049
Total assets.....	Ch\$ 1,561,243,175	Ch\$ 2,896,470,000	Ch\$ 6,087,500,886	Ch\$ 3,830,244	Ch\$ (331,363,041)	Ch\$ 10,217,681,264

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

For the year ended December 31, 2001

	Quiñenco	Banco Edwards	SM Chile	Banedwards	Consolidation Adjustments	Consolidated Income Statement
	(in thousands)					
Non-Financial Services						
Operating results:						
Net sales	Ch\$ 474,037,376	Ch\$ -	Ch\$ -	Ch\$ -	Ch\$ -	Ch\$ 474,037,376
Cost of sales	(376,604,193)	-	-	-	-	(376,604,193)
Administrative and selling expenses	(79,917,705)	-	-	-	-	(79,917,705)
Operating income	<u>17,515,478</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,515,478</u>
Non-Operating results:						
Interest income	7,939,230	-	-	-	(591,210)	7,348,020
Non-operating income	102,943,527	-	-	-	(20,744,596)	82,198,931
Interest expense	(59,009,265)	-	-	-	-	(59,009,265)
Non-operating expense	(69,792,080)	-	-	-	-	(69,792,080)
Price-level restatement loss, net	(10,631,840)	-	-	-	-	(10,631,840)
Non-operating results	<u>(28,550,428)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,335,806)</u>	<u>(49,886,234)</u>
(Loss) from non-financial services before income taxes and minority interest	<u>(11,034,950)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,335,806)</u>	<u>(32,370,756)</u>
Financial Services						
Net interest revenue	-	120,642,000	217,542,703	-	591,210	338,775,913
Provision for loan losses	-	(44,661,000)	(50,401,019)	-	-	(95,062,019)
Income from services, net	-	25,487,000	49,130,718	-	-	74,617,718
Other operating income, net	-	4,839,000	10,724,779	1,743,808	-	17,307,587
Other income and expenses	-	7,075,000	13,387,445	(6,263)	-	20,456,182
Operating expenses	-	(97,402,000)	(148,874,148)	(1,705,454)	-	(247,981,602)
Price-level restatement loss, net	-	(4,173,000)	(5,788,843)	21,597	-	(9,940,246)
Income from financial services before income taxes and minority interest and subordinated debt	-	<u>11,807,000</u>	<u>85,721,635</u>	<u>53,688</u>	<u>591,210</u>	<u>98,173,533</u>
(Loss) income before income taxes	(11,034,950)	11,807,000	85,721,635	53,688	(20,744,596)	65,802,777
Income tax benefit (expense)	4,750,039	(1,704,000)	1,333,044	(6,273)	-	4,372,810
(Loss) income before minority interest	(6,284,911)	10,103,000	87,054,679	47,415	(20,744,596)	70,175,587
Minority interest	21,794,293	-	(7,272,624)	-	(12,745,424)	1,776,245
Requirement to service subordinated debt obligation	-	-	(56,442,450)	-	-	(56,442,450)
Net income (loss)	<u>Ch\$ 15,509,382</u>	<u>Ch\$ 10,103,000</u>	<u>Ch\$ 23,339,605</u>	<u>Ch\$ 47,415</u>	<u>Ch\$ (33,490,020)</u>	<u>Ch\$ 15,509,382</u>

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

III. Additional disclosure requirements

a) Earnings per share

The following disclosure of earnings per share information is not generally required for presentation in financial statements under Chilean accounting principles but is required under US GAAP:

	Year Ended December 31,		
	1999	2000	2001
		(in single pesos)	
Basic earnings (loss) per share under Chilean GAAP.....	Ch\$ 160.27	Ch\$ (5.39)	Ch\$ 14.36
Basic earnings (loss) per share under US GAAP.....	Ch\$ 170.31	Ch\$ (18.43)	Ch\$ 10.11
Weighted average number of shares of common stock outstanding	1,079,740,079	1,079,740,079	1,079,740,079

The earnings per share data shown above is determined by dividing net income for both Chilean GAAP and US GAAP purposes by the weighted average number of shares of common stock outstanding during each year. For the years presented the Company did not have convertible securities outstanding.

b) Income tax

The provision for income taxes charged to the results of operations under US GAAP was as follows:

	Year Ended December 31,		
	1999	2000	2001
		(in thousands)	
Current tax expense	Ch\$ 26,715,815	Ch\$ 4,385,737	Ch\$ 6,671,740
Deferred income tax (benefit) expense	(19,179,617)	(6,952,326)	1,239,060
Income tax refund.....	(1,361,594)	-	(799,000)
Change in statutory Chilean tax rate.....	-	-	1,216,619
Tax benefit for tax loss carryforward.....	-	(4,688,257)	(12,781,330)
Changes in valuation allowance	-	-	3,495,021
Deferred tax effect of applying SFAS 109.....	50,000	2,763,911	1,604,546
Deferred tax effect of US GAAP adjustments	8,000	(265,000)	(1,445,479)
Other	(85,039)	(336,975)	208,066
Total provision (benefit) under US GAAP	Ch\$ 6,147,565	Ch\$ (5,092,910)	Ch\$ (590,757)

Substantially all of the income tax provision in each year arises from Chilean sources.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Deferred tax assets (liabilities) are summarized as follows:

	Year Ended December 31,		
	1999	2000	2001
	(in thousands)		
Depreciation	Ch\$ (10,978,876)	Ch\$ (16,572,935)	Ch\$ (21,741,062)
Inventories	-	(517,051)	(245,560)
Property, plant and equipment	(1,940,710)	(2,064,016)	(4,246,729)
Fixed assets under leasing contract	(2,214)	(236,243)	863,356
Investments	(9,888,846)	(15,627,249)	(5,546,560)
Other	(117,217)	(4,385,461)	(1,079,703)
Gross deferred tax liabilities	(22,927,863)	(39,402,955)	(31,996,258)
Accounts receivable	3,109,405	11,628,754	21,758,924
Inventories	312,628	497,290	478,254
Tax loss carryforwards	44,315,021	63,280,398	54,192,402
Provision for vacations	205,856	173,217	410,211
Leasing obligations	(5,467)	-	-
Provision for fixed asset write-downs	58,929	177,879	381,489
Fair value of loans	-	-	10,245,250
Forward Contracts	-	-	7,355,000
Other	2,921,361	7,319,388	14,133,002
Gross deferred tax assets	50,917,733	83,076,926	108,954,532
Deferred tax assets valuation allowance	(36,183,534)	(45,647,868)	(28,579,715)
Net deferred tax assets (liabilities)	Ch\$ (8,193,664)	Ch\$ (1,973,897)	Ch\$ 48,378,559

The provision for income taxes differs from the amount of income tax determined by applying the applicable Chilean statutory income tax rate (15%) to pretax accounting income on a US GAAP basis as a result of the following differences:

	Year Ended December 31,		
	1999	2000	2001
	(in thousands)		
At statutory Chilean tax rate	Ch\$ 27,227,365	Ch\$ (3,562,495)	Ch\$ 15,070,434
Increase (decrease) in rates resulting from:			
Price-level restatement not accepted for tax purposes	810,795	410,886	(435,098)
Nontaxable income	(36,936,584)	(10,790,160)	(28,218,660)
Nondeductible expenses	8,444,501	8,520,504	9,990,044
Change in valuation allowances	10,908,101	(2,473,152)	4,315,649
Local taxes	458,254	100,065	(973,727)
Foreign taxes	(6,143,795)	2,355,534	413,399
Change in Chilean statutory tax rate	-	-	(620,265)
Other	1,378,928	335,908	(132,533)
At effective tax rates	Ch\$ 6,147,565	Ch\$ (5,092,910)	Ch\$ (590,757)

In accordance with Chilean law, the Company and each of its subsidiaries compute and pay tax on a separate return basis and not on a consolidated basis.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Argentine income tax rate was 35% for 1999, 2000 and 2001, in accordance with currently enacted tax legislation. The Peruvian tax rate was 30% for 1999, 2000 and 2001.

Quiñenco and its subsidiaries possess tax loss carryforwards which resulted in deferred tax assets of ThCh\$ 63,280,398 and ThCh\$ 54,192,402 as of December 31 2000 and 2001, respectively. The tax losses relating to the Chilean and Uruguayan subsidiaries have no expiration date. The tax losses in Peru expire four years from the point that the subsidiary starts to record taxable income and in Argentina tax losses may be applied against taxable income for a period of five years.

As of December 31, 2000 and 2001, tax loss carryforwards generated by Lucchetti Peru resulted in deferred tax assets of ThCh\$ 12,187,663 and ThCh\$ 15,251,369 respectively, both of which have been fully provided for by way of a valuation allowance.

Tax loss carryforwards generated by Madeco's subsidiaries in Argentina, Peru and Uruguay and certain Chilean subsidiaries have been fully provided for by way of valuation allowances for ThCh\$ 24,122,081 in 2000 and ThCh\$ 3,016,406 in 2001, respectively.

c) Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments at December 31, 2000 and 2001 where an estimation of fair value is practicable.

Cash and cash equivalents: Cash and time deposits and marketable securities that are considered to be cash equivalents are stated at their carrying amount, which is equivalent to fair value.

Other marketable securities: The fair value of other marketable securities is based on the quoted market prices of the common stock or other securities held.

Other current assets: The fair value of deposits in guarantee included within other current assets was estimated using the interest rate currently available for deposits of similar duration. Other current assets are stated at carrying amount, which is equivalent to fair value.

Investments in other companies: The fair value of common stocks in other companies is based on quoted market prices.

Other assets: The fair value of long-term accounts receivable included within other assets was estimated using the interest rate the Company would pay for similar credit.

Short and long-term debt and bonds payable: The fair value of short and long-term debt and bonds payable was based on rates currently available to the Company for debt with similar terms and similar remaining maturities.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The estimated fair values of the Company's financial instruments (as classified under Chilean GAAP) are as follows:

Derivative Instruments: The estimated fair value of foreign exchange forward contracts was determined using quoted market prices of financial instruments with similar characteristics. The fair value of interest rate swaps represents the estimated amount the Company would expect to receive or pay to terminate the contracts or agreements, taking into account current interest rates. As no quoted market prices are available for the interest rate swap and forward exchange rate instruments held by the Company, such estimates have been estimated using modeling and other valuation techniques.

	At December 31, 2000		At December 31, 2001	
	US GAAP Carrying Amount	Fair Value	US GAAP Carrying Amount	Fair Value
	(in thousands)			
Cash.....	5,001,981	5,001,981	4,197,948	4,197,948
Time deposits.....	15,015,665	15,015,665	17,312,399	17,312,399
Other current assets	158,035,430	158,035,430	63,272,897	63,272,897
Investments in other companies.....	2,995,667	2,995,667	584,635	584,635
Long-term notes and accounts receivable.....	24,114,904	25,494,320	23,671,088	23,383,615
Short-term bank borrowings	160,012,583	155,602,289	121,809,898	120,460,229
Bonds payable	72,084,318	66,212,696	216,564,492	196,355,889
Long-term bank loans	275,204,503	266,501,644	270,126,609	261,500,924
Other long-term liabilities.....	10,670,926	10,277,612	82,376,445	82,981,097

d) Investment securities

The following are required disclosures for investments classified as available-for-sale securities, using amounts determined in accordance with US GAAP disclosed separately for investment securities held by non-financial and financial services. (See paragraph 26 I(e))

d-1) Non-financial services

Realized gains and losses are determined using the proceeds from sales less the cost of the investment identified to be sold. Gross gains and losses realized on the sale of available-for-sale securities for the years ended December 31, 1999, 2000 and 2001 are as follows:

	Cost	Gross Unrealized Gains	Fair Value
	(in thousands)		
Securities available-for-sale at December 31, 2000	Ch\$ 50,571,259	Ch\$ 104,181,659	Ch\$ 154,752,918
Securities available-for-sale at December 31, 2001	Ch\$ 21,110,552	Ch\$ 32,640,541	Ch\$ 53,751,093

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Information on sales of available-for-sale securities during the three years in the period ended December 31, 2001 is as follow:

	1999	2000 (In thousands)	2001
Proceeds from sales.....	Ch\$ 83,379,110	Ch\$ 13,017,247	Ch\$ 88,759,459
Gross realized gains	7,496,874	7,909,521	49,610,334
Gross realized losses.....	-	(23,444)	(9,650)

The Company has no securities that are considered to be trading securities or debt securities to be held to maturity. The cost of available-for-sale securities is determined using the average cost method.

d-2) Financial services

	1999	Years ended December 31,	
		2000	2001
Proceeds on sales.....	Ch\$ 83,379,110	Ch\$ 13,017,247	Ch\$ 133,038,459
Gross realized gains.....	8,053,874	8,425,521	51,079,334
Gross realized losses.....	-	25,444	205,650

(1) The carrying value and market value of securities available for sale as of December 31, 2000 and 2001 are as follows:

	Year ended December 31,			
	2001			
Available-for-sale Instruments:	Carrying Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Foreign private sector debt securities	Ch\$ 79,739,000	1,295,000	(6,247,000)	74,787,000
Foreign financial institutions debt securities	4,102,000	-	(2,526,000)	1,576,000
Latin American Brady Bonds	21,453,000	1,697,000	-	23,150,000
Chilean financial institutions securities.....	249,000	-	-	249,000
Central Bank securities.....	30,879,000	106,000	(74,000)	30,911,000
Other securities.....	26,150,448	32,638,646	(12,000)	58,777,094
Total	Ch\$ 162,572,448	35,736,646	(8,859,000)	189,450,094

	Year ended December 31,			
	2000			
Available-for-sale Instruments:	Carrying Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Chilean financial institutions securities.....	Ch\$ 32,214,000	45,000	-	32,259,000
Central Bank securities.....	12,770,000	-	(1,000)	12,769,000
Other securities.....	50,573,330	104,181,659	-	154,754,989
Total	Ch\$ 95,557,330	104,226,659	(1,000)	199,782,989

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The contractual maturities of available-for-sale securities held by financial service companies, are as follows:

		As of December 31, 2001				
		Within one year	After one year but within five years	After five years but within 10 years	After 10 years	Total
Available-for-sale Instruments:						
Foreign private sector debt securities	Ch\$	12,525,000	49,872,000	17,342,000	-	79,739,000
Foreign financial institutions debt securities...		-	4,102,000	-	-	4,102,000
Latin American Brady Bonds.....		-	-	21,453,000	-	21,453,000
Chilean financial institutions securities		249,000	-	-	-	249,000
Central Bank securities		11,992,000	-	8,816,000	10,071,000	30,879,000
Other securities		26,150,448	-	-	-	26,150,448
Total	Ch\$	50,916,448	53,974,000	47,611,000	10,071,000	162,572,448

(2) The following disclosures, in addition to those required under Chilean GAAP, are required disclosures for investments classified as held-to-maturity in accordance with SFAS No. 115:

		Year ended December 31, 2001			
		Carrying Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Held-to-maturity Instruments:					
Foreign private sector securities	Ch\$	7,871,000	-	-	7,871,000
Foreign financial institutions securities.....		1,788,000	37,000	-	1,825,000
U.S. government debt securities		35,948,000	70,000	-	36,018,000
Chilean Central Bank securities		415,236,570	-	(7,191,000)	408,045,570
Total	Ch\$	460,843,570	107,000	(7,191,000)	453,759,570

		Year ended December 31, 2000			
		Carrying Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
Held-to-maturity Instruments:					
Chilean financial institution securities	Ch\$	15,015,665	-	-	15,015,665
Chilean Central Bank securities		4,817,000	-	-	4,817,000
Total	Ch\$	19,832,665	-	-	19,832,665

The contractual maturities of securities classified by the Bank as held-to-maturity are as follows:

		December 31, 2001			
		Within one year	After one year but within five years	After five years	Total
Held-to-maturity Instruments:					
Foreign private sector securities	Ch\$	7,871,000	-	-	7,871,000
Foreign financial institutions securities.....		1,788,000	-	-	1,788,000
U.S. government debt securities		35,948,000	-	-	35,948,000
Chilean Central Bank securities		19,110,570	395,493,000	633,000	415,236,570
Total	Ch\$	64,717,570	395,493,000	633,000	460,843,570

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

e) Reclassification differences between Chilean GAAP and US GAAP

Under Chilean GAAP, the following income and expenses arising during the years 1999, 2000 and 2001 are classified as Non-operating income and expenses, whereas under US GAAP they would be classified as Operating income and expenses:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Non-operating income:			
Amortization of negative goodwill	Ch\$ 2,037,620	Ch\$ 2,457,243	Ch\$ 8,919,864
Amortization of unrealized gain	3,547,381	-	155,453
	<u>5,585,001</u>	<u>2,457,243</u>	<u>9,075,317</u>
Non-operating expenses:			
Amortization of goodwill.....	Ch\$ 9,369,626	Ch\$ 12,075,161	Ch\$ 27,408,380
Restructuring costs and severance indemnities.....	8,699,192	1,849,507	5,401,444
Losses on sales of investments, fixed assets and other	1,739,984	2,216,655	961,796
Costs of plant closings and moving	783,081	-	-
Consulting services.....	5,114,621	755,226	4,367,401
Adjustment of market value of shares.....	1,229,993	1,127,141	101,026
Provision for losses on loans and recoverable taxes of foreign subsidiaries	2,278,170	-	1,085,311
Financial consulting and other expenses for sale of Argentine subsidiary.....	-	-	524,138
Directors' compensation.....	802,261	141,240	428,751
Adjustment of property, plant and equipment to net realizable value (Note 10).....	5,657,426	515,500	2,629,546
Provisions for probable losses	5,429,202		
Payment under contract	2,876,245		
Losses on forward contracts (see paragraph 3 g).....	1,891,075	90,117	-
Allowance for uncollectable debts.....		4,045,410	659,564
Labor lawsuits.....	623,287	187,683	3,809,813
Legal expenses for defense of Lucchetti Peru.....	1,041,720	1,282,227	871,254
Valuation allowance for fixed and other assets Argentina.....	-	-	2,316,850
Losses on construction contracts	-	-	12,460,412
	<u>47,535,883</u>	<u>24,285,867</u>	<u>63,025,686</u>

f) Classification of short-term obligations expected to be refinanced

At December 31, 2001 the Company was not in compliance with a covenant relating to the Madeco Bonds series B for UF 693,000 nominal value. Under U.S. GAAP, companies with long-term obligations that do not comply with a covenant must reclassify the loans to a short-term liability if required by the loan agreement, unless they are able to replace it with long-term obligations prior to the issuance of their financial statements. Since the Company obtained waivers for non-compliance before the issuance of these consolidated financial statements as stated in Note 15 of these financial statements for U.S. GAAP purposes the bond issue will continue to be classified as a long-term liability at December 31, 2001.

Also, at December 31, 2001, Madeco did not comply with certain covenants related to a loan with an affiliate of Bank Boston which had approximately ThCh\$7,387,924 outstanding balance at December 31, 2001. Additionally, for the quarter ended March 31, 2002, the Company was also in non-compliance with respect to covenant pursuant to its loan with Citibank, which had a balance outstanding at that date of ThCh\$3,321,860 (ThCh\$3,273,950 at December 31, 2001). Since the Company obtained waivers for non-

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

compliance before the issuance of these consolidated financial statements, for each facility, but only for the particular quarter period in which the Company was in default, for U.S. GAAP purposes these facilities would be classified as a short-term liability at December 31, 2001.

g) Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", and Statement No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 became effective for business combinations initiated after June 30, 2001 and require purchase method accounting. Under SFAS No. 142, goodwill with an indefinite life will no longer be amortized; however, both goodwill and other intangible assets will need to be tested annually for impairment. SFAS No. 142 will be effective for fiscal years beginning after December 15, 2001. The potential effect of not amortizing goodwill will be to increase annual net income determined under US GAAP by ThCh\$18,848,841. Notwithstanding any future transactions, the adoption of SFAS Nos. 141 and 142 is not expected to have a significant effect on the results of operations, financial position or cash flows of the Company other than as described above.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," and SFAS No. 144, "Accounting for the Impairment or Disposal of long-lived Assets." SFAS No. 143, which is effective for fiscal years beginning after June 15, 2002, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 144, which is effective for fiscal years beginning after December 15, 2001, addresses financial accounting and reporting for the impairment of long-lived assets, excluding goodwill and intangible assets, to be held and used or disposed of. The Company believes the adoption of these pronouncements will not have a material impact on its financial statements

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of long-lived Assets" ("SFAS 144"). SFAS 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of long-lived Assets and for long-lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that opinion). SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and broadens the presentation of discontinued operations to include more disposal transactions than were included under the previous standards. For the Company and other calendar-year companies, SFAS No. 144 is effective beginning January 1, 2002. The Company does not expect the adoption of SFAS 144 to have a significant effect on the results of operations, financial position or cash flows of the Company.

QUIÑENCO S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". This statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement and Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of SFAS 145 related to the rescission of SFAS No. 4 shall be applied in fiscal years beginning after May 15, 2002, although early application is encouraged. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB Opinion 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for classification as an extraordinary item shall be reclassified. Debt extinguishments used as part of an entity's risk management strategy represent one example of debt extinguishments that do not meet the criteria for classification as extraordinary items in APB Opinion No. 30. The Company will apply SFAS 145 beginning January 1, 2002. The Company does not expect the adoption of SFAS 145 to have a significant effect on the Company's presentation in its statements of income.