

letter from the chairman of the board



Dear shareholders:

Once again it gives me great pleasure to address our shareholders, highlighting the most important events of 2003. During this period, Quiñenco took some important steps in its development and consolidation strategy. We began the year confident that the measures we had taken to strengthen the company during 2002 had been the correct ones. Profits for the year of Ch\$37,695 million, compared with losses the previous year, demonstrate we were correct and furthermore, they were achieved in the context of generally weak economic growth and only a modest improvement in consumption levels. During this time, our focus remained on those areas offering the best growth prospects, maximizing shareholder value, improving performance of the companies that make up Quiñenco and identifying opportunities to acquire and divest assets.

The results of our efforts are born out by a 79% rise, to US\$1.45 billion, in the net asset value of Quiñenco's holdings and a 58% surge in the company's share price during the twelve month period. We feel these advances reflect our shareholders' positive response to the performance of Quiñenco and its subsidiaries throughout the year.

In the past few years, the company has had to overcome numerous hurdles arising from a difficult business environment. However, the experience has taught us to view problems as challenges and change as opportunity. This philosophy has been decisive in the achievements we have been able to post for the period.

The entity born of the merger of Banco de Chile and Banco Edwards marked its first post-merger year by exceeding all expectations, with record profits of Ch\$130,553 million. The bank, which is the second largest in the Chilean financial system and the leading locally-owned institution, offers a highly diversified range of products and services and an extensive branch network, both in and outside Chile. Given the tremendous potential of the bank to broaden its horizons, we are investing in important technological innovation that will put Banco de Chile in the vanguard of quality service to clients.

Another important event during the period was the arrival of Heineken, the world's second biggest brewery, as a partner in Inversiones y Rentas (IRSA), the controlling entity which holds 61.6% of CCU, our beverage business. Apart from the obvious benefits in terms of experience and knowledge, our new partner brings to CCU's portfolio the Heineken brand, internationally recognized for its excellence.

At the same time, Quiñenco received a US\$50 million payment from the Schörghuber Group, its former partner in IRSA, which also contributed to 2003 results.

CCU's results climbed 143% in 2003 to Ch\$54,088 million. Although the divestment of Karlovacka Pivovara in Croatia was an important element in this strong performance, the beer business also rose significantly in terms of volume and prices, both in Chile and Argentina, where signs of a recovery in prices are beginning to become evident.

The acquisition of Calaf at the end of 2003 proved our resolve to continue developing CCU. Thanks to this acquisition, the company will be adding ready-to-eat snacks and similar products to its traditional range of beverages. This foray into the foodstuffs market is particularly interesting considering CCU's 90,000 client distribution network, which will be used to introduce the new product lines to the public in a joint venture with Lucchetti, Quiñenco's food business subsidiary.

With respect to Lucchetti, the sale of its Argentine business in 2001, and the forced closure of its Peruvian plant at the beginning of 2003, reduced the company's activities to Chile, where its principal business is in pasta and vegetable oils. After a thorough evaluation, Lucchetti decided in December to accept an offer for the Chilean operations from Corpora Tresmontes. The gross price agreed with the buyer, a company with extensive experience in the food industry, is Ch\$60,000 million. The deal, to be finalized in March, excludes the rights to the possible proceeds of the arbitration case involving Lucchetti Peru, which currently awaits a decision in Washington, as well as the recent investment in Calaf.

As well as broadening the geographical coverage in its concession area, our subsidiary Telefónica del Sur has opened new business areas as part of a commercial push into products of greater value added. In a highly competitive industry such as telecommunications, there are constant demands for innovation, and our strategy here ensures that these are being met.

During the past few years, the range of services has been expanded to include, among others, broadband wireless Internet (WIFI, Bluetooth) and security services (telecontrol/televigilance), with special emphasis on the sale of bundled services. While it is true that the technological aspects of the business are fundamental, the constant efforts to keep costs as low as possible are no less important. With this in mind, Telefónica del Sur undertook a restructuring in 2002, which continued throughout 2003, and was reflected in net profits last year of Ch\$7,430 million.

Madeco presented an important challenge for Quiñenco last year. This subsidiary, which makes copper-based products, has been affected by the heavy reduction in investment in Argentina and Brazil in recent years. In order to confront this difficult scenario, it was necessary to undertake a massive restructuring that covered not only the finances of the company but also the areas of production and sales. During the year, Madeco finalized a capital increase of Ch\$95,114 million, which helped it to cut some of the debt held by creditors and restructure the maturities on the rest of its obligations. Despite the lack of improvement in general business conditions in Madeco's main markets, the company was able to lift its operational result by 84%, thanks to the constant efforts invested in more efficient cost controls. However, a Ch\$4,917 million charge to cover the liquidation of the Optel business in Brazil weighed on the bottom line and contributed to the net loss of Ch\$16,734 million for the reporting period.

One of our permanent objectives is to ensure a well-balanced portfolio of investments, replete with companies that add value to Quiñenco through solid performance and satisfactory returns. With this in mind,

and considering our weak presence in the hotel sector and the tough competition which has developed over the years in the eastern suburbs of Santiago, we decided to accept an offer of UF832,000 (approximately US\$23.7 million) from the Foreign Affairs Ministry for the Hotel Carrera in central Santiago. The ministry will convert the hotel into its new headquarters, but without altering the distinctive architectural style that depicts an important cultural period in the history of the capital's civic center.

Quiñenco has made some well-judged moves towards protecting and securing the value of its investments, and this makes us optimistic towards the future. Conditions in the region are more dynamic and, in Chile, the macroeconomic indicators point to the strongest recovery we have seen in the past five years. In this context, it is reasonable to expect that the group's companies will benefit, and that Quiñenco will continue to consolidate its position in the sectors in which it operates, either through strong organic growth or add-on acquisitions. At the same time, we believe that the current environment will give rise to altogether new business opportunities, and we will be ready to identify them when they come.

Last year was not without its problems, but we were able to confront them and emerge stronger than before. Our financial position remains solid, as is our resolve to keep improving it. Cash flow from our activities allowed for an 18% reduction in corporate level debt during 2003. This means that we are now in a situation where resources can be either oriented towards further liability reduction or at capitalizing on new business opportunities.

In 2003, we were able to turnaround otherwise adverse conditions to our favor, thanks to an unflinching and effective strategic direction. None of this would have been possible without the constant dedication of those people who make up our organization. Finally, it would be remiss to pass up this opportunity to thank our shareholders for their unwavering confidence in the performance of Quiñenco.



Guillermo Luksic Craig
Chairman of the Board