



QUIÑENCO S.A.

Report on the Summarized Consolidated Financial Statements
As of December 31, 2002 and 2001

(A translation of the Summarized Consolidated
Financial Statements originally issued in Spanish.
See Note 2b))

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\$	-	Chilean pesos
ThCh\$	-	Thousands of Chilean pesos
MCh\$	-	Millions of Chilean pesos
US\$	-	United States dollars
ThUS\$	-	Thousands of United States dollars
US\$1	-	Ch\$ 718.61 (Chilean pesos) as of December 31, 2002
UF	-	The Unidad de Fomento (“UF”) is an inflation-indexed peso – denominated monetary unit. The UF is set daily in advance based on changes in the previous month’s inflation rate

QUIÑENCO S.A.
Consolidated Balance Sheets
As of December 31

	2002	2001
	ThCh\$	ThCh\$
Assets		
Current assets		
Cash	5,037,535	4,323,886
Time deposits	6,730,065	17,831,771
Marketable securities	2,221,942	1,453,727
Accounts receivable, net	59,353,689	77,812,470
Notes receivable, net	9,260,325	10,204,259
Other accounts receivable, net	2,987,296	6,475,760
Notes and accounts receivable from related companies	3,161,631	9,418,117
Inventories, net	63,417,429	81,032,739
Recoverable taxes	6,605,529	9,135,765
Prepaid expenses	2,504,482	1,979,900
Deferred taxes	2,401,133	6,731,692
Other current assets	94,909,924	47,323,727
Total current assets	<u>258,590,980</u>	<u>273,723,813</u>
 Property, plant and equipment		
Land	23,588,958	25,024,297
Buildings and infrastructure	188,837,850	199,868,444
Machinery and equipment	403,405,296	383,283,954
Other property, plant and equipment	55,137,082	73,652,432
Revaluation from technical appraisals	25,977,468	25,398,587
	<u>696,946,654</u>	<u>707,227,714</u>
Less: Accumulated depreciation	<u>(304,479,998)</u>	<u>(276,909,752)</u>
Property, plant and equipment, net	<u>392,466,656</u>	<u>430,317,962</u>
 Other assets		
Investments in related companies	492,941,525	488,995,756
Investments in other companies	219,913	602,174
Goodwill, net	349,468,407	366,983,624
Negative goodwill, net	(7,914,143)	(10,135,416)
Long-term accounts receivable	2,394,347	24,381,221
Notes and accounts receivable from related companies	4,607,801	40,421
Deferred taxes	14,357,034	8,008,040
Intangible assets	1,164,642	3,769,657
Amortization of intangible assets	(251,708)	(1,407,183)
Other assets	15,192,579	22,800,401
Total other assets	<u>872,180,397</u>	<u>904,038,695</u>
Total Assets	<u>1,523,238,033</u>	<u>1,608,080,470</u>

The accompanying notes form an integral part of these consolidated financial statements.

QUINENCO S.A.
Consolidated Balance Sheets
As of December 31

	2002	2001
	ThCh\$	ThCh\$
Liabilities and Shareholders' Equity		
Current liabilities		
Current bank obligations	107,329,070	125,464,195
Current portion of long-term bank obligations	116,438,842	51,015,171
Bonds payable	19,439,940	7,487,893
Other long-term obligations due within one year	49,182	2,677,720
Dividends payable	568,856	1,076,337
Accounts payable	16,376,810	26,924,121
Notes payable	13,372,738	15,691,817
Other accounts payable	7,131,722	5,270,635
Notes and accounts payable to related companies	321,631	434,403
Provisions	17,777,989	20,533,118
Withholdings	3,517,185	3,300,188
Deferred income	855,394	151,198
Other current liabilities	<u>642,393</u>	<u>3,615,782</u>
Total current liabilities	<u>303,821,752</u>	<u>263,642,578</u>
Long-term liabilities		
Long-term bank obligations	293,983,227	227,215,237
Bonds payable	199,735,609	215,573,534
Notes payable	113,725	82,170,019
Other accounts payable	7,678,475	14,209,406
Provisions	7,362,575	14,279,816
Other long-term liabilities	<u>714,249</u>	<u>722,309</u>
Total long-term liabilities	<u>509,587,860</u>	<u>554,170,321</u>
Minority interest	<u>79,313,609</u>	<u>92,565,528</u>
Shareholders' Equity		
Paid-in capital	454,744,268	454,744,268
Other reserves	41,417,911	25,357,060
Retained earnings	211,215,302	204,851,374
Accumulated deficit during development stage	(1,382,458)	(3,225,322)
Net (loss) income for the year	<u>(75,480,211)</u>	<u>15,974,663</u>
Net shareholders' equity	<u>630,514,812</u>	<u>697,702,043</u>
Total Liabilities and Shareholders' Equity	<u>1,523,238,033</u>	<u>1,608,080,470</u>

The accompanying notes form an integral part of these consolidated financial statements.

QUIÑENCO S.A.
Consolidated Statements of Income
For the years ended December 31

	2002	2001
	ThCh\$	ThCh\$
Operating results		
Revenues	396,298,694	488,258,497
Cost of sales	<u>(315,941,435)</u>	<u>(387,902,319)</u>
Gross margin	80,357,259	100,356,178
Administrative and selling expenses	<u>(70,080,374)</u>	<u>(82,315,236)</u>
Operating income	<u>10,276,885</u>	<u>18,040,942</u>
Non-operating results		
Interest income	5,347,733	8,177,405
Equity participation in income of equity-method investments	25,676,602	37,479,809
Other non-operating income	5,976,776	59,356,869
Equity participation in losses of equity-method investments	(493,250)	(139,825)
Amortization of goodwill	(20,531,853)	(28,230,631)
Interest expense	(50,727,151)	(60,779,543)
Other non-operating expenses	(64,662,775)	(43,507,689)
Price-level restatement, net	5,023,107	(3,895,924)
Net foreign exchange loss	<u>(13,919,044)</u>	<u>(7,054,872)</u>
Non-operating loss	<u>(108,309,855)</u>	<u>(38,594,401)</u>
Loss before income taxes	(98,032,970)	(20,553,459)
Income tax benefit	<u>141,436</u>	<u>4,892,540</u>
Loss before minority interest	(97,891,534)	(15,660,919)
Minority interest	<u>20,522,294</u>	<u>22,448,122</u>
(Loss) income before amortization of negative goodwill	(77,369,240)	6,787,203
Amortization of negative goodwill	<u>1,889,029</u>	<u>9,187,460</u>
Net (loss) income for the year	<u>(75,480,211)</u>	<u>15,974,663</u>

The accompanying notes form an integral part of these consolidated financial statements.

QUINENCO S.A.
Consolidated Statements of Cash Flows
For the years ended December 31

	2002	2001
	ThCh\$	ThCh\$
Cash flows from operating activities		
Collection of accounts receivable	469,677,505	567,518,649
Interest income received	14,077,215	13,510,277
Dividends and other distributions received	29,266,873	20,326,047
Other income received	2,694,701	3,517,360
Payments to suppliers and employees	(412,914,820)	(507,314,827)
Interest paid	(43,559,252)	(57,778,220)
Income taxes paid	(1,992,138)	(3,928,077)
Other operating expenses	(4,357,948)	(3,789,812)
VAT and other taxes paid	(22,885,150)	(17,933,678)
Net cash provided by operating activities	<u>30,006,986</u>	<u>14,127,719</u>
Cash flows from financing activities		
Increase in capital	1,107,060	751,836
Borrowings	140,587,868	254,254,980
Bonds issued	-	148,578,240
Borrowings from related companies	47,379,218	-
Other sources of financing	8,453,491	3,199,420
Dividends paid	(7,910,663)	(1,745,795)
Payment of loans	(160,448,096)	(445,842,480)
Payment of bonds	(17,270,697)	(7,720,531)
Payment of borrowings from related companies	(1,911,105)	(1,086,947)
Payment of share issuance costs	(17,359)	(6,320)
Payment of bond issuance costs	-	(291,585)
Other financing activities	(4,839,560)	(10,631,308)
Net cash provided by (used in) financing activities	<u>5,130,157</u>	<u>(60,540,490)</u>

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QUIÑENCO S.A.
Consolidated Statements of Cash Flows
For the years ended December 31

	2002	2001
	ThCh\$	ThCh\$
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	2,771,550	1,572,628
Proceeds from sales of permanent investments	599,452	146,049,365
Proceeds from sales of investments in other companies	1,581	17,143,566
Collection of notes receivable from related companies	-	72,190
Collection of other loans to related companies	37,337	657,698
Other income from investments	23,054,384	1,621,593
Acquisition of property, plant and equipment	(22,574,618)	(31,433,044)
Payments of capitalizad interest	(310,081)	(652,259)
Long-term investments in financial instruments	(605,010)	(162,234,957)
Investments in financial instruments	(298,631)	(3,357,352)
Other loans granted to related companies	-	(3,803,527)
Other investing activities	(1,798,517)	(3,265,060)
Net cash provided by (used in) investing activities	<u>877,447</u>	<u>(37,629,159)</u>
Net cash flow for the year	36,014,590	(84,041,930)
Effect of price-level restatement on cash and cash equivalents	2,571,986	(955,670)
Net (increase) decrease in cash and cash equivalents	38,586,576	(84,997,600)
Cash and cash equivalents, beginning of year	<u>54,500,596</u>	<u>139,498,190</u>
Cash and cash equivalents, end of year	<u>93,087,172</u>	<u>54,500,596</u>

The accompanying notes form an integral part of these consolidated financial statements.

QUIÑENCO S.A.
Consolidated Statements of Cash Flows
For the years ended December 31

	2002	2001
	ThCh\$	ThCh\$
Reconciliation between net (loss) income and operating cash flow		
Net (loss) income for the year	(75,480,211)	15,974,663
Income from sales of assets		
Loss (gain) on sale of property, plant and equipment	16,919	(33,225)
Gain on sale of investments	(418,739)	(54,787,490)
Loss on sale of investments	17,019	16,868,144
Loss on sale of other assets	-	219,139
Add (deduct) charges (credits) to income which do not represent cash flows		
Depreciation	29,158,584	31,691,413
Amortization of intangible assets	870,764	996,672
Write-offs and provisions	12,742,614	9,986,267
Equity participation in income of equity-method investments	(25,676,602)	(37,479,809)
Equity participation in losses of equity-method investments	493,250	139,825
Amortization of goodwill	20,531,853	28,230,631
Amortization of negative goodwill	(1,889,029)	(9,187,460)
Price-level restatement, net	(5,023,107)	3,895,924
Net foreign exchange loss	13,919,044	7,054,872
Other non-cash credits	(9,949,336)	(29,445,173)
Other non-cash charges	58,622,065	43,232,089
Variations in assets affecting cash flows (increase) decrease		
Accounts receivable	4,061,825	20,607,766
Inventories	7,782,599	10,780,849
Other assets	44,303,082	(14,369,720)
Variations in liabilities affecting cash flows increase (decrease)		
Accounts payable related to operating income	(53,025,091)	(35,500,580)
Interest payable	12,436,730	27,029,004
Income taxes payable, net	948,291	(53,458)
Other accounts payable related to non-operating income	15,372,708	(7,983,964)
VAT and other taxes	714,048	8,709,462
Minority interest	(20,522,294)	(22,448,122)
Net cash provided by operating activities	<u>30,006,986</u>	<u>14,127,719</u>

The accompanying notes form an integral part of these consolidated financial statements.

QUIÑENCO S.A.

Summarized Notes to the Consolidated Financial Statements

As of December 31, 2002 and 2001

(A translation of the Summarized Consolidated Financial Statements originally issued in Spanish. See Note 2b))

In the opinion of the management, these summarized notes provide sufficient but less detailed information than that contained in the consolidated financial statements filed with the Chilean Superintendency of Securities and Insurance (“SVS”), which are available to the general public. Such information may also be obtained from the Company’s offices during the 15 days prior to the Ordinary Shareholders’ Meeting.

The main amendments considered are as follows:

A) Notes excluded:

- Current and long-term accounts receivable
- Securities purchase agreements, sales under agreements to repurchase, repurchase agreements and reverse repurchase agreements
- Sales with leaseback agreements
- Severance indemnities
- Bond and share issuance and placement costs
- Local and foreign currencies
- The following notes to the consolidated financial statements of LQ Inversiones Financieras S.A. (LQIF) and its bank subsidiaries:
 - Transactions with related parties
 - Investments in other companies
 - Provisions
 - Investments
 - Transactions with derivative instruments
 - Foreign currency balances
 - Contingencies, commitments and responsibilities
 - Merger costs
 - Commissions
 - Current and deferred income taxes
 - Directors’ expenses and remuneration
- Environment

B) Information included in the following notes was summarized:

- Transactions and balances with related companies
- Goodwill and negative goodwill
- Short-term bank obligations
- Long-term bank obligations
- Changes in shareholders’ equity
- Guarantees

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NOTE 1 – THE COMPANY

Quiñenco S.A. (herein referred to individually as “the Parent Company” or on a consolidated basis) is registered in the Chilean Securities Register under No. 0597 and is subject to regulation by the Superintendency of Securities and Insurance (“SVS”).

Consolidated subsidiaries registered in the Chilean Securities Register are as follows:

Madeco S.A., Registration No.251
Agrícola El Peñón S.A., Registration No. 78
Hoteles Carrera S.A., Registration No.210
Empresas Lucchetti S.A., Registration No. 64
Comatel S.A., Registration No. 54
Compañía Nacional de Teléfonos Telefónica del Sur S.A., Registration No.167
LQ Inversiones Financieras S.A., Registration No.730

The Parent company Quiñenco S.A. and its subsidiary Madeco S.A. are also registered on the New York Stock Exchange (“NYSE”), under ticker codes LQ and MAD respectively, and are therefore subject to the regulatory authority of the Securities and Exchange Commission (“SEC”) of the United States of America.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Periods covered

These financial statements cover the years ended December 31, 2002 and 2001.

b) Basis for preparation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Chile, as issued by the Chilean Association of Accountants, and the instructions of the SVS (collectively “Chilean GAAP”). In case of discrepancies, the standards of the SVS prevail. The specific provisions governing corporations contained in Law No. 18,046 and its regulations have also been taken into account.

The company maintains its accounting records in Chilean pesos in accordance with Chilean GAAP. For the convenience of the reader, the summarized consolidated financial statements and their accompanying notes have been translated from Spanish into English. Certain accounting practices applied by the Company that conform with Chilean GAAP may not conform with accounting principles generally accepted in the United States (“US GAAP”).

c) Basis of presentation

The consolidated financial statements for the year ended December 31, 2002 and the amounts disclosed in the related explanatory notes have been adjusted for comparison purposes by the percentage change of 3.0% in the Consumer Price Index (“CPI”).

The Company has made certain reclassifications to prior year numbers in order to conform to the present year classifications.

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d) Basis of consolidation

Subsidiary companies included in the consolidation:

	Ownership percentage			
	% Direct	2002		2001
		% Indirect	% Total	% Total
Inversiones Río Grande S.A. and subsidiaries	99.9900	0.0100	100.0000	100.0000
Agrícola El Peñón S.A. and subsidiary	96.2000	0.0000	96.2000	96.2000
Madeco S.A. and subsidiaries	46.6677	6.7470	53.4147	56.1081
VTR S.A. and subsidiaries	99.9900	0.0100	100.0000	100.0000
LQ Inversiones Financieras S.A. and subsidiary	82.7135	17.2865	100.0000	100.0000
Excelsa Establishment	99.9900	0.0100	100.0000	100.0000
O'Higgins Punta Arenas Ltda. CPA and subsidiary	75.5600	0.0000	75.5600	75.5600
Comatel S.A.	69.5600	15.4822	85.0422	85.0422

The accompanying financial statements include the consolidated balance sheets, statements of income and cash flows of the Company and its subsidiaries. The effects of all significant transactions with consolidated subsidiaries have been eliminated in the consolidation and the participation of minority investors is disclosed in the consolidated financial statements as Minority interest.

The financial statements of Inversiones Río Grande S.A. and subsidiaries include the consolidation of the following direct subsidiaries: Inversiones Río Seco S.A., Inmobiliaria e Inversiones Hidroindustriales S.A. and subsidiaries, Inversiones y Bosques S.A., Inversiones Ranquil S.A., Inversiones Punta Brava S.A., Inmobiliaria del Norte Ltda. and subsidiaries, Inmobiliaria Norte Verde S.A. and subsidiaries, Merquor Establishment, Lisena Establishment and Inversiones O'Higgins Punta Arenas Ltda.

The financial statements of Empresas Lucchetti S.A. and subsidiaries are included in the consolidation through Inmobiliaria e Inversiones Hidroindustriales S.A. and subsidiaries.

With respect to the information contained in Note 22, Contingencies and Restrictions, concerning the situation affecting the indirect subsidiary Lucchetti Perú S.A. , which has resulted in the orderly liquidation of its assets, Empresas Lucchetti S.A. has decided not to consolidate the balance sheet at December 31, 2002 of that subsidiary in the consolidation of its financial statements. This decision is based on the provisions of Technical Bulletin No.64 of the Chilean Association of Accountants and Resolution No.01642 of the SVS dated March 11, 2003 which authorizes the non-consolidation.

Note 9c) shows the summarized balance sheet of the subsidiary Lucchetti Perú S.A. as of December 31, 2002.

The financial statements of Agrícola El Peñón S.A. and subsidiary include the consolidation of Hoteles Carrera S.A..

The financial statements of Madeco S.A. and subsidiaries include the consolidation of the following direct and indirect subsidiaries: Alusa S.A. and subsidiaries, Armat S.A., Indalum S.A. and subsidiaries, Soimad S.A. and subsidiaries, Comercial Madeco S.A.- Argentina, Indeco S.A.- Peru, Madeco Overseas S.A.- Cayman Islands, Metal Overseas S.A. and subsidiaries - Cayman Islands, and Metalúrgica e Industrial Argentina S.A. and subsidiaries.

The Board of Directors of the subsidiary Metalúrgica e Industrial Argentina S.A. decided in 2002 to temporarily suspend the activities of its industrial plants at Quilmes, Barracas, Lavallol and San Luis, and the Avellaneda plant has already been closed. As a result, the Argentine subsidiary has ceased production and, instead, is engaging in the sales of imported products from related companies.

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The financial statements of VTR S.A. and subsidiaries include the consolidation of the following direct and indirect subsidiaries: Compania Nacional de Telefonos, Telefonica del Sur S.A. and subsidiaries and VTR Comercial S.A.

The consolidated financial statements of LQ Inversiones Financieras S.A. do not include the consolidation of the financial institutions Banco de Chile and SM Chile S.A., as these financial companies apply different accounting principles than those applied by commercial corporations. This exemption from consolidation was authorized by the SVS in Official Letter No. 03200 dated May 9, 2002. However, Note 26 includes the financial statements of LQ Inversiones Financieras S.A. and its banking subsidiaries prepared according to instructions by the Superintendency of Banks and Financial Institutions ("SBIF").

The Parent company has not consolidated the financial statements of Banchile Compañía de Seguros de Vida S.A. as this company, due to the nature of its business, applies accounting criteria specific to insurance companies. The authorization not to consolidate was granted by the SVS in Official Letter No. 7203 dated November 2, 2000. The summarized financial statements of this indirect subsidiary are shown in Note 9b).

e) Price-level restatement

The consolidated financial statements of the Company have been restated to reflect the effects of variations in the purchasing power of the local currency during each year. According to current regulations, non-monetary assets and liabilities, equity accounts and income and expense accounts have been restated in line with changes in the official cost of living index, which amounted to 3.0% for the year 2002 (3.1% for 2001).

f) Currency translation

Assets and liabilities contracted in Unidades de Fomento ("UF") are translated to pesos at Ch\$16,744.12 per UF1 (Ch\$16,262.66 per UF1 in 2001).

Assets and liabilities in foreign currency (United States dollars) have been translated at the closing exchange rates as of December 31, 2002 of Ch\$718.61 per US\$1.00 (Ch\$654.79 per US\$1.00 in 2001).

g) Time deposits

Time deposits are presented at cost plus indexation adjustments for inflation and accrued interest, as applicable.

h) Marketable securities

Marketable securities include investments in mutual funds. The shares are shown at the lower of their restated cost or market value at the end of each year. Investments in mutual funds are shown at their redemption value at the end of each year.

i) Inventories

Inventories of finished products, by-products and work in process are valued at restated cost, which includes direct and indirect manufacturing expenses. Inventories of merchandise, raw materials, warehoused materials and those in transit are valued at their restated cost. Inventories do not exceed their estimated net realizable value or their respective replacement cost.

An allowance has been recorded related to discontinued products and products with low turnover.

j) Allowance for doubtful accounts

The Parent company and its subsidiaries establish provisions for estimated uncollectible accounts based on the aging of the corresponding balances. These allowances are shown deducted from Accounts receivable, Notes receivable and Other accounts receivable on the Balance Sheet.

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k) Other current assets

This caption includes time deposits and guarantee notes issued to third parties, disposable assets for sale and reverse repurchase agreements.

l) Reverse repurchase agreements

Reverse repurchase agreements correspond to fixed-income instruments and are included in Other current assets. They are stated at cost plus interest and indexation adjustments accrued at year-end, and are based on interest rates and realizable values specified in the related contracts.

m) Property, plant and equipment

Property, plant and equipment are valued at restated cost which includes the real cost of financing until assets are placed in service and the incremental value resulting from technical appraisals made at December 31, 1979, in accordance with Circular Bulletin No. 1,529 of the SVS.

Such amounts are presented net of allowances for obsolescence.

n) Depreciation of property, plant and equipment

Depreciation has been calculated using the straight-line method over the estimated remaining useful lives of the assets except for some production plants whose depreciation is calculated as a function of their production units.

o) Leased property, plant and equipment

Property plant and equipment acquired under financial leases are included in Property, plant and equipment in accordance with Technical Bulletin No.22 of the Chilean Association of Accountants. The obligation is shown under Current liabilities and Long-term liabilities according to the maturities of the respective installments, net of deferred interest.

p) Intangible assets

Included under this caption are trademarks and software licenses and other costs, which are amortized using the straight-line method considering the nature and characteristics of each asset over the period in which they are expected to provide benefits, but not exceeding 40 years, in accordance with Technical Bulletin No. 55 of the Chilean Association of Accountants.

q) Investments in related companies

Investments in related companies are shown at their equity-method value after eliminating any unrealized income on intercompany transactions. Equity movements that do not affect the income of the related companies are shown proportionally as a charge or credit to Other reserves or Accumulated deficit during the development stage, as appropriate.

Investments in foreign companies have been valued in United States dollars in accordance with Technical Bulletin No.64 of the Chilean Association of Accountants, and adjustments have been made for the corresponding taxes payable by the Company.

r) Goodwill and negative goodwill

Goodwill and negative goodwill represent the difference between the acquisition cost of the related company and its equity value at the date of purchase. Amortization is determined using the straight-line method, considering the nature and characteristic of each investment during the foreseeable life of the business and expected return on the investment, during a period not to exceed 20 years.

s) Other assets - others

This caption primarily includes inventories, which have shown no movement during the year, at cost less the corresponding allowance for obsolescence.

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This account caption also includes property, plant and equipment that is expected to be idle for an indefinite period of time, adjusted to its estimated net realizable value and minor items such as the recovery of franchises, industrial development bonds, judicial deposits and differences in the placement value of bonds.

t) Financial derivative contracts

The subsidiary LQ Inversiones Financieras S.A. has forward currency contracts to hedge its foreign exchange exposure.

The subsidiary Madeco S.A. has derivative contracts (swaps and forwards) to hedge its exchange rate risks. The hedging instruments for existing and expected transactions are shown at their market value and unrealized gains and losses are shown as a charge to Other current assets or as a credit to Other current liabilities, respectively.

The subsidiary Madeco S.A. has one currency forward contract classified as an investment.

u) Bonds payable

Bonds payable have been issued by the Parent company and the subsidiaries Madeco S.A., Compañía Nacional de Teléfonos, Telefónica del Sur S.A. and Compañía de Teléfonos de Coyhaique S.A. They are shown at their face value at the end of each year. Accrued interest is included in current liabilities. The difference between the book value and placement value of the bonds, and the costs incurred in their issuance and placement, are presented in Other assets and are amortized over the term of the bonds.

v) Current and deferred income taxes

The Parent company and its subsidiaries have recorded their respective income tax expenses according to the enacted tax laws and legislation.

The Parent company and its subsidiaries have recorded the effects of deferred income taxes arising from timing differences, tax loss credits and other events which create differences between the accounting and tax results, in accordance with Technical Bulletin No.60 and complementary bulletins issued by the Chilean Association of Accountants and the instructions contained in Circular 1,466 of the SVS.

w) Severance indemnities

Severance indemnities that the subsidiaries are obliged to pay to their employees under collective bargaining agreements have been calculated on a present value basis (accrued cost of the benefit), taking into account the terms of the contracts in question, a discount rate of between 6% and 7% per annum and an estimate of the estimated remaining service period of each employee in the company until retirement.

x) Operating revenues

The Parent company does not carry out direct transactions and therefore has no operating revenues. Industrial and commercial transactions are carried out by the subsidiaries, and revenues are recorded on the basis of sales effectively invoiced and dispatched at each year-end.

The subsidiary Compañía Nacional de Teléfonos Telefónica del Sur S.A. includes as operating revenue, in addition to that billed during the year, an estimate of accrued traffic and services, which remain uninvoiced at the close of each year.

y) Computer software

Computer software has been acquired as part of computer purchase programs and is shown in Other assets under Property, plant and equipment.

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z) Sales with leaseback

The subsidiaries that have made sales with leaseback operations have the characteristic of a finance lease. The assets received under these transactions receive the same treatment as leasing assets indicated in Note 2 o).

These transactions do not generate any significant financial effect on the companies' results of operations.

aa) Sales under repurchase agreements

The subsidiary Empresas Lucchetti S.A. has made sales of strategic raw materials under repurchase agreements. As these transactions constitute financing mechanisms, sales and cost of sales are shown net of each transaction so as to not distort operating income. Commissions have been recorded as Interest expense in the Statement of income.

ab) Employee vacations

At December 31 each year, the Company and its subsidiaries have made a provision for the cost of employee vacations on an accrual basis, as established in Technical Bulletin No.47 of the Chilean Association of Accountants.

ac) Cash Flows

The Parent company and its subsidiaries have considered as Cash and cash equivalents all readily realizable investments made as part of normal cash management with maturities not exceeding 90 days from the date of the investment, including mutual funds, repurchase agreements and time deposits.

Cash flows from operating activities include all cash flows from operations, including interest expense, interest income and all cash flows not otherwise defined as relating to either financing or investing activities. This concept is broader than that used for the Statement of income.

NOTE 3 – ACCOUNTING CHANGES

During the years ended December 31, 2002 and 2001, there were no accounting changes that would significantly affect the interpretation of these summarized financial statements.

NOTE 4 – BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The Parent company and its subsidiaries have current accounts, temporary investments and borrowings with the following banks and financial institutions:

- Banco de Chile
- Andsberg Finance Corporation Ltd.

The rights and obligations with these financial institutions have been classified under different headings within these financial statements, considering the nature of the balance and not its relationship in order to avoid distorting their analysis.

The above transactions with related banks and financial institutions are subject to indexation adjustments and interest which is calculated at market rates, and their maturities are shown in the Bank obligations notes.

The amounts shown as transactions with related entities are carried out based on price and payment terms reflecting market conditions.

Included within this caption are related party transactions over UF10,000 or greater than 1% of shareholders' equity, whichever is less.

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a) Notes and accounts receivable from related parties:

Company	Short term		Long term	
	2002	2001	2002	2001
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Inversiones y Rentas S.A. (1)	2,150,971	3,297,166	-	-
Cobrecón S.A.	245,997	236,247	-	-
Electromecánica Industrial S.A.	237,006	-	106,395	-
Embotelladoras Chilenas Unidas S.A.	133,263	112,129	-	-
Compañía Cervecerías Unidas S.A.	94,766	17,877	-	-
Cía. de Telecomunicaciones Llanquihue S.A.	93,365	29,838	-	-
Others	47,110	78,111	-	-
Transportes CCU Ltda.	39,681	-	-	-
Colada Continua Chilena S.A.	36,568	-	-	-
Alte S.A.	30,028	80,996	-	-
Viña San Pedro S.A.	16,592	7,410	-	-
Banco de Chile	13,874	10,716	-	-
Entel Chile S.A.	9,273	1,907	-	-
Ferrocarril Antofagasta Bolivia S.A.	7,958	-	-	-
Cervecera CCU Chile Ltda.	3,789	-	-	-
Minera Los Pelambres S.A.	880	1,438	-	-
Telefónica del Sur Net S.A. (2)	-	4,462,210	-	-
Antofagasta Minerals S.A.	510	9,283	-	-
Telefónica del Sur Seguridad S.A. (2)	-	963,854	-	-
Telsur Call Center S.A. (2)	-	46,340	-	-
Promosol S.A.	-	36,920	40,421	40,421
Banco Edwards	-	23,877	-	-
Inversiones Consolidadas S.A.	-	1,798	-	-
Lucchetti Perú S.A.	-	-	2,825,659	-
Transporte y Servicios Aéreos S.A.	-	-	1,635,326	-
Total	3,161,631	9,418,117	4,607,801	40,421

(1) Corresponds to dividends receivable as of December 31, 2002 and 2001.

(2) Balances relate to subsidiaries that were not consolidated as of December 31, 2001 as they were in the development stage.

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b) Notes and accounts payable to related companies:

Company	Short term		Long term	
	2002	2001	2002	2001
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Colada Continua Chilena S.A.	183,432	335,793	-	-
Minera Michilla S.A.	34,873	66,123	-	-
Electromecánica Industrial S.A.	34,247	-	-	-
Cobrecón S.A.	26,165	-	-	-
Peruplast S.A.	12,336	-	-	-
Embotelladoras Chilenas Unidas S.A.	8,198	13,024	-	-
Cervecera CCU Chile Ltda.	6,655	-	-	-
Viña San Pedro S.A.	1,643	-	-	-
Others	14,082	19,463	-	-
Total	321,631	434,403	-	-

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c) Significant transactions with related parties:

Company	Relationship	Transaction	2002		2001	
			Amount ThCh\$	Effect on income (charge) credit ThCh\$	Amount ThCh\$	Effect on income (charge) credit ThCh\$
Alte S.A.	Affiliate	Invoicing	223,687	189,565	166,294	140,927
Andsberg Finance Corp. Ltd.	Shareholders in common	Loan	50,302,700	-	-	-
Andsberg Finance Corp. Ltd.	Shareholders in common	Indexation adjustments & interest	4,555,635	(4,555,635)	-	-
Banco de Chile	Subsidiary (not consolidated)	Interests on investments and time deposits	1,675,000	1,675,000	979,036	574,948
Cía. de Telecom. Llanquihue S.A.	Affiliate	Sale of services	171,594	130,681	35,311	35,311
Cía. de Telecom. Llanquihue S.A.	Affiliate	Purchase of services	200,580	(200,580)	115,561	115,561
Colada Continua Chilena S.A.	Affiliate	Production services	1,435,328	-	1,345,414	-
Minera El Tesoro S.A.	Majority shareholders in common	Purchase of raw material	965,514	-	-	-
Minera Los Pelambres S.A.	Shareholders in common	Cable invoicing	308,489	261,432	168,749	143,007
Minera Michilla S.A.	Shareholders in common	Purchase of materials	328,710	-	411,629	-
Promosol S.A.	Affiliate	Purchase of raw materials	-	-	3,312,675	(3,312,675)
Promosol S.A.	Affiliate	Sale of services	-	-	1,581,236	1,581,047
Telefónica del Sur Net S.A.	Development stage subsidiary	Sale of supplies	-	-	319,411	-
Telefónica del Sur Net S.A.	Development stage subsidiary	Purchase of services	-	-	2,796,224	(2,704,566)
Telefónica del Sur Net S.A.	Development stage subsidiary	Sale of services & others	-	-	2,490,647	1,498,209
Telefónica del Sur Seguridad S.A.	Development stage subsidiary	Sale of services, supplies	-	-	734,036	-

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NOTE 5 – INVENTORIES, NET

The composition of inventories as of December 31 is as follows:

	2002	2001
	ThCh\$	ThCh\$
Raw materials	18,739,355	27,668,984
Finished goods	19,485,949	24,944,079
Work in process	9,772,683	13,042,978
Supplies	7,558,560	8,878,344
Merchandise and imports in transit	4,864,115	2,712,483
Merchandise	2,617,032	2,212,218
Materials and packaging	269,060	1,430,836
Others	110,675	142,817
Total	63,417,429	81,032,739

Inventories are presented net of an allowance for obsolescence amounting to ThCh\$4,567,656 and ThCh\$3,141,288 in 2002 and 2001, respectively.

NOTE 6 – CURRENT AND DEFERRED INCOME TAXES

a) Income tax

As of December 31, 2002, the Parent company recorded tax losses of ThCh\$1,943,892 and has made no provision for income tax. The provision for additional income tax as of December 31, 2002 amounted to ThCh\$5,375 (ThCh\$8,027 in 2001).

As of December 31, 2001, the Parent company recorded income for tax purposes of ThCh\$719,680 which generated tax obligations of ThCh\$107,952. This tax was fully covered by credits of ThCh\$123,042 from donations.

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b) The detail of the retained earnings of the Parent company as of December 31, 2002 is as follows:

	ThCh\$
Earnings with 15% credit, origin 1998	30,981,071
Earnings with 10% credit, origin 1998	103,896
Earnings without credit, origin 1998	7,905,258
Earnings with 15% credit, origin 1999	54,627,123
Earnings without credit, origin 1999	3,675,507
Earnings with 15% credit, origin 2000	56,431,028
Earnings without credit, origin 2000	9,256,864
Earnings with 15% credit, origin 2001	11,005,584
Earnings without credit, origin 2001	2,678,526
Exempt earnings with 10% credit	1,574,377
Exempt earnings without credit	3,064,708
Non-taxable earnings	140,642,671

c) Tax obligations

The detail of Recoverable taxes recorded by the Parent company and its subsidiaries is as follows:

	2002	2001
	ThCh\$	ThCh\$
First Category income tax	(1,750,795)	(3,012,580)
Additional income tax	(50,450)	(36,982)
Monthly income tax installments	1,415,404	2,718,552
Other tax credits	4,387,455	5,949,059
Other recoverable taxes	2,603,915	3,517,716
Total recoverable taxes	6,605,529	9,135,765

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d) Composition of deferred income taxes:

Description	2002				2001			
	Deferred tax asset		Deferred tax liability		Deferred tax asset		Deferred tax liability	
	Short-term ThCh\$	Long-term ThCh\$	Short-term ThCh\$	Long-term ThCh\$	Short-term ThCh\$	Long-term ThCh\$	Short-term ThCh\$	Long-term ThCh\$
Temporary differences								
Allowance for doubtful accounts	1,417,648	92,045	-	-	1,306,476	-	-	-
Unearned income	35,947	-	-	-	1,286	-	-	-
Accrued vacation expense	303,356	8,841	-	-	423,481	-	-	-
Amortization of intangible assets	-	-	-	-	-	179,195	-	-
Leased assets	41,118	207,755	64,173	2,548,395	-	24,397	149,997	2,391,049
Manufacturing expenses	-	-	491,255	-	-	-	192,917	60,010
Depreciation of property, plant and equipment	2,253	5,297	438,602	17,008,192	-	-	-	15,679,914
Severance indemnities	7,545	-	2,918	505,088	8,838	-	5,639	590,157
Unearned income	-	-	-	-	2,289	-	-	-
Tax losses	163,073	37,278,421	-	-	4,186,853	34,499,941	-	-
Allowance for obsolescence	571,244	129,799	-	-	399,355	93,247	-	-
Allowance for obsolescence of property, plant and equipment held for sale	426,645	112,609	-	-	144,247	248,686	-	-
Bonds issuance	-	-	-	403,095	-	-	-	505,916
Other provisions	394,037	458,298	-	-	186,528	-	-	-
Other events	370,181	6,154,198	276,277	570,733	1,361,790	1,377,407	31,251	528,410
Complementary accounts, net of amortization	(147,575)	(14,123,294)	(88,886)	(13,363,892)	(701,355)	(19,104,198)	(12,662)	(14,019,399)
Valuation allowance	-	(8,295,324)	-	-	(220,954)	(3,574,578)	-	-
Total	3,585,472	22,028,645	1,184,339	7,671,611	7,098,834	13,744,097	367,142	5,736,057

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e) Composition of tax expense:

	2002	2001
	ThCh\$	ThCh\$
Current tax expense (provision for tax)	(1,801,245)	(3,049,562)
Tax expense adjustment (previous year)	132,638	175,329
Deferred income taxes for the year	2,808,126	(2,346,009)
Tax benefit for tax losses	(1,245,300)	13,164,770
Amortization of complementary accounts	4,955,401	751,091
Deferred tax assets and liabilities arising from changes in valuation allowance	(4,499,792)	(3,599,872)
Other	(208,392)	(203,207)
Total	141,436	4,892,540

NOTE 7 – OTHER CURRENT ASSETS

The following is a detail of other current assets:

	2002	2001
	ThCh\$	ThCh\$
Repurchase agreements	79,367,788	31,400,250
Disposable assets held for sale, net	10,512,448	10,813,214
Fair value of forward contracts	2,542,092	-
Time deposits in guarantee	783,153	3,749,073
Other	1,704,443	1,361,190
Total	94,909,924	47,323,727

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NOTE 8 –PROPERTY, PLANT AND EQUIPMENT

Presented below is the detail of Accumulated depreciation, Depreciation for the year, Other property, plant and equipment and Revaluation from technical appraisals:

	2002	2001
	ThCh\$	ThCh\$
Accumulated depreciation:		
Buildings and infrastructure	54,815,909	60,655,967
Machinery and equipment	224,346,611	189,905,122
Other property, plant and equipment	20,449,934	21,951,875
Revaluation from technical appraisals	4,867,544	4,396,788
	<u>304,479,998</u>	<u>276,909,752</u>
Depreciation for the year:		
Operating expenses	25,746,056	28,401,120
Administrative and selling expenses	3,412,528	3,290,293
	<u>29,158,584</u>	<u>31,691,413</u>
Other non-operating expenses (1)	2,995,211	-
	<u>32,153,795</u>	<u>31,691,413</u>
Other property, plant and equipment		
Leased assets	15,173,472	27,582,626
Furniture and fixtures	9,697,707	9,495,439
Construction in progress	8,269,681	15,619,590
Computer software	5,217,231	3,523,024
Office machines	4,326,345	4,142,369
Tools and others	2,602,987	2,695,782
Materials and spare parts	1,486,273	1,446,970
Computer equipment	1,102,122	2,486,811
Other	7,261,264	6,659,821
	<u>55,137,082</u>	<u>73,652,432</u>
Revaluation from technical appraisals		
Land	6,026,226	5,902,626
Buildings and infrastructure	17,882,679	17,427,141
Machinery and equipment	2,068,563	2,068,820
	<u>25,977,468</u>	<u>25,398,587</u>
Accumulated depreciation	4,380,083	3,931,615
Depreciation for the year	487,461	465,173
	<u>4,867,544</u>	<u>4,396,788</u>

(1) The depreciation of idle assets of the subsidiary Decker Indelqui S.A. (Argentina) is shown in Other expenses (Note 17).

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NOTE 9-INVESTMENTS IN RELATED COMPANIES

The detail of investments in related companies as of December 31, 2002 is as follows:

Company	Country	Ownership percentage %	Shareholders'	Net income (loss) ThCh\$	Accrued net income (loss) ThCh\$	Equity	Unrealized loss ThCh\$	Book value ThCh\$
			equity of company ThCh\$			method value ThCh\$		
Inversiones y Rentas S.A.	Chile	50.0000	267,038,126	13,501,787	6,751,894	133,519,063	-	133,519,063
Banco de Chile	Chile	20.2164	618,229,661	52,635,131	10,640,557	124,983,749	-	124,983,749
SM Chile S.A. Series A	Chile	3.0005	342,572,183	9,447,342	-	10,279,001	-	10,279,001
SM Chile S.A. Series B	Chile	46.2482	352,019,525	9,447,342	4,569,887	162,802,581	-	162,802,581
SM Chile S.A. Series D	Chile	1.7775	352,019,525	9,447,342	175,645	6,257,196	-	6,257,196
SM Chile S.A. Series E	Chile	0.3809	352,019,525	9,447,342	37,648	1,340,924	-	1,340,924
Entel Chile S.A.	Chile	5.6903	544,896,862	41,095,877	2,337,493	31,006,039	-	31,006,039
Habitaria S.A.	Chile	50.0000	17,391,054	897,761	448,881	8,695,527	-	8,695,527
Peruplast S.A.	Peru	25.0000	18,985,648	419,585	104,896	4,746,412	-	4,746,412
Tech Pack S.A.	Peru	25.6200	13,115,238	479,863	122,941	3,360,124	-	3,360,124
Banchile Seguros de Vida S.A.	Chile	99.9000	2,765,813	433,552	424,874	2,763,047	-	2,763,047
Colada Continua Chilena S.A.	Chile	41.0000	3,411,314	1,087	446	1,398,639	-	1,398,639
Cobrecón S.A.	Peru	33.3330	2,802,913	159,174	53,058	934,295	-	934,295
Cía. de Telecom. Llanquihue S.A.	Chile	49.0000	898,122	(113,544)	(55,636)	440,080	-	440,080
Empresa Aérea El Litoral S.A.	Chile	50.0000	299,362	(15,008)	(7,504)	149,681	-	149,681
Agromercantil Limitada	Chile	45.0000	260,154	3,122	1,405	117,069	-	117,069
Inversiones El Norte y El Rosal S.A.	Chile	50.0000	176,418	(658,543)	(329,271)	88,209	-	88,209
Promosol S.A.	Chile	50.0000	119,777	(58,373)	(29,187)	59,889	-	59,889
Transporte y Servicios Aéreos S.A.	Chile	50.0000	(138,203)	(143,303)	(71,652)	-	-	-
Lucchetti Perú S.A.	Peru	100.0000	29,812,057	-	-	29,812,057	(29,812,057)	-
Promarket S.A.	Chile	-	-	-	6,977	-	-	-
Total						522,753,582	(29,812,057)	492,941,525

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The detail of investments in related companies as of December 31, 2001 is as follows:

Company	Country	Ownership percentage %	Shareholders'	Net income (loss) ThCh\$	Accrued net income (loss) ThCh\$	Equity method value ThCh\$	Unrealized income ThCh\$	Book value ThCh\$
			equity of company ThCh\$					
Inversiones y Rentas S.A.	Chile	50.0000	261,200,603	24,237,967	12,118,983	130,600,301	-	130,600,301
Banco de Chile	Chile	4.2700	409,837,410	89,577,017	3,821,404	17,500,057	-	17,500,057
SM Chile S.A. Series A	Chile	3.0000	294,257,958	-	-	8,827,739	-	8,827,739
SM Chile S.A. Series B	Chile	46.1900	319,432,342	24,039,793	11,628,048	147,545,798	-	147,545,798
SM Chile S.A. Series D	Chile	1.7800	319,378,191	24,039,793	447,141	5,684,932	-	5,684,932
SM Chile S.A. Series E	Chile	0.3800	319,563,003	24,039,793	96,159	1,214,339	-	1,214,339
Entel Chile S.A.	Chile	5.6850	516,936,056	35,230,082	3,173,738	29,387,815	-	29,387,815
Habitaria S.A.	Chile	50.0000	16,509,201	429,827	214,914	8,254,600	-	8,254,600
Peruplast S.A.	Peru	25.0000	17,414,152	(102,455)	(25,615)	4,353,538	-	4,353,538
Tech Pack S.A.	Peru	25.0000	13,536,901	(23,389)	(5,989)	3,466,514	-	3,466,514
Banchile Seguros de Vida S.A.	Chile	99.9000	1,930,663	48,837	48,785	1,928,733	-	1,928,733
Colada Continua Chilena S.A.	Chile	41.0000	3,410,227	1,980	812	1,398,193	-	1,398,193
Cobrecón S.A.	Peru	33.3330	2,329,204	(60,700)	(20,233)	776,401	-	776,401
Cia. de Telecom. Llanquihue S.A.	Chile	49.0000	1,011,667	21,439	10,506	495,716	-	495,716
Empresa Aérea El Litoral S.A.	Chile	50.0000	314,370	(17,224)	(8,612)	157,185	-	157,185
Agromercantil Limitada	Chile	45.0000	257,031	600	271	115,664	-	115,664
Inversiones El Norte y El Rosal S.A.	Chile	50.0000	1,308,397	(158,752)	(79,376)	654,198	-	654,198
Promosol S.A.	Chile	50.0000	178,150	814,723	407,361	89,075	-	89,075
Banco Edwards	Chile	51.1700	246,575,443	10,406,290	5,325,398	126,172,655	-	126,172,655
Telefónica del Sur Seguridad S.A.	Chile	99.9980	168,307	-	-	168,304	-	168,304
Telefónica del Sur Net S.A.	Chile	99.9600	58,644	-	-	58,623	-	58,623
Promarket S.A.	Chile	50.0000	290,753	372,577	186,289	145,376	-	145,376
Total						488,995,756	-	488,995,756

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a) Investments in Banco de Chile and SM Chile S.A.

The direct and indirect shareholdings of Quiñenco S.A through its subsidiary LQ Inversiones Financieras S.A., in Banco de Chile (merged) is as follows:

1. Purchase of shares

By way of a public tender offer on March 6, 2001, the following shares were acquired for a total price of ThCh\$36,212,201:

SM Chile Series A: 28,385,585 shares
SM Chile Series B: 549,999,388 shares
SM Chile Series D: 21,470,478 shares
SM Chile Series E: 29,245,894 shares

On March 27, 2001, the following shares were acquired from Empresas Penta and other companies for a total price of ThCh\$304,127,162 (historic pesos):

Banco de Chile: 1,466,752,189 shares
SM Chile Series A: 79,490,585 shares
SM Chile Series B: 4,144,103,808 shares
SM Chile Series D: 90,669,413 shares
SM Chile Series E: 18,621,091 shares

2. Shares held

The Company's ownership of shares of SM Chile S.A. and Banco de Chile as of December 31 each year are as follows:

	Issued and outstanding shares		Shares held by LQ Inversiones Financieras S.A.		Ownership Percentage of S.M. Chile S.A.	
			2002	2001	2002	2001
	2002	2001	2002	2001	2002	2001
SM Chile series A	567,712,826	567,712,826	377,528,973	377,528,973	3.00%	3.00%
SM Chile series B	11,000,000,000	11,000,000,000	5,811,598,701	5,811,598,701	46.19%	46.19%
SM Chile series D	429,418,369	429,418,369	223,364,308	223,364,308	1.78%	1.78%
SM Chile series E	584,921,232	584,921,232	47,866,985	47,866,985	0.38%	0.38%
Total	12,582,052,427	12,582,052,427	6,460,358,967	6,460,358,967	51.35%	51.35%

	Issued and outstanding shares		Shares held by LQ Inversiones Financieras S.A.		Ownership Percentage of Banco de Chile	
			2002	2001	2002	2001
	2002	2001	2002	2001	2002	2001
Banco de Chile	68,079,783,605	44,932,657,180	13,762,345,978	1,916,851,594	20.22%	4.27%

3. Voting rights in Banco de Chile

The voting rights in Banco de Chile corresponding to the 41,179 million shares held by SM Chile S.A. and SAOS S.A. are exercised by the shareholders of SM Chile S.A. who attend the Bank's shareholder meetings. The rights corresponding to the shares owned by SM Chile S.A. are exercised proportionally through all of the series' shareholders (i.e. Series A, B, D and E). Those rights corresponding to the shares owned by SAOS S.A. are exercised by Series A, B and D shareholders.

As a consequence of the above, the voting rights of Banco de Chile are distributed as follows:

Shares	Number of votes	Participation	Number of	LQIF voting rights	
	in Banco de Chile (million)	of LQIF in each series	votes for LQIF	2002	2001
Owned by SM Chile and SAOS	2002	2002	2002	2002	2001
SM Chile series A	1,921	66.50%	1,277	1.88%	2.84%
SM Chile series B	37,217	52.83%	19,663	28.88%	43.76%
SM Chile series D	1,453	52.02%	756	1.11%	1.68%
SM Chile series E	585	8.18%	48	0.07%	0.11%
Other shareholders	26,904	20.22%	-		
Subtotal	68,080		21,744	31.94%	48.39%
Banco de Chile				20.22%	4.27%
Total voting rights in Banco de Chile	100.00%			52.16%	52.66%

4. Dividend rights in Banco de Chile

At December 31 of each year, LQ Inversiones Financieras S.A.'s dividend distribution rights of Banco de Chile are as follows:

Series	Dividend distribution rights		% Corresponding to LQ Inversiones Financieras S.A.'s ownership interest	
	2002	2001	2002	2001
SM Chile series A	0.00%	0.00%	0.00%	0.00%
SM Chile series B	16.16%	24.40%	8.54%	12.93%
SM Chile series D	0.63%	1.00%	0.33%	0.49%
SM Chile series E	0.86%	1.30%	0.06%	0.11%
SAOS S.A.	42.83%	64.90%	0.00%	0.00%
Banco de Chile	39.52%	8.40%	20.22%	4.27%
Total	100.00%	100.00%	29.15%	17.80%

5. Exemption from consolidation of banking companies

These financial statements do not include the consolidation of Banco de Chile and SM Chile S.A. as these companies apply different accounting principles to those followed by commercial corporations. This exemption was granted by the SVS in its Official Letter N° 03200 dated May 9, 2002.

Note 26 of the consolidated financial statements includes the consolidated financial statements of LQ Inversiones Financieras S.A. and subsidiaries prepared in accordance with the instructions of the Chilean Superintendency of Banks and Financial Institutions (SBIF).

b) Summarized financial statements of Banchile Seguros de Vida S.A.

The following shows the summarized balance sheet and statement of income of the subsidiary Banchile Seguros de Vida S.A.:

	2002	2001
Balance sheet	ThCh\$	ThCh\$
Assets		
Investments	7,364,646	3,231,489
Premiums receivable	779,536	278,604
Receivables from reinsurance	492,565	218,336
Other assets	254,359	216,722
Total Assets	<u>8,891,106</u>	<u>3,945,151</u>
Liabilities and Shareholders' Equity		
Technical reserves	4,055,697	1,165,024
Insurance premiums payable	1,210,652	365,657
Other liabilities	858,944	483,807
Shareholders' equity	2,765,813	1,930,663
Total Liabilities and Shareholders' Equity	<u>8,891,106</u>	<u>3,945,151</u>

Statement of Income	2002 ThCh\$	2001 ThCh\$
Operating revenue	2,680,421	3,291,088
Operating costs	<u>(2,378,883)</u>	<u>(3,413,086)</u>
	<u>301,538</u>	<u>(121,998)</u>
Income from investments	251,202	164,673
Other income	2,801	5,366
Financing costs	(7,337)	(3,170)
Adjustments of provisions and write-offs	(35,185)	(12,004)
Exchange gains	442	186
Price-level restatement	<u>2,184</u>	<u>22,245</u>
	<u>214,107</u>	<u>177,296</u>
Income before taxes	515,645	55,298
Income taxes	<u>(82,093)</u>	<u>(6,461)</u>
Net income for the year	<u>433,552</u>	<u>48,837</u>

c) Summarized Balance Sheet of Lucchetti Perú S.A.

Presented below are the summarized balance sheets of Lucchetti Perú S.A. as of December 31, 2002 and 2001:

	2002 ThCh\$	2001 ThCh\$
Assets		
Total current assets	9,572,116	10,919,830
Total property, plant and equipment, net	34,663,754	33,690,641
Total other assets	<u>4,748,233</u>	<u>5,101,509</u>
Total Assets	<u>48,984,103</u>	<u>49,711,980</u>
Liabilities and Shareholders' Equity		
Total current liabilities	7,076,271	8,354,820
Total long-term liabilities	12,095,775	9,628,315
Total shareholders' equity	<u>29,812,057</u>	<u>31,728,845</u>
Total Liabilities and Shareholders' Equity	<u>48,984,103</u>	<u>49,711,980</u>

NOTE 10 – GOODWILL AND NEGATIVE GOODWILL

a) Goodwill:

Company	2002		2001	
	Amortization for the year ThCh\$	Goodwill (net) ThCh\$	Amortization for the year ThCh\$	Goodwill (net) ThCh\$
SM Chile S.A. Series B	10,458,614	187,254,509	10,371,904	197,713,123
Banco de Chile (formerly Banco Edwards)	4,324,156	72,069,266	4,324,156	76,393,421
Banco de Chile	2,594,146	46,446,106	2,572,598	49,001,628
Madeco S.A. and subsidiaries	2,759,511	36,928,426	2,970,626	36,532,636
SM Chile S.A. Series D	318,390	5,637,371	315,844	5,955,762
SM Chile S.A. Series E	34,932	628,774	34,658	663,706
CNT Telefónica del Sur S.A.	33,418	430,701	33,121	458,174
Inversiones Río Grande S.A. and subsidiaries	8,686	73,254	7,607,724	265,174
Total	20,531,853	349,468,407	28,230,631	366,983,624

b) Negative goodwill:

Company	2002		2001	
	Amortization for the year ThCh\$	Negative goodwill (net) ThCh\$	Amortization for the year ThCh\$	Negative goodwill (net) ThCh\$
VTR S.A. and subsidiary	745,232	5,899,510	946,028	5,098,220
Agrícola El Peñón S.A. and subsidiary	69,110	976,730	385,156	1,045,839
Inversiones Río Grande S.A. and subsidiaries	1,043,542	524,618	7,809,033	3,310,596
SM Chile S.A. Series A	25,999	457,870	26,129	485,148
Madeco S.A. and subsidiaries	5,140	55,415	20,768	189,384
Other	6	-	346	6,229
Total	1,889,029	7,914,143	9,187,460	10,135,416

NOTE 11 – CURRENT BANK OBLIGATIONS

Short-term obligations to banks are as follows:

	2002	2001
	ThCh\$	ThCh\$
Short- term		
Payable in:		
United States dollars	64,028,508	82,933,868
Euros	135,877	656,739
Other foreign currencies	1,792,003	3,841,733
Unidades de Fomento (inflation-indexed Chilean pesos)	8,283,392	17,996,865
Non-indexed Chilean pesos	33,089,290	20,034,990
Total	107,329,070	125,464,195

Short-term portion of long-term bank obligations

Payable in:		
United States dollars	75,172,083	7,939,748
Other foreign currencies	412,091	502,397
Unidades de Fomento (inflation-indexed Chilean pesos)	40,854,668	42,573,026
Total	116,438,842	51,015,171

NOTE 12 – LONG-TERM BANK OBLIGATIONS:

The maturities of obligations to banks and financial institution as of December 31, 2002 are as follows:

	2002
	ThCh\$
Years to maturity:	
Between 1 and 2 years	98,302,799
Between 2 and 3 years	133,439,122
Between 3 and 5 years	40,653,066
Between 5 and 10 years	21,561,420
More than 10 years	26,820
Total	293,983,227

NOTE 13 – BONDS PAYABLE

Current portion of long-term bonds payable

Registration or identification number of instrument	Series	Nominal value of current liability	Measurement unit	Interest rate	Maturity date	Payment periods		Book value		Domestic or foreign issuance
						Interest	Amortization	2002 ThCh\$	2001 ThCh\$	
229	B	450,000	UF	6.20	30-04-2008	Semi-annual	Semi-annual	8,352,386	804,743	Domestic
251	G	133,333	UF	6.00	01-12-2005	Semi-annual	Semi-annual	2,264,174	31,912	Domestic
222	A2	123,934	UF	7.25	12-04-2011	Semi-annual	Semi-annual	2,149,713	74,573	Domestic
148	B	96,120	UF	6.00	01-08-2003	Semi-annual	Semi-annual	1,649,091	3,206,056	Domestic
222	A1	82,623	UF	7.25	12-04-2011	Semi-annual	Semi-annual	1,433,142	49,715	Domestic
198	E	50,513	UF	5.80	10-02-2011	Semi-annual	Semi-annual	998,572	971,499	Domestic
184	C	48,335	UF	5.80	10-02-2008	Semi-annual	Semi-annual	825,587	785,045	Domestic
198	F	20,365	UF	5.80	10-02-2020	Semi-annual	Semi-annual	535,267	361,702	Domestic
229	A	-	UF	6.20	30-04-2021	Semi-annual	Semi-annual	363,347	357,671	Domestic
178	A	17,626	UF	6.25	01-09-2004	Semi-annual	Semi-annual	326,746	313,942	Domestic
184	D	13,114	UF	5.80	10-02-2017	Semi-annual	Semi-annual	238,433	227,439	Domestic
258	C2	-	UF	6.20	01-05-2004	Semi-annual	Semi-annual	170,421	170,486	Domestic
258	C1	-	UF	6.20	01-05-2004	Semi-annual	Semi-annual	85,210	85,242	Domestic
251	H	-	UF	6.00	01-12-2021	Semi-annual	Semi-annual	47,851	47,868	Domestic
Total current portion								19,439,940	7,487,893	

Long-term bonds payable

Registration or identification number of instrument	Series	Nominal value of current liability	Measurement unit	Interest rate	Maturity date	Payment periods		Book value		Domestic or foreign issuance
						Interest	Amortization	2002 ThCh\$	2001 ThCh\$	
229	B	4,050,000	UF	6.20	30-04-2008	Semi-annual	Semi-annual	67,813,686	75,377,429	Domestic
229	A	2,000,000	UF	6.20	30-04-2021	Semi-annual	Semi-annual	33,488,240	33,501,080	Domestic
222	A2	1,376,066	UF	7.25	12-04-2011	Semi-annual	Semi-annual	23,041,011	25,125,810	Domestic
258	C2	1,000,000	UF	6.20	01-05-2004	Semi-annual	Semi-annual	16,744,120	16,750,539	Domestic
222	A1	917,377	UF	7.25	12-04-2011	Semi-annual	Semi-annual	15,360,673	16,750,539	Domestic
251	H	600,000	UF	6.00	01-12-2021	Semi-annual	Semi-annual	10,046,472	10,050,325	Domestic
258	C1	500,000	UF	6.20	01-05-2004	Semi-annual	Semi-annual	8,372,060	8,375,270	Domestic
198	F	469,875	UF	5.80	10-02-2020	Semi-annual	Semi-annual	7,867,648	8,211,787	Domestic
198	E	334,988	UF	5.80	10-02-2011	Semi-annual	Semi-annual	5,609,083	6,457,360	Domestic
251	G	266,667	UF	6.00	01-12-2005	Semi-annual	Semi-annual	4,465,099	6,700,216	Domestic
184	D	231,345	UF	5.80	10-02-2017	Semi-annual	Semi-annual	3,873,660	4,094,808	Domestic
184	C	162,485	UF	5.80	10-02-2008	Semi-annual	Semi-annual	2,720,674	3,531,354	Domestic
178	A	38,627	UF	6.25	01-09-2004	Semi-annual	Semi-annual	333,183	647,017	Domestic
Total long-term								199,735,609	215,573,534	

NOTE 14 - PROVISIONS AND WRITE-OFFS

The detail of provisions as of December 31 is as follows:

	2002	2001
	ThCh\$	ThCh\$
Current liabilities:		
Remunerations, fees and consulting expenses	3,033,259	3,510,568
Employee vacations	2,608,620	3,368,457
Purchase price accruals	1,846,136	3,831,236
Severance indemnities	1,187,493	702,167
Restructuring expenses	1,109,068	1,191,428
General and commercial expenses	945,959	782,020
Property, municipal and other taxes	909,005	904,430
Telephone connection and long-distance costs	881,603	698,748
Distribution fees and freights	461,120	437,772
Lawsuits pending	447,873	-
Basic utilities	390,185	535,316
Suppliers invoices	366,188	1,773,515
Financial institution fees	365,000	-
Employee profit-sharing and benefits	344,742	459,484
Provision for works in progress	256,446	139,791
Provision for installation and maintenance contractors	174,536	-
Provision for local interconnection costs	156,303	-
Advertising, promotion and corporate image	137,020	71,444
Export and import expenses	70,793	51,490
Contingencies	-	741,600
Other	2,086,640	1,333,652
Total	17,777,989	20,533,118
Long-term liabilities:		
Lawsuits pending	2,953,840	3,274,597
Severance indemnities	2,156,420	2,063,630
Contingencies	1,889,241	6,433,048
Restructuring Aluflex S.A.	-	1,545,000
Other	363,074	963,541
Total	7,362,575	14,279,816

Allowances against assets	2002	2001
	ThCh\$	ThCh\$
Current assets:		
Accounts receivable	9,532,638	10,579,192
Notes receivable	3,408,817	3,448,117
Other accounts receivable	1,397,420	711,473
Inventories (obsolescence)	4,567,656	3,141,288
Provision for irrecoverable taxes Uruguay-Argentina	1,230,110	1,913,931
Unrealized income	13,888	14,305
Property, plant and equipment held for sale	9,316,068	7,822,768
Other current assets	-	76,782
Long-term assets:		
Investment in Lucchetti Perú S.A. (see note 22d)	29,812,057	-
Accounts receivable Lucchetti Perú S.A.	866,429	-
Adjustment of property, plant and equipment to realizable value	-	367,799
Inventories without movement for a year	524,030	376,744
Obsolescence of idle property, plant and equipment	565,811	620,363
Other long-term assets	2,240,540	763,650
Provision of property, plant and equipment – Argentina (1)	4,694,239	11,434,076
Provision of other assets - Argentina	1,446,221	1,400,148
Write-offs made:		
Bad debts	1,139,489	2,085,049
Inventories	-	149,662

1) Following the close of the year-ended December 31, 2001, Law No. 25,561, the Public Emergency and Exchange Reform Act of the Republic of Argentina was enacted, which established, among other things, the end of the fixed currency convertibility of one Argentine peso for one United States dollar. At December 31, 2001, Madeco S.A. had investments in Argentina of approximately ThCh\$107,515, net of extraordinary provisions of ThCh\$19,256 made to reflect the effects of the enactment of the law on the company's investments in Argentina .

During the second quarter of 2002, Madeco S.A.'s management prepared a study to determine the impairment related to the temporary shutdown of the productive facilities in Argentina. Management concluded that the plant, property and equipment had not suffered a significant reduction in value and that resuming production in 2004 would remedy the situation, allowing the company to obtain a return on its investment in a period not exceeding the remaining lives of the assets.

In consideration of the above, Madeco S.A.'s management reclassified the extraordinary provision described above to foreign exchange rate differences related to investments in Argentina.

NOTE 15 – MINORITY INTEREST

At the end of each year Minority interest is comprised of the following:

	Percentage		Minority interest			
	Minority interest		Book value		Statement of income	
	2002	2001	2002	2001	2002	2001
	%	%	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Madeco S.A.	46.59	43.89	46,227,348	55,758,741	17,846,965	22,646,519
CNT Telefónica del Sur S.A.	26.44	26.44	15,151,472	14,977,073	(1,593,534)	(2,309,657)
Alusa S.A.	24.04	24.04	8,735,255	8,823,662	387,526	1,058,784
Ficap (Optel) S.A.	50.00	50.00	2,685,484	4,333,425	1,722,826	306,679
Indeco S.A. (Peru)	7.26	7.78	1,777,622	1,788,667	(99,878)	(94,733)
Empresas Lucchetti S.A.	6.31	6.75	1,020,851	3,277,494	2,347,152	692,427
Hoteles Carrera S.A.	6.50	6.50	943,595	1,008,344	64,749	101,148
Cía. Teléfonos de Coyhaique S.A.	11.29	11.29	781,544	767,793	(134,006)	(165,250)
Inversiones Vita S.A.	33.70	33.70	608,569	638,188	(98,846)	22,249
Agrícola El Peñón S.A.	3.80	3.80	533,154	620,154	94,520	94,581
Inversiones Vita Bis S.A.	33.70	-	309,379	-	(43,496)	-
Inversiones O'Higgins Punta Arenas Ltda. CPA	24.44	24.44	224,575	253,064	28,489	47,467
Indalum S.A.	0.84	0.84	165,855	150,652	(15,203)	40,428
Comatel S.A.	14.96	14.96	102,420	107,455	5,104	(3,299)
Inversiones Pal S.A.	30.00	30.00	28,033	35,458	7,424	1,027
Distribuidora Boliviana Indalum S.A.	5.78	5.78	19,600	22,000	2,399	(9,745)
Inversiones Alusa S.A.	30.73	30.73	1,243	3,256	264	(356)
Others	-	-	(2,390)	102	(161)	19,853
Total			79,313,609	92,565,528	20,522,294	22,448,122

NOTE 16 – SHAREHOLDERS’ EQUITY

a) The following movements have occurred in shareholders’ equity during 2002 and 2001:

	Paid-in capital ThCh\$	Other reserves ThCh\$	Retained earnings ThCh\$	Accumulated deficit during development stage ThCh\$	Net income (loss) for the year ThCh\$	Total ThCh\$
Balance as of January 1, 2001	428,224,335	16,766,256	198,622,412	(948,892)	(5,648,096)	637,016,015
Distribution of prior year’s loss	-	-	(5,648,096)	-	5,648,096	-
Development stage deficit	-	-	-	(2,153,073)	-	(2,153,073)
Proportional share of equity changes in subsidiaries	-	7,332,495	(71,691)	-	-	7,260,804
Price-level restatement of equity	13,274,954	519,754	5,982,204	(29,416)	-	19,747,496
Net income for the year	-	-	-	-	15,509,382	15,509,382
Balance as of December 31, 2001	441,499,289	24,618,505	198,884,829	(3,131,381)	15,509,382	677,380,624
Balance restated for comparative purposes	454,744,268	25,357,060	204,851,374	(3,225,322)	15,974,663	697,702,043
Balances as of January 1, 2002	441,499,289	24,618,505	198,884,829	(3,131,381)	15,509,382	677,380,624,
Distribution of prior year’s income	-	-	12,378,001	3,131,381	(15,509,382)	-
Dividends paid	-	-	(6,203,753)	-	-	(6,203,753)
Development stage deficit	-	-	-	(1,382,458)	-	(1,382,458)
Proportional share of equity changes in subsidiaries	-	16,060,851	(7,955)	-	-	16,052,896
Price-level restatement of equity	13,244,979	738,555	6,164,180	-	-	20,147,714
Net loss for the year	-	-	-	-	(75,480,211)	(75,480,211)
Balance as of December 31, 2002	454,744,268	41,417,911	211,215,302	(1,382,458)	(75,480,211)	630,514,812

b) Number of shares:

Series	Subscribed shares	Paid-in shares	Shares with voting rights
Common	1,079,740,079	1,079,740,079	1,079,740,079

c) Capital:

Series	Subscribed capital ThCh\$	Paid-in capital ThCh\$
Common	454,744,268	454,744,268

d) Accumulated development stage deficit:

Company	Amount	
	For the year ThCh\$	Accumulated ThCh\$
VTR S.A.	923,358	923,358
Inversiones y Rentas S.A.	458,929	458,929
Inversiones Río Grande S.A.	24	24
Entel Chile S.A.	24	24
Comatel S.A.	113	113
CNT Telefónica del Sur S.A.	10	10
Total	1,382,458	1,382,458

NOTE 17 – NON-OPERATING INCOME AND EXPENSES:

Non-operating income and expenses are comprised of the following for the years ended December 31:

	2002	2001
	ThCh\$	ThCh\$
Other non-operating income		
Reversal of provision for contingencies	3,264,077	-
Gain on sale of shares and other investments	431,050	57,264,416
Recovery of taxes and expenses	389,447	147,639
Deferred gains	581,207	160,117
Gain on sale of property, plant and equipment	162,861	59,213
Rentals	99,541	150,952
Dividends received	7,981	78,972
Other	1,040,612	1,495,560
Total	5,976,776	59,356,869
Other non-operating expenses		
Provision for equity value of subsidiary Lucchetti Perú S.A.	29,812,057	-
Provision for valuation of property, plant and equipment and other assets in Argentina	6,140,460	12,834,224
Severance indemnities and restructuring expenses	6,799,292	5,563,487
Depreciation of idle assets	3,252,441	-
Loss on subsidiary share issuance	2,735,528	-
Legal defense expenses Lucchetti Perú S.A.	2,224,488	2,386,356
Adjustment to asset values	2,140,146	-
Write-offs and obsolescence	2,045,209	276,217
Purchase price accruals	1,238,052	-
Allowance for doubtful accounts	1,155,078	679,351
Allowance for accounts receivable of Lucchetti Perú S.A.	866,429	-
Adjustment to realizable value of disposable assets	840,277	2,708,432
Amortization of non-recurring expenses	763,033	1,352,952
Fees and consulting	732,250	4,498,423
Closure and valuation adjustment of assets in subsidiaries (Ingewall and Uruguay)	511,448	3,368,893
Commissions and other banking fees	365,000	152,838
Directors' fees	361,274	441,614
Labor lawsuits	323,099	3,924,107
Market value adjustment of shares	34,000	104,057
Loss on construction contract	-	897,392
Loss on sale of investments	-	714,433
Financial consulting and other expenses on sale of subsidiary in Argentina	-	539,862
Tax dividing (Peru)	-	414,691
Other	2,323,214	2,650,360
Total	64,662,775	43,507,689

NOTE 18 – PRICE-LEVEL RESTATEMENT

The detail of price-level restatement for the years ended December 31:

	Indexation unit	2002 ThCh\$	2001 ThCh\$
Assets			
Inventories, net	CPI and replacement cost	2,133,472	(2,834,029)
Property, plant and equipment, net	CPI	8,017,845	8,630,002
Investments in related companies	CPI	16,605,218	19,370,188
Goodwill and negative goodwill, net	CPI	10,554,569	11,087,388
Financial investments	CPI	441,575	1,088,472
Related company current accounts, net	UF	367,177	1,051,105
Other assets	UF	471,783	1,701,178
Other non-monetary assets	CPI	2,586,004	408,308
Expense and cost accounts	CPI	5,159,727	4,063,634
Total credits		46,337,370	44,566,246
Liabilities			
Shareholders' equity	CPI	(20,147,714)	(20,339,921)
Bank obligations	CPI	(181,871)	(23,966)
Bank obligations	UF	(6,772,363)	(5,719,598)
Bonds payable	UF	(6,272,001)	(5,780,309)
Other liabilities	UF	(695,721)	(6,256,996)
Non-monetary liabilities	CPI	(2,923,526)	(6,180,147)
Revenue accounts	CPI	(4,321,067)	(4,161,233)
Total charges		(41,314,263)	(48,462,170)
Net gain (loss) due to price-level restatement		5,023,107	(3,895,924)

NOTE 19 – FOREIGN EXCHANGE DIFFERENCES

The detail of the foreign exchange differences for the years ended December 31 is as follows:

	Currency	Amount	
		2002 ThCh\$	2001 ThCh\$
Assets (charges)/ credits			
Cash and financial investments	US dollar	4,547,598	3,723,356
Related company current accounts, net	US dollar	(17,402)	2,638,212
Accounts and notes receivable	US dollar	292,723	1,169,016
Other assets	US dollar	957,832	3,244,550
Other assets	Euro	320,909	75,438
Income from derivative instruments	US dollar	3,468,690	314,614
Income from hedging transactions in Brazil	Brazilian real	7,937,662	1,985,296
Translation adjustments	US dollar	29,332	1,496,014
Total gains		17,537,344	14,646,496
Liabilities (charges)/ credits			
Bank obligations	US dollar	(18,193,053)	(8,736,385)
Bank obligations	Euro	-	(174,709)
Accounts and notes receivable	US dollar	(1,325,011)	(5,387,096)
Other liabilities	US dollar	350,714	(325,790)
Translation adjustment Peru	Peruvian sol	73,438	(276,512)
Translation adjustment Brazil	Brazilian real	(10,248,365)	(5,121,301)
Translation adjustment foreign companies	US dollar	(358,809)	(998,075)
Translation adjustment Argentina	Argentine peso	(1,755,302)	(681,500)
Total losses		(31,456,388)	(21,701,368)
Net foreign exchange loss		(13,919,044)	(7,054,872)

NOTE 20 – STATEMENT OF CASH FLOWS

The composition of Cash and cash equivalents consists of all financial investments that are easily-convertible to cash with a maximum term of 90 days, including instruments acquired under repurchase agreements and fixed-income mutual funds. The detail of cash and cash equivalents is as follows:

	2002	2001
	ThCh\$	ThCh\$
Cash	5,037,535	4,323,886
Mutual funds	1,951,784	944,683
Time deposits	6,730,065	17,831,771
Transactions under repurchase agreements	79,367,788	31,400,250
Total	93,087,172	54,500,590

Other investment income includes:

	2002	2001
	ThCh\$	ThCh\$
Prepayment of loan to J. Ergas Inv. y Rentas Ltda.	21,140,256	-
Recovery of deposit in guarantee	903,224	-
Recovery of deposit in guarantee from sale of indirect subsidiary Lucchetti Argentina S.A.	711,200	-
Futures contract without hedged asset (Brazil)	-	1,251,600
Other	299,704	369,993
Total	23,054,384	1,621,593

Financing or investment activities that will affect future cash flows:

Financing activities

The subsidiary Empresas Lucchetti S.A. has commitments to make payments to Comercial Rabotrading Chile Ltda. under a repurchase agreement with that company. These payments which amount to a total of ThCh\$2,300,000, payable in installments between June 2, 2003 and September 1, 2003, include a commission calculated at a rate of 6.88% on the principal in UF from the contract date, plus adjustments for variations in the value of the UF.

NOTE 21 – DERIVATIVE CONTRACTS

Type of derivative	Type of contract	Nominal amount	Maturity date	Description of contract		Hedged item			Derivative instruments effect			
				Specific item	Purchase / Sale	Description	Initial amount	Closing amount	Asset / Liability		Effect on income	
									Name	Amount ThCh\$	Realized ThCh\$	Deferred ThCh\$
Forward	CCPE	11,103,450	1st qtr. 2003	Ex rt US\$	P	US\$ loan	11,103,450	10,779,150	CA	296,330	-	(296,330)
Forward	CCPE	7,358,300	1st qtr. 2003	Ex rt US\$	P	US\$ loan	7,358,300	7,186,100	CA	183,596	-	(183,596)
Forward	CCPE	7,355,300	1st qtr. 2003	Ex rt US\$	P	US\$ loan	7,355,300	7,186,100	CA	124,729	-	(124,729)
Forward	CCPE	5,123,650	1st qtr. 2003	Ex rt US\$	P	US\$ loan	5,123,650	5,030,270	CA	103,158	-	(103,158)
Forward	CCPE	7,017,500	1st qtr. 2003	Ex rt US\$	P	US\$ loan	7,017,500	7,186,100	CA	196,579	-	196,579
Forward	CCPE	9,189,570	1st qtr. 2003	Ex rt US\$	P	US\$ loan	9,189,570	9,341,930	CA	141,509	-	141,509
Forward	CCPE	7,319,500	1st qtr. 2003	Ex rt US\$	P	US\$ loan	7,319,500	7,186,100	CA	149,363	-	(149,363)
Forward	CCPE	7,032,500	1st qtr. 2003	Ex rt US\$	P	US\$ loan	7,032,500	7,186,100	CA	189,282	-	189,282
Forward	CCPE	5,564,560	1st qtr. 2003	Ex rt US\$	P	US\$ loan	5,564,560	5,748,880	CA	192,926	-	192,926
Forward	CCPE	10,405,500	1st qtr. 2003	Ex rt US\$	P	US\$ loan	10,405,500	10,779,150	CA	358,755	-	358,755
Forward	CI	21,000,000	2nd qtr. 2004	Ex rt US\$	S	-	-	-	LTL	263,216	(263,216)	-
Forward	CCTE	945,511	1st qtr. 2003	Ex rt US\$	P	Inventories	945,511	945,511	CL	23,679	-	(23,679)
Forward	CCPE	5,399,636	1st qtr. 2003	Ex rt US\$	P	US\$ loan	5,399,636	5,399,636	CA	239,374	239,964	-
Swap	CCPE	1,522,016	1st qtr.. 2003	Ex rt US\$	P	US\$ loan	1,562,016	1,562,014	CL	90,964	90,964	-
Swap	CCPE	6,475,201	2nd qtr. 2003	Ex rt US\$	P	US\$ loan	6,475,201	6,703,194	CA	1,710,530	1,710,530	-
Swap	CCPE	1,510,518	3rd qtr. 2003	Ex rt US\$	P	US\$ loan	1,510,518	1,510,518	CA	279,349	279,349	-
CA	Current assets											
CL	Current liabilities											
LTL	Long-term liabilities											

NOTE 22 - CONTINGENCIES AND RESTRICTIONS

a) Pledge over shares

Pledges over shares are shown under Contingencies and Restrictions – Indirect guarantees.

b) Mortgages and pledges

Lucchetti Chile S.A. maintains guarantees in favor of a group of banks under the terms of a syndicated loan agreement for UF 2,369,359 signed on December 10, 2001. The guarantees include pledges and mortgages over machinery, equipment, land and buildings of its plants at Santiago and Talca. As part of the same syndicated loan agreement, Lucchetti Chile has also pledged 50.1% of its shares and the rights to the trademarks Lucchetti, Talliani, Miraflores, Oro Vegetal and Naturezza.

Hoteles Carrera S.A. has a mortgage obligation in favor of Banco del Estado de Chile on the buildings and parking structure of the Hotel Araucano and its main hotel establishment located at Teatinos 180.

Alufoil S.A. has a mortgage obligation on its industrial plant in favor of Banco Santiago. It also has industrial plant equipment pledged to Banco Security.

c) Guarantees to third parties

Hoteles Carrera S.A. has rental and administration contracts with Santander Administradora de Fondos de Inversión for the La Serena Club Resort Hotel and with Hotelera Norte Sur S.A for the Carrera Club Hotel Antofagasta and Carrera Club Hotel Iquique, for which it provided a renewable insurance policy for the equivalent of six month's rent (ThCh\$150,697) and a renewable time deposit of ThCh\$123,908.

d) Situation of the investment in Lucchetti Perú S.A. and related extraordinary provision

On August 21, 2001, the Metropolitan Council of the Municipality of Lima published in the Diario El Peruano (the Official Gazette) two council resolutions (Nos. 258 and 259) declaring the public need to preserve the ecological area adjoining the production plant of Lucchetti Perú S.A. It authorized the mayor to prepare legislation for the expropriation of the land where the plant is built, to revoke the operating license granted by the Municipality of Chorrillos to Lucchetti Perú S.A. for its industrial facilities, and to order the final closure of the plant and its complete eradication within twelve months.

Consequently, on October 3, 2001, Empresas Lucchetti S.A. started proceedings to protect its rights and interests as a foreign investor under the Reciprocal Investment Promotion and Protection Treaty signed between Chile and Peru (hereinafter "the Treaty"). On the same day, Empresas Lucchetti S.A. delivered a letter addressed to the President of Peru requesting that the process of friendly negotiations begin, as set out in the Treaty, which lasts for a period of six months. After that period, if no agreement is reached, Empresas Lucchetti S.A. would be in a position to begin arbitration proceedings to resolve the dispute before an arbitration tribunal reporting to the International Center for the Settlement of Investment Disputes (ICSID).

In order to look for an amicable resolution, as provided for in the Treaty, Empresas Lucchetti S.A. wrote four letters to the President of Peru, none of which have been answered. On August 16, 2002, at the request of the then mayor of the Metropolitan Municipality of Lima, Mr. Alberto Andrade, Lucchetti Perú S.A., asked for an extension of the term granted by Municipal Resolution 259, expressly reserving its rights to approach the ICSID. This request was rejected by the Metropolitan Council of Lima on December 16, 2002.

On December 23, 2003, Empresas Lucchetti S.A., together with Lucchetti Perú S.A., then presented its request for arbitration to the General Secretary of ICSID, which required registration in order to constitute an arbitration tribunal to resolve the dispute arising between the investor and the Peruvian state as a result of Municipal Resolutions 258 and 259. Among other reasons, the presentation was mainly based on the argument that there was a total lack of technical and legal reasons for having adopted these resolutions.

In the opinion of Empresas Lucchetti S.A., there is no technical justification because Peru's own authorities for handling these matters have certified that there is full compliance with environmental regulations on the part of Lucchetti Perú S.A., and even certified that the plant was outside of the protected area. Examples of such authorities are the Peruvian National Natural Resources Institute (INRENA), the Ministry of Agriculture of Peru whose conclusions are contained in official letter No. 934-2002 of October 21, 2002 and the Peruvian National Police document No.188-2002 of June 7, 2002.

The company contends that the resolution also lacks a legal basis because, inter alia, the Municipal Council has no legal powers to revoke operating licenses granted by another municipality, in this case Chorrillos.

On January 6, 2003, Lucchetti Perú was notified by an official of the Municipality of Chorrillos to close the plant by threat of the use of public proceedings and the national police. Consequently, the Board of Directors of Empresas Lucchetti S.A. agreed to comply with the order as quickly as possible in order to protect its employees and installations, and to begin the orderly liquidation of the assets of the Peruvian subsidiary.

On January 16, 2003, the same enforcer and the Mayor of the Municipality of Chorrillos personally visited the plant, and they certified that it had been closed.

As a result of these events, Empresas Lucchetti S.A. decided to make a provision against the entire investment and for part of the accounts receivable of its subsidiary Lucchetti Perú, amounting to ThCh\$30,678,486. In making this decision, it took into account that it had to apply the provisions of Technical Bulletins Nos. 33 and 64 of the Chilean Association of Accountants, and also the instructions of the SVS (in particular, Circular 150 dated January 31, 2003) which informs public companies of the need to make provisions for the estimated loss in the value of their assets, especially with regard to investments in other Latin American countries.

In the opinion of the management of Empresas Lucchetti S.A., the provision reflects only the accounting effect of the non-recovery of the investment but does not quantify the intangible assets, for example, the distribution networks, customer portfolio, brand image, know-how, market share, sale of distribution services to third parties, and, the whole business project designed by Empresas Lucchetti S.A. Such intangible assets are not reflected in the accounts nor are they shown in the balance sheet. This provision therefore, that has to be constituted to comply with the above-mentioned accounting rules do not reflect the amount of the assets and rights effectively invested in Peru by Empresas Lucchetti S.A., and consequently, the amount of damages that Empresas Lucchetti S.A. could demand from the Peruvian state. The amount of the provision will therefore form only a part of the total amount demanded.

The management of Empresas Lucchetti S.A., backed by legal reports and analysis, considers that the actions carried out by the Peruvian authorities constitute an indirect expropriation of the investment made by Empresas Lucchetti S.A. in Peru, and as a consequence, believes that there is a reasonable legal basis under international law to obtain a favorable settlement for damages. Likewise, the legal advisers to Empresas Lucchetti S.A., such as Mr. Francisco Orrego Vicuña, the firm Arnold & Porter, and the law firm Eluchans y Cía., believe that the arbitration request qualifies for registration with the ICSID and has a high likelihood of success and that the amount of compensation should be based on the amounts invested in Peru. Despite these opinions, and in accordance with current accounting regulations, including the provisions of Technical Bulletin No.6 of the Chilean Association of Accountants, Empresas Lucchetti S.A. has decided not to record the potential settlement gain that might result from the international arbitration process.

e) Civil liability

Empresas Lucchetti S.A. is a liable third party in legal proceedings brought against certain of its executives and shareholders.

In the opinion of the management of Empresas Lucchetti S.A. and its legal advisers, should judgment be unfavorable to the interests of the Company, the resultant liability would not be significant with respect to the financial statements as a whole.

e) Lawsuits

As of December 31, 2002, Madeco S.A. has lawsuits pending against it with respect to its ordinary course of business which, according to the company's legal advisers, do not represent risks of significant losses.

There are legal proceedings in Brazil against the previous owner of Ficap S.A., a subsidiary of Madeco S.A., dating from the time prior to Madeco S.A.'s ownership starting in 1997. It is believed that total damages would be about US\$10 million. Madeco S.A. has personal guarantees from the previous owner of Ficap S.A. to indemnify Madeco S.A. should the Brazilian subsidiary be affected by these legal actions.

The subsidiary Madeco S.A. has filed an arbitration claim against Corning International Corporation ("Corning Inc.") based on the allegation that Corning Inc. has tried to terminate unjustifiably its agreements with Madeco S.A. relating to Optel Ltda. ("Optel"), a Brazilian company in which Corning Inc. and Madeco Brasil Ltda. (a subsidiary of Madeco S.A.) are joint owners. Corning, in turn, has made a counter-claim against Madeco S.A. seeking, among other things, that Corning be allowed to terminate its agreements with Madeco S.A., arguing that Optel is bankrupt. Depending on the outcome of this arbitration, the power of Madeco Brasil Ltda. to exercise its put option could be affected for the sale of its shares in Optel Ltda. to Corning Inc. for US\$18 million, subject to certain adjustments, between January 2004 and December 2005.

As of December 31, 2002, CNT Telefónica del Sur S.A. has the following lawsuits pending:

1) Case No. 2525-2001 in the Second Civil Court of Valdivia, with Ms. Regina Barra Arias for damages amounting to ThCh\$553,143. Judgment in the first instance is pending. CNT Telefónica del Sur S.A. has not made a provision for this case because it believes that it will not result in any significant damages.

2) Case No. 1874-2001 in the First Civil Court of Valdivia with Mr. Andrés González Lara for damages amounting to ThCh\$756,000. This case was rejected in the appeals court and the plaintiff has now taken it to the Supreme Court. The company has not made a provision for this case because it believes that it will not result in any significant damages.

3) Case No. 2831-2001 in the 2nd Civil Court of Valdivia with Mr. Marcleo Bastidas Villaroel for damages amounting to ThCh\$1,500,000. Judgment remains pending. The company has not made a provision for this case because it believes that it will not result in any significant damages.

g) Financial covenants and contingencies

As of December 31, 2002 Quiñenco and its group companies were in compliance with financial covenants related to current bond issuances and bank loan agreements.

1. Quiñenco and other group companies are subject to certain financial covenants with respect to bond issuances and loan agreements. The main financial covenants relating to Quiñenco and group companies as of December 31, 2002 are as follows:

- Maintain a ratio of unencumbered assets at book value to unsecured debt of at least 1.3:1.
- Unconsolidated interest-bearing debt to total capitalization ratio no greater than 0.45:1.
- Consolidated interest-bearing debt to total capitalization ratio no greater than 0.6:1.

- Minimum shareholders' equity of UF 33 million.
- Luksic Group to maintain control of Quiñenco.
- Quiñenco to maintain control of Banco de Chile (through its investment in LQ Inversiones Financieras S.A.).

2. CNT Telefónica del Sur S.A. is subject to certain financial covenants and restrictions related to its bond issuances and bank loan agreements. The main financial covenants as of December 31, 2002 are as follows:

CNT Telefónica del Sur S.A.

- Maintain a liquidity ratio of at least 0.50:1 on both an unconsolidated and consolidated basis.
- Leverage (liabilities/net worth) no greater than 1.5:1 on both an unconsolidated and consolidated basis.
- Minimum net worth of UF2,000,000.
- Investments in subsidiaries that are not eligible for investment by local pension funds or in shares that are not subject to approval by the Commission on Risk Classification may not exceed 20% of the company's consolidated net worth.
- Maintain a ratio of unencumbered assets to unsecured debt of at least 1.3:1.

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- Maintain a liquidity ratio of at least 1:1.
- Leverage (liabilities/net worth) no greater than 1.5:1.
- Investments in subsidiaries that are not eligible for investment by local pension funds or in shares that are not subject to approval by the Commission on Risk Classification may not exceed 20% of the company's net worth.
- Maintain a ratio of unencumbered assets to unsecured debt of at least 1.3:1.

3. Empresas Lucchetti S.A.'s, syndicated loan agreement stipulates that the following financial covenants must be met:

Covenants based on the consolidated financial statements of Lucchetti Chile S.A., excluding Lucchetti Perú S.A.:

	Annual	Semi-annual
Liquidity ratio of at least	1.0	1.0
Debt to equity ratio no more than	1.0	1.2

Covenants based on the consolidated financial statements of Empresas Lucchetti S.A.:

	Annual	Semi-annual
Liquidity ratio of at least	1.3	1.3
Debt to equity ratio no more than	1.5	1.6

In calculating the consolidated debt to equity ratio, the effect of the provision related to the closure of Lucchetti Perú S.A. is excluded. Should any of the participating banks consider it necessary, this ratio may reach a maximum of 3.9 times equity as of December 31, 2002. The ratio is scheduled to reduce gradually during the term of the loan.

With respect to interest coverage, Empresas Lucchetti S.A. has agreed to a ratio of at least 1.8 times for 2002 and at least 2.0 times for the successive years. This ratio will be calculated as the sum of the consolidated operating income of Lucchetti Chile S.A. (but excluding Lucchetti Perú S.A.) plus the unconsolidated operating income of Empresas Lucchetti S.A., divided by the sum of consolidated interest expense of Lucchetti Chile S.A. (excluding Lucchetti Peru S.A.) plus the unconsolidated interest expense of Empresas Lucchetti S.A.

Empresas Lucchetti S.A. and its subsidiary Lucchetti Chile S.A. have agreed to pay 80% of the amount received by the former, after deducting related expenses, of indemnities arising from the ICSID arbitration proceedings, to repay the last installment of the syndicated loan.

4. LQ Inversiones Financieras S.A. is subject to certain financial covenants and restrictions related to its bank loan agreements, including a maximum debt to capitalization ratio of 40% and minimum shareholders' equity of UF9,500,000. It must also maintain a minimum share coverage of 1.5:1 with topping up and closing out clauses. Additionally, Quiñenco must maintain control of LQ Inversiones Financieras S.A., and LQ Inversiones Financieras S.A. must maintain control of Banco de Chile.

5. As of December 31, 2002, Madeco S.A. is subject to certain financial covenants and restrictions related to its bond issuances and bank loan agreements. The main financial covenants as of December 31, 2002 are as follows:

i. Bonds

- Maintain a liquidity ratio of at least 1:1.
- Shareholders' equity plus minority interest at December 31, 2002 to be at least UF 7,000,000 (Bonds Series A and C).
- Debt to equity ratio (third-party liabilities/Shareholder's equity plus Minority interest) may not exceed 1.8:1 (Bonds Series A and C).
- Unencumbered assets to be 1.2 times the total amount of the issuance (Bonds series A and C).
- Short and long-term liabilities to net shareholders' equity may not exceed 2:1 starting March 2003 (Bonds Series B).
- As of March 31, 2003, a capital increase equivalent in pesos to US\$60,000,000 has been subscribed and paid in (Bonds series B).

The bond-holders meetings held on October 28, 2002 approved waivers to the covenants mentioned above until March 31, 2003.

In addition, the company must also comply with the following obligations and/or restrictions:

- That the bank loans or restructurings that it obtains as a result of the current financial restructuring of Madeco S.A. start their repayments no earlier than January 1, 2005, and the maximum repayment of the company's unconsolidated bank loans is the amount of the proceeds of the capital increase agreed at an extraordinary shareholders' meeting held for this purpose. While the financial restructuring of Madeco S.A. (at an individual level) is not completed, the company may not repay any bank loans until the proceeds of the capital increase are received or until May 30, 2003, whichever is earlier. Any maturities falling due within that period shall be renewed or refinanced according to market conditions.
- At the consolidated level, starting October 28, 2002 and until the date the proceeds from the above-mentioned capital increase are received, or until May 30, 2003, whichever is earlier, Madeco S.A. may make bank loan repayments up to a maximum of US\$4,000,000, excluding any repayments made to the Argentine subsidiaries to the extent that they are financed by the sale of assets of those subsidiaries. Any payment that Madeco S.A. decides to make to bond-holders with proceeds of the capital increase shall be subject to the holders in turn capitalizing bonds against the same capital increase for an amount of no less than 80% of the payment.
- That the controller of Madeco S.A. (Quiñenco S.A.) maintains that position with a direct or indirect shareholding of at least 40%, in accordance with clause 97 of the Securities Market Law.
- Maintain until the expiration of the contract (August 1, 2003) all of its assets completely unencumbered except for collateral over assets to cover supplier credits relating to these (Bonds series B).

ii. Bank loans:

On December 18, 2002 Madeco S.A. signed a contract with 12 local and 2 foreign banks modifying and rescheduling loans under the conditions described below. Madeco S.A., as a result, obtained waivers with respect to compliance with its obligations and restrictions relating to these bank loans.

The agreements consider the restructuring of the Madeco S.A. bank debt which totals approximately US\$120,000,000. The agreements provide for the payment of 30% of this amount upon compliance with the conditions contained in the agreements and the remaining 70% will be rescheduled over 7 years with 3 years grace, and will have interest rates of TAB plus 1.75 basis points for debts in UF and Libor plus 220 basis points for debts in US dollars.

The agreements are subject to compliance with certain conditions to be fulfilled by March 31, 2003, the most important being that the funds that Madeco S.A. receives as a result of the capital increase agreed at its extraordinary shareholders' meeting held on November 14, 2002 are no less than ThCh\$49,400,491 and that part of these funds are paid by Madeco S.A. to its bank creditors in a percentage equal to 30% of the debt outstanding with each of them.

The Parent Company of Madeco S.A., Quiñenco S.A., has expressed its commitment to subscribe to the capital increase for at least ThCh\$49,400,491.

h) Other contingencies

The indirect guarantees of the Parent company, as shown in the following table, include joint and several guarantees for the debts of the following subsidiaries: Agrícola El Peñón S.A., VTR S.A., Inversiones y Bosques S.A., Inversiones Ranquil S.A., Inversiones Punta Brava S.A., Inmobiliaria e Inversiones Hidroindustriales S.A. and LQ Inversiones Financieras S.A. The relative loan agreements include clauses regarding the use of the funds and financial covenants that are normal for this type of agreement.

Quiñenco S.A. has signed option contracts with the above companies, except LQ Inversiones Financieras S.A., which are exercisable between February 28, 2003 and February 28, 2006, which state:

- 1) Quiñenco S.A. may require that the above companies sell their shares in LQ Inversiones Financieras S.A. at a price to be determined based on the purchase price of these shares, plus the cost of borrowing, plus an extra 2.0% of the total of these.
- 2) The above companies may require Quiñenco S.A. to purchase shares of LQ Inversiones Financieras S.A. at a price to be determined based on the purchase price of these shares, plus the borrowing cost, plus an extra 0.5% of these amounts.

CNT Telefónica del Sur S.A. and Compañía de Teléfonos de Coyhaique S.A., are in compliance with all the regulations applicable to them as telecommunications companies.

Certain obligations were reciprocally agreed to between the parties to a share purchase agreement between VTR S.A. and SBC International Inc. dated June 16, 1999, which could result in adjustments to the sale price.

On August 14, 2001, Armat S.A., a subsidiary of Madeco S.A., signed a loan agreement with Scotiabank to restructure its working capital. The agreement means that Armat S.A. must comply, inter alia, with certain obligations principally regarding the delivery of semi-annual information, annual audited financial statements, certain financial ratios and obligations regarding the ownership of Armat S.A.

As of December 31, 2002, Armat S.A. is not in compliance with the financial covenants mentioned above. The management of Armat S.A. is therefore in conversations with Scotiabank to reach an agreement for resolving this non-compliance.

As of December 31, 2002 and 2001, Armat S.A. has commitments for metal purchases (mainly copper) at prices similar to fixed-price future sales contracts to hedge against the risk of metal price changes.

i) Indirect guarantees:

Creditor	Debtor Name	Relationship	Type of guarantee	Assets committed		Balance outstanding as of December 31			Release of collateral				
				Type	Book value	2002 ThCh\$	2001 ThCh\$	2003 ThCh\$	2004		2005		Assets
Banco del Estado de Chile	Inversiones Ranquil S.A.	Subsidiary	Pledge	Shares	-	-	4,872,773	-	-	-	-	-	-
Banco del Estado de Chile	Inversiones y Bosques S.A.	Subsidiary	Pledge	Shares	4,295,597	4,441,863	4,441,863	1,073,899	Shares	1,073,899	Shares	2,147,799	Shares
Banco del Estado de Chile	Inm. e Inv. Hidroindustriales S.A.	Subsidiary	Pledge	Shares	4,581,660	4,082,869	4,082,869	1,145,415	Shares	1,145,415	Shares	2,290,830	Shares
Banco del Estado de Chile	Inversiones Punta Brava S.A.	Subsidiary	Pledge	Shares	4,649,444	5,391,607	5,391,607	1,162,361	Shares	1,162,361	Shares	2,324,722	Shares
Banco del Estado de Chile	Agrícola El Peñon S.A.	Subsidiary	Joint & several guarantee	General	-	18,418,532	18,418,532	-	-	-	-	-	-
Banco del Estado de Chile	VTR S.A.	Subsidiary	Joint & several guarantee	General	-	12,558,090	12,558,090	-	-	-	-	-	-
Banco Santiago	LQ Inversiones Financieras S.A.	Subsidiary	Joint & several guarantee	General	-	21,757,561	29,010,109	-	-	-	-	-	-
Credit Lyonnais	LQ Inversiones Financieras S.A.	Subsidiary	Joint & several guarantee	General	-	5,389,575	-	-	-	-	-	-	-

Creditor	Debtor Name	Relationship	Type of guarantee	Assets committed		Balance outstanding as of December 31			Release of collateral				
				Type	Book value	2002 ThCh\$	2001 ThCh\$	2003 ThCh\$	Assets	2004 ThCh\$	Assets	2005 ThCh\$	Assets
Banco del Estado de Chile	Inversiones Punta Brava S.A.	Subsidiary	Joint & several guarantee	General	-	16,610,167	16,610,167	-	-	-	-	-	-
Banco del Estado de Chile	Inversiones Ranquil S.A.	Subsidiary	Joint & several guarantee	General	-	16,928,540	16,928,540	-	-	-	-	-	-
Banco del Estado de Chile	Inm. e Inv. Hidroindustriales S.A.	Subsidiary	Joint & several guarantee	General	-	16,255,845	16,255,845	-	-	-	-	-	-
Banco del Estado de Chile	Inversiones y Bosques S.A.	Subsidiary	Joint & several guarantee	General	-	16,162,747	16,162,747	-	-	-	-	-	-
Banco del Estado de Chile	Agrícola El Peñón S.A.	Subsidiary	Pledge & guarantee	Shares	14,398,085	18,418,532	18,553,479	3,463,606	Shares	3,463,606	Shares	6,927,213	Shares
Banco del Estado de Chile	Inversiones Ranquil S.A.	Subsidiary	Pledge & guarantee	Shares	13,233,327	12,055,766	12,060,388	2,794,261	Shares	2,794,261	Shares	5,588,522	Shares
Banco del Estado de Chile	Inm. e Inv. Hidroindustriales S.A.	Subsidiary	Pledge & guarantee	Shares	9,515,825	12,172,975	16,460,050	2,378,956	Shares	2,378,956	Shares	4,757,912	Shares
Banco del Estado de Chile	VTR S.A.	Subsidiary	Pledge & guarantee	Shares	9,816,876	12,558,090	12,650,098	2,454,219	Shares	2,454,219	Shares	4,908,438	Shares
Banco del Estado de Chile	Inversiones y Bosques S.A.	Subsidiary	Pledge & guarantee	Shares	9,162,418	11,720,884	11,725,378	2,290,605	Shares	2,290,605	Shares	4,581,210	Shares
Banco del Estado de Chile	Inversiones Punta Brava S.A.	Subsidiary	Pledge & guarantee	Shares	8,769,743	11,218,560	-	2,192,436	Shares	2,192,436	Shares	4,384,870	Shares

Creditor	Name	Debtor Relationship	Type of guarantee	Assets committed		Balance outstanding as of December 31			Release of collateral				
				Type	Book value	2002 ThCh\$	2001 ThCh\$	2003 ThCh\$	Assets	2004 ThCh\$	Assets	2005 ThCh\$	Assets
Banco Santiago	LQ Inversiones Financieras S.A.	Subsidiary	Pledge	Shares	42,031,035	21,757,561	29,109,375	14,010,399	Shares	14,010,399	Shares	14,010,237	Shares
BBVA - Banco BHIF	LQ Inversiones Financieras S.A.	Subsidiary	Pledge	Shares	18,629,576	27,460,357	27,470,885	-	-	18,629,576	Shares	-	-
Deutsche Bank A.G.	LQ Inversiones Financieras S.A.	Subsidiary	Pledge	Shares	65,717,979	57,488,800	-	19,715,394	Shares	30,230,270	Shares	15,772,315	Shares
Credit Lyonnais	LQ Inversiones Financieras S.A.	Subsidiary	Pledge	Shares	8,903,284	10,779,150	-	-	-	4,451,642	Shares	4,451,642	Shares
Deutsche Bank A.G.	LQ Inversiones Financieras S.A.	Subsidiary	Negative pledge	Shares	5,847,791	57,488,800	-	1,754,337	Shares	2,689,984	Shares	1,403,470	Shares
Credit Lyonnais	LQ Inversiones Financieras S.A.	Subsidiary	Negative pledge	Shares	888,984	5,389,575	-	-	-	444,492	Shares	444,492	Shares
Banco del Estado de Chile	Inversiones y Bosques S.A.	Subsidiary	Pledge	Shares	-	-	11,289,974	-	-	-	-	-	-
CTC Chile S.A.	VTR S.A.	Subsidiary	Pledge	Shares	4,407,878	4,501,778	8,838,360	4,407,878	Shares	-	-	-	-
Banco de Chile	Lucchetti Chile S.A.	Subsidiary	Mortgage	PP&E, trademarks & shares	18,088,815	8,439,500	4,113,125	-	-	-	-	18,088,815	PP&E, trademarks & shares
Banco Edwards	Lucchetti Chile S.A.	Subsidiary	Mortgage	PP&E, trademarks & shares	-	-	4,906,885	-	-	-	-	-	PP&E, trademarks & shares

Creditor	Name	Debtor Relationship	Type of guarantee	Assets committed		Balance outstanding as of December 31			Release of collateral				
				Type	Book value	2002	2001	2003	2004		2005		
						ThCh\$	ThCh\$	ThCh\$	Assets	ThCh\$	Assets	ThCh\$	Assets
Banco Corpbanca	Lucchetti Chile S.A.	Subsidiary	Mortgage	PP&E, trademarks & shares	14,470,734	6,751,599	7,216,008	-	-	-	-	14,470,734	PP&E, trademarks & shares
Banco Crédito e Inversiones	Lucchetti Chile S.A.	Subsidiary	Mortgage	PP&E, trademarks & shares	14,470,734	6,751,599	7,216,008	-	-	-	-	14,470,734	PP&E, trademarks & shares
Banco del Estado de Chile	Lucchetti Chile S.A.	Subsidiary	Mortgage	PP&E, trademarks & shares	15,194,191	7,089,179	7,576,809	-	-	-	-	15,194,191	PP&E, trademarks & shares
Banco del Desarrollo	Lucchetti Chile S.A.	Subsidiary	Mortgage	PP&E, trademarks & shares	5,788,453	2,700,640	2,886,403	-	-	-	-	5,788,453	PP&E, trademarks & shares
Banco Dresdner Banco	Lucchetti Chile S.A.	Subsidiary	Mortgage	PP&E, trademarks & shares	4,341,539	2,025,480	2,164,803	-	-	-	-	4,341,539	PP&E, trademarks & shares
Banco Scotiabank Sudamericano	Lucchetti Chile S.A.	Subsidiary	Mortgage	PP&E, trademarks & shares	7,233,775	3,375,800	3,608,003	-	-	-	-	7,233,775	PP&E, trademarks & shares
Banco de Crédito del Perú	Lucchetti Chile S.A.	Subsidiary	Industrial pledge	Machinery & mill equipment	-	-	8,272,604	-	-	-	-	5,344,056	Machinery & mill equipment

Creditor	Name	Debtor Relationship	Type of guarantee	Assets committed		Balance outstanding as of December 31			Release of collateral				
				Type	Book value	2002 ThCh\$	2001 ThCh\$	2003 ThCh\$	2004		2005		
									Assets	ThCh\$	Assets	ThCh\$	Assets
Banco del Estado de Chile	Hoteles Carrera S.A.	Subsidiary	Mortgage	Bldg. & parking lots Hotel Araucano	4,270,112	4,507,974	5,011,234	-	-	-	-	-	-
Banco del Estado de Chile	Hoteles Carrera S.A.	Subsidiary	Mortgage	Bldg, Hotel Carrera	8,343,248	4,507,974	5,011,234	-	-	-	-	-	-
Banco Santiago	Alufoil S.A.	Subsidiary	Mortgage	Industrial plant	670,847	247,010	261,013	-	-	30,516	39,964	30,516	42,452
Banco Security	Alufoil S.A.	Subsidiary	Pledge	Industrial machinery	1,475,719	2,135,989	2,718,816	650,421	449,365	617,656	426,728	610,053	421,475
ABN Amro Bank	Alusa S.A.	-	Guarantee	-	-	-	903,784	-	-	-	-	-	-
Banco Security	Grupo Dragados	Customer	Performance bond	-	-	-	57,049	-	-	-	-	-	-
Banco Security	Empresa Const. Sigro	Customer	Performance bond	-	-	-	36,369	-	-	-	-	-	-
Banco Security	Ingevec	Customer	Performance bond	-	-	-	25,497	-	-	-	-	-	-
Banco Security	Inmobiliaria Las Verbenas	Customer	Performance bond	-	-	-	17,852	-	-	-	-	-	-
Banco Security	Hewston Y Puga Ltda.	Customer	Performance bond	-	-	-	10,574	-	-	-	-	-	-
Sudameris/ Real	Ficap S.A.	-	E Np contract performance	-	-	75,862	-	75,862	-	-	-	-	-
Seg,Bras,/Inter- Atlántico	Ficap S.A.	-	Cadastro Irb/Insurance	-	-	3,262,746	-	-	-	1,156,198	-	2,106,548	-
Sudameris	Ficap S.A.	-	E Np contract(bid)	-	-	87,964	-	44,287	-	43,677	-	-	-

Creditor	Name	Debtor Relationship	Type of guarantee	Assets committed		Balance outstanding as of December 31			Release of collateral				
				Type	Book value	2002 ThCh\$	2001 ThCh\$	2003 ThCh\$	Assets	2004 ThCh\$	Assets	2005 ThCh\$	Assets
ITAÚ/SAFRA/ BCN/SAM	Ficap S.A.	-	E Np contract (Finan.)	-	-	180,605	-	-	-	29,578	-	151,027	-
ITAÚ/SAFRA/ BCN/SAM	Ficap S.A.	-	Property, plant & equip.	-	296,508	370,698	-	370,698	-	-	-	-	-
ITAÚ/SAFRA/ BCN/SAM	Ficap S.A.	-	Property, plant & equip.	-	110,658	110,658	-	110,658	-	-	-	-	-
Bco. Central Costa Rica	Armat S.A.	-	Performance bond	Cash	24,364	24,816	24,471	24,816	-	-	-	-	-
Bco. Central Tailandia	Armat S.A.	-	Performance bond	Cash	45,052	21,968	-	21,968	-	-	-	-	-
Bco. Central Peru	Armat S.A.	-	Performance bond	Cash	71,634	71,634	-	71,634	-	-	-	-	-
Bco. Central Honduras	Armat S.A.	-	Performance bond	Cash	32,337	32,337	-	32,337	-	-	-	-	-
Bco. Central Indonesia	Armat S.A.	-	Performance bond	Cash	77,803	77,803	-	77,803	-	-	-	-	-
Bco. Central Guatemala	Armat S.A.	-	Performance bond	Cash	-	-	611,001	-	-	-	-	-	-
Bco. Central Portugal	Armat S.A.	-	Performance bond	Cash	-	-	332,851	-	-	-	-	-	-
Others	Armat S.A.	-	Performance bond	Cash	-	-	1,045,061	-	-	-	-	-	-
Bank Boston	Ingewall S.A.	Indirect subsidiary	Performance bond	-	-	896,061	1,612,519	-	-	-	-	-	-

Creditor	Name	Debtor Relationship	Type of guarantee	Assets committed		Balance outstanding as of December 31			Release of collateral				
				Type	Book value	2002 ThCh\$	2001 ThCh\$	2003 ThCh\$	2004		2005		
									Assets	ThCh\$	Assets	ThCh\$	Assets
Citibank	Ingewall S.A.	Indirect subsidiary	Perf. bond	-	-	595,349	547,253	-	-	-	-	-	-
ABN-Rabobank- América	Alusa Overseas S.A.	Subsidiary	Guarantee	-	-	-	2,293,075	-	-	-	-	-	-
Citibank N.A.	Aluflex S.A.	Subsidiary	Guarantee	-	-	-	3,965,313	-	-	-	-	-	-

NOTE 23 – GUARANTEES OBTAINED FROM THIRD PARTIES

On December 23, 1999, J. Ergas Inversiones y Rentas Ltda. guaranteed payment of the 414,018,557 shares in Banco Edwards to the Company.

On September 9, 2002, J. Ergas Inversiones y Rentas Ltda. prepaid the full balance of the debt outstanding on this purchase and Quiñenco S.A. therefore released the pledges and prohibitions covering these shares.

NOTE 24 - SANCTIONS

During 2002 and 2001, neither the Company nor its directors or managers received any sanctions from the SVS or any other regulatory authority.

NOTE 25 – SUBSEQUENT EVENTS

On January 14, 2003, the Company informed the SVS of the following:

“In accordance with the provisions of article 9th and subsection 2. of article 10th of Law number 18.045, having been duly authorized, I hereby inform you, under the qualification of Essential Information, of the following:

1) On January 13, 2002, Quiñenco S.A. on the one hand, and the companies Schörghuber Stiftung & Co. Holding K.G., Bayerische Brau Holding A.G. and FHI Finance Holding International B.V. on the other, executed a Settlement and Release Agreement by which they agreed to fully and finally settle and put an end to the arbitration proceeding initiated before the International Court of Arbitration of the International Chamber of Commerce, Case number 11681/KGA, the parties waiving, extinguishing and withdrawing their respective claims and granting each other a complete release in respect of those claims.

In addition, Quiñenco S.A. has agreed to file a voluntary waiver of its petition to designate an arbitrator initiated before the 10th Civil Court of Santiago, case number 2619-2000, “Quiñenco S.A.” and a voluntary waiver of its appeal filed before the Court of Appeals of Santiago in respect of the aforementioned proceeding, case number 2581-2001.

Pursuant to the Settlement and Release Agreement and the voluntary waivers referred to hereinabove, all disputes between the parties, as the only shareholders of the joint stock company Inversiones y Rentas S.A. and members of the controller of the joint stock company Compañía Cervecerías Unidas S.A., have been completely resolved and terminated.

In accordance with the Settlement and Release Agreement, the Shareholders’ Agreement entered into between the shareholders of Inversiones y Rentas S.A. on April 14, 1994 has been amended on January 13, 2003 and shall remain, as amended, in full force and effect.

2) As part of the agreements reached referred to in paragraph 1) above FHI Finance Holding International B.V. has undertaken to pay to Quiñenco S.A. the amount of 50 million United States dollars, not later than January 31, 2003.

3) In the amendment to the Shareholders' Agreement, it was agreed that within a maximum period of three years starting on January 13, 2003, Schörghuber Stiftung & Co. Holding K.G. shall have the right to transfer its shares in FHI Finance Holding International B.V., or, alternatively, the latter shall have the right to sell its shares in Inversiones y Rentas S.A., to Heineken International B.V. (hereinafter referred to as “Heineken”), which sale shall not be subject to the procedures of First Refusal or of First Offer, as the case may be, regulated by the Shareholders’ Agreement entered into amongst the said parties.

The above referred transfer to Heineken shall be subject to the following conditions:

a) Heineken shall not compete against Compañía Cervecerías Unidas S.A. (“CCU”) in the so called “CCU

Territories” (Chile and Argentina);

b) Heineken shall grant to CCU, subject to entering into a license agreement on Heineken’s customary terms and conditions, the exclusive right to produce, market, sell and distribute the Heineken brand in Chile and Argentina, and shall not grant any such license to any party other than CCU in Chile and Argentina for so long as it owns any interest in Inversiones y Rentas S.A.; and

c) Heineken shall agree to be bound by the terms of the Shareholders’ Agreement entered into amongst the parties in Inversiones y Rentas S.A. on April 14, 1994, as amended on January 13, 2003, as successor to all the rights and obligations of Schörghuber Stiftung & Co. Holding K.G. and FHI Finance Holding International B.V.

4) The extraordinary board meeting of Inversiones y Rentas S.A. held on January 13, 2003, decided to cause Inversiones y Rentas S.A. to propose to the board of the subsidiary Compañía Cervecerías Unidas S.A. to submit to the approval of the shareholders, at the proper instances, a distribution of dividends equal to 100% of the net profits for the year 2002. It has also been agreed to propose the distribution as eventual dividend against the retained earnings, of CH\$ 168,700,000,000, within the next 180 days, in one or more installments.

5) Simultaneously with the above, the company Southern Breweries Establishment (“SBE”) of which CCU owns 50%, has agreed with Heineken, in principle, the terms of the sale to Heineken of SBE’s stake in the Croatian company Karlovacka pivovara d.d. (“Cervecería de Karlovac”), at a price equal to ten times EBITDA; subject to *inter alia* prior regulatory approval and approval of the respective boards of Heineken and SBE and its controlling companies, being Lanzville Investments Establishment and CCU, who shall be presented with information relating to such transaction”.

The ordinary board meeting of Quiñenco S.A. held on January 6, 2003, authorized Guillermo Luksic, in his capacity as Chairman, to sign the Essential Information communication.

NOTE 26 – CONSOLIDATED FINANCIAL STATEMENTS OF LQ INVERSIONES FINANCIERAS AND ITS BANKING SUBSIDIARIES

As mentioned in Note 2d), the investments in Banco de Chile and Sociedad Matriz de Banco de Chile S.A. are shown at their equity-method value.

For a complete interpretation of these financial statements, the following shows the consolidated financial statements of LQ Inversiones Financieras S.A. and subsidiaries prepared in accordance with the presentation rules issued by the SBIF.

LQIF and Banking Subsidiaries
Consolidated Balance Sheets
As of December 31

	2002	2001
	ThCh\$	ThCh\$
Assets		
Cash	676,426,489	794,963,275
Loans		
Commercial loans	2,517,318,620	2,791,327,811
Foreign trade loans	611,671,009	536,149,932
Consumer loans	412,757,279	399,150,721
Mortgage loans	1,187,270,843	1,303,731,329
Leasing contracts	249,092,551	255,454,772
Contingent loans	381,767,414	382,421,894
Other current loans	601,880,024	437,456,664
Overdue loans	144,936,841	124,300,849
Total loans	6,106,694,581	6,229,993,972
Less : Allowances for loan losses	(195,436,350)	(193,833,630)
Total loans, net	<u>5,911,258,231</u>	<u>6,036,160,342</u>
Other credit operations		
Interbank loans	54,817,908	29,653,430
Investments purchased under agreements to resell	46,439,061	53,822,974
Total other credit operations	<u>101,256,969</u>	<u>83,476,404</u>
Investments		
Central Bank & treasury securities	869,351,536	1,145,742,024
Other financial investments	420,914,467	643,692,293
Investment collateral under agreements to repurchase	276,456,846	228,218,998
Assets to be leased	23,530,762	7,726,007
Assets received in lieu of payment	18,996,767	33,840,105
Other non-financial investments	2,503	2,015
Total investments	<u>1,609,252,881</u>	<u>2,059,221,442</u>
Other assets		
Other assets	191,965,638	167,934,711
Total other assets	<u>191,965,638</u>	<u>167,934,711</u>
Fixed assets		
Premises and equipment, net	139,344,183	148,874,772
Investments in other companies	4,776,671	5,361,761
Negative goodwill	(457,870)	(485,148)
Goodwill	311,999,333	329,727,640
Total fixed assets	455,662,317	483,479,025
Total Assets	<u>8,945,822,525</u>	<u>9,625,235,199</u>

LQIF and Banking Subsidiaries
Consolidated Balance Sheets
As of December 31

	2002	2001
	ThCh\$	ThCh\$
Liabilities and Shareholders' Equity		
Deposits and other obligations		
Current accounts	1,072,159,367	938,281,176
Savings and time deposits	3,658,157,336	4,237,640,832
Bankers' drafts and other deposits	503,718,181	845,658,428
Investments sold under agreements to repurchase	276,675,043	255,275,542
Mortgage finance bonds	1,084,041,244	1,394,924,927
Contingent liabilities	380,992,443	382,053,208
Total deposits and other obligations	<u>6,975,743,614</u>	<u>8,053,834,113</u>
Bonds obligation		
Bonds	4,592,542	8,170,813
Subordinated bonds	277,654,204	271,527,418
Total bonds obligation	<u>282,246,746</u>	<u>279,698,231</u>
Borrowings from financial institutions		
Central Bank of Chile credit lines for renegotiation of loans	3,763,267	4,520,794
Other Central Bank of Chile borrowings	-	74,754,585
Borrowings from domestic financial institutions	218,877,871	102,858,067
Foreign borrowings	510,344,221	336,115,221
Other obligations	75,895,971	73,739,969
Total borrowings from financial institutions	<u>808,881,330</u>	<u>591,988,636</u>
Other liabilities		
Provision for payment of subordinated obligation with Central Bank of Chile	22,545,825	58,135,724
Other liabilities	138,712,884	162,802,315
Total other liabilities	<u>161,258,709</u>	<u>220,938,039</u>
Total liabilities	<u>8,228,130,399</u>	<u>9,146,459,019</u>
Voluntary provisions	<u>20,557,257</u>	<u>38,913,294</u>
Minority interest	<u>290,683,194</u>	<u>292,206,841</u>
Shareholders' Equity		
Capital and reserves	420,703,481	158,842,665
Other equity accounts	5,549,768	705,297
Net loss for the year	(19,801,574)	(11,891,917)
Total Shareholders' Equity	<u>406,451,675</u>	<u>147,656,045</u>
Total Liabilities and Shareholders' Equity	<u>8,945,822,525</u>	<u>9,625,235,199</u>

LQIF and Banking Subsidiaries
Consolidated Statements of Income
For the years ended December 31

	2002	2001
	ThCh\$	ThCh\$
Interest revenue and expenses		
Interest revenue	689,701,468	816,696,200
Gains from trading and brokerage activities	23,251,327	23,531,771
Income from fees and other services	94,245,133	90,130,799
Foreign exchange gains, net	-	4,017,940
Other operating income	9,617,393	5,365,098
Total operating revenues	<u>816,815,321</u>	<u>939,741,808</u>
Less :		
Interest expense	(337,203,896)	(488,310,469)
Losses from trading and brokerage activities	(9,915,023)	(10,652,486)
Other services expenses	(13,569,924)	(13,274,359)
Net foreign exchange loss	(35,308,848)	-
Other operating expenses	(3,576,139)	(4,020,505)
Gross margin	<u>417,241,491</u>	<u>423,483,989</u>
Personnel salaries and expenses	(134,308,200)	(133,173,858)
Administrative and other expenses	(101,157,280)	(101,965,120)
Depreciation and amortization	(23,237,123)	(19,009,105)
Net margin	<u>158,538,888</u>	<u>169,335,906</u>
Provision for loan losses	(132,554,026)	(95,336,019)
Loan loss recoveries	11,913,733	16,072,227
Operating income	<u>37,898,595</u>	<u>90,072,114</u>
Non-operating results		
Non-operating income	6,782,980	14,692,871
Non-operating expenses	(19,929,551)	(9,969,000)
Equity participation, net in (loss) income of equity-method investments	(969,380)	2,591
Amortization of negative goodwill	25,999	26,129
Amortization of goodwill	(17,728,307)	(17,619,161)
Price-level restatement, net	(7,536,970)	(9,246,986)
Income before taxes	<u>(1,456,634)</u>	<u>67,958,558</u>
Provision for income taxes	1,803,894	2,110,974
Income after taxes	<u>347,260</u>	<u>70,069,532</u>
Voluntary provisions	17,222,640	(3,206,988)
Provision for payment of subordinated debt obligation		
with Central Bank of Chile	(22,545,825)	(58,135,724)
Minority interest	(14,825,649)	(20,618,737)
Net loss for the year	<u><u>(19,801,574)</u></u>	<u><u>(11,891,917)</u></u>

LQIF and banking subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31

	2002	2001
	ThCh\$	ThCh\$
Cash flows from operating activities		
Net loss for the year	(19,801,574)	(11,891,917)
Charges (credits) to income which do not represent cash flows:		
Depreciation and amortization	40,933,415	18,448,626
Provisions for loan losses	132,554,026	95,336,015
Voluntary provisions	(17,222,640)	3,206,988
Net change in market value of investments	(15,571,700)	(9,961,071)
Loss on investments in other companies	969,380	17,590,412
Gain on sale of assets received in lieu of payment, net	-	(2,904,903)
Gain on sale of property, plant and equipment	(349,982)	(233,241)
Minority interest	14,825,649	20,618,737
Write-offs and allowances of property, plant and equipment	4,178,422	2,904,747
Price-level restatements, net	7,536,970	9,247,013
Other charges to income that do not represent cash flows	21,674,515	1,200,301
Net variation in accrued interest, indexation adjustments and fees	157,024	4,093,832
Provision for subordinated debt obligation	22,545,825	58,135,724
Net cash provided by operating activities	<u>192,429,330</u>	<u>205,791,263</u>
Cash flows from investing activities		
Increase in loans, net	(120,908,476)	(49,221,578)
Increase in other credit operations, net	(8,296,307)	(543,344)
(Increase) decrease in investments, net	120,032,611	(403,372,511)
Purchase of property, plant and equipment	(11,996,945)	(16,685,762)
Sale of property, plant and equipment	1,292,155	1,343,639
Investments in other companies	(386)	(154,027,970)
Dividends received from investments in other companies	-	323,962
Sale of assets received in lieu of payment	-	8,025,784
Net changes in other assets and liabilities	(23,705,828)	(8,875,626)
Net cash used in investing activities	<u>(43,583,176)</u>	<u>(623,033,406)</u>

LQIF and banking subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31

	2002	2001
	ThCh\$	ThCh\$
Cash flows from financing activities		
Increase (decrease) in deposits and borrowings	(488,246,704)	380,216,500
Increase in bond obligations, net	3,012	99,544,678
Increase in interbank borrowings, net	61,686,855	5,143,964
Capital increase	273,753,890	84,225,907
Dividends payable	(23,277,783)	(20,284,320)
Payment of subordinated debt obligation	(56,441,918)	(54,786,133)
Net cash (used in) provided by financing activities	<u>(232,522,648)</u>	<u>494,060,596</u>
Net cash flow for the year	(83,676,494)	76,818,453
Effect of inflation on cash and cash equivalents	<u>(22,965,667)</u>	<u>(24,455,913)</u>
Net (decrease) increase in cash and cash equivalents	<u>(106,642,161)</u>	<u>52,362,540</u>
Cash and cash equivalents added through the merger of		
Banco de Chile with Banco Edwards	251,180,422	-
Cash and cash equivalents, beginning of year	<u>546,149,876</u>	<u>745,024,621</u>
Cash and cash equivalents, end of year	<u><u>690,688,137</u></u>	<u><u>797,387,161</u></u>

NOTE 26.1 – SIGNIFICANT ACCOUNTING PRINCIPLES

a) Information provided

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Chile and the specific accounting standards of the various regulating entities in each area of business: SBIF, SVS and banking regulations of the United States of America, as applicable, and Law No. 19,396, which modifies the terms of payment of the subordinated debt obligation with the Chilean Central Bank.

b) Basis of consolidation

These consolidated financial statements include the assets, liabilities and results of the subsidiaries detailed below:

	Direct and indirect shareholding	
	2002	2001
	%	%
Banco Edwards and subsidiaries	-	51.17
SM Chile S.A. and subsidiaries	51.35	51.35
Inversiones LQ SM S.A.	99.99	-

The financial statements of Sociedad Matriz del Banco de Chile (SM Chile S.A.) and subsidiaries include the consolidation of the following direct and indirect subsidiaries: Banco de Chile, SAOS S.A., Banchile Corredores de Bolsa S.A., Banchile Asesoría Financiera S.A., Banchile Corredora de Seguros Ltda., Banchile Factoring S.A., Banco de Chile New York Branch, Banco de Chile Miami Agency, Banchile Administradora General de Fondos S.A., Banchile Securitizadora S.A., Promarket S.A. and Socofin S.A.

For purposes of consolidation, the financial statements of Banco de Chile New York Branch and Banco de Chile Miami Agency have been converted to Chilean pesos in accordance with Technical Bulletin 64 of the Chilean Association of Accountants, which relates to the valuation of foreign investments in countries with stable economies. Unrealized exchange differences on these investments are shown in Shareholders' equity in the Adjustment for translation differences account in Other reserves.

The merger of Banco de Chile and subsidiaries with Banco Edwards and subsidiaries became effective on January 1, 2002. All of the assets and liabilities, as well as the subsidiaries of Banco Edwards were absorbed by Banco de Chile, which has become the successor for all legal purposes.

In 2001, the financial statements of Banco Edwards and subsidiaries include the consolidation of the following direct and indirect subsidiaries: Banedwards S.A., Corredores de Bolsa, Banedwards S.A. Asesoría Financiera, Banedwards S.A., Administradora de Fondos Mutuos, Banedwards S.A., Administradora de Fondos de Inversión, Banedwards Corredora de Seguros Limitada, Banedwards S.A., Factoring and Banedwards S.A. Securitizadora.

The effects of unrealized income on transactions with the subsidiaries have been eliminated and the participation of minority investors has been recorded and is shown in the Balance Sheet in the account Minority interest.

c) Interest and adjustments

Loans, investments and obligations are shown with interest and indexation adjustments accrued as of year-end.

The Bank suspends the accrual of interest and principal indexation adjustments on loans that are overdue or when recovery is doubtful.

d) Price-level restatement

Shareholders' equity, fixed assets and other non-monetary assets and liabilities have been restated in accordance with changes in the CPI, which resulted in a net charge to income of ThCh\$7,536,970 (ThCh\$9,246,986 in 2001). Income statement accounts have also been price-level adjusted except for the subsidiaries regulated by the SBIF.

e) Basis of translation

Assets and liabilities denominated in Unidades de Fomento (UF) have been valued at Ch\$16,744,12 per UF1 (Ch\$16,262,66 per UF1 in 2001).

f) Foreign currency

Assets and liabilities in foreign currency of subsidiaries regulated by the SBIF are shown at their equivalent value in Chilean pesos, calculated at the closing exchange rate of Ch\$712.38 per US\$1.00 at December 31, 2002 (Ch\$656.20 per US\$1.00 as of December 31, 2001), which does not differ significantly from the exchange rate applied by subsidiaries supervised by the SVS.

The balance of ThCh\$35,308,848 (gain of ThCh\$ 4,017,940 in 2001) corresponding to a net loss on foreign exchange presented in the Statement of Income includes gains and losses from foreign exchange transactions and the recognition of the effect of variations in the exchange rate on foreign currency assets and liabilities.

g) Financial investments

Investments in financial instruments traded on secondary markets are shown adjusted to their market value, as instructed by the SBIF. These instructions specify that the adjustments must be recorded in income for the year, except when they are made in relation to the permanent portfolio, in which case, subject to certain limits, they may be recorded in the shareholders' equity account "Fluctuation in financial investment values".

Adjusting these investments to market value resulted in a net credit to income of ThCh\$15,571,655 in 2002 (ThCh\$9,839,600 in 2001), which is included in Operating income in the account Gains from trading and brokerage activities. The adjustment to the permanent portfolio resulted in a net credit to equity of ThCh\$9,082,716 in 2002 (ThCh\$1,879,414 in 2001).

Other investments correspond to financial instruments, which are presented at their restated cost plus accrued interest.

h) Premises and equipment

Premises and equipment are shown at restated cost and net of depreciation calculated using the straight-line method over the useful lives of the respective assets. Properties held for sale amount to ThCh\$6,551,361 as of December 31, 2002. In order to reflect the realizable value of these assets, an allowance has been made against income for the year of ThCh\$2,743,813. In addition, ThCh\$1,434,688 was written off against income with respect to the renovation of rented premises that were closed.

i) Investments in other companies

Shares or rights in companies in which there is a holding of 10% or more, or in which at least one member of the board or management can be elected or appointed, are shown recorded in assets at their equity-method value.

j) Derivative contracts

Banco de Chile and its subsidiaries value their foreign currency forward contracts using the daily observed exchange rate and the resulting gains or losses are shown in the consolidated statement of income on an accrual basis. The initial premium or discount on these contracts is deferred and included in determining net income over the life of the contract. The net interest effect of the Bank's interest rate swap contracts, which corresponds to the difference between interest income and interest expense arising from such agreements, is recorded in net income in the period that cash differences originate.

Banco de Chile and its subsidiaries also record in income an adjustment to mark to market their portfolio of swap contracts used to hedge interest rate and foreign currency risks of their foreign investments portfolio.

k) Allowance for doubtful assets

The allowances required to cover the risk of asset losses have been made in accordance with the regulations of the SBIF. Assets are shown net of such allowances, except for loans, in which case the total allowance is netted against the total loan balance.

l) Voluntary provisions

In accordance with the General Banking Law, financial institutions can make special provisions called Voluntary provisions which may be counted as effective equity for compliance with various regulations contained in the law. The amount maintained as of each year-end and its effect on income is shown in the Consolidated Balance Sheets and Consolidated Statements of Income.

m) Income taxes and deferred income taxes

The income tax provision has been determined in accordance with current legislation, in particular, Circular 41 and in the case of SM Chile S.A., Official Letter 1,874 issued by the Chilean Internal Revenue Service. The effects of deferred income taxes arising from timing differences between the financial and tax position have been recorded on an accrual basis in accordance with Technical Bulletins 60, 69 and 71 of the Chilean Association of Accountants.

n) Staff vacations

The annual cost of staff vacations and benefits is presented on an accrual basis.

o) Severance indemnities

The subsidiary Banco de Chile has agreements with some of its staff for the payment of severance indemnities for those who have been with the company over 30 years, upon leaving the company. At year-end, the Bank has accrued in the obligation the portion earned but not yet exercised by qualified employees.

As of December 31, 2002 and 2001, a provision has been made for this obligation on the basis of its present value discounted at a real annual rate of 7%.

p) Cash and cash equivalents

LQ Inversiones Financieras S.A. considers all its short-term investments made as part of its cash management strategy and whose maturities do not exceed 90 days from the date of investment, including repurchase agreements and mutual funds, as cash and cash equivalents. The banking subsidiaries, in accordance with the specific provisions applicable to financial institutions, have considered cash and cash equivalents to be only the cash shown in the Consolidated Balance Sheets. The Consolidated Statements of Cash Flows have been prepared using the indirect method.

NOTE 26.2 – BACKGROUND OF SUBSIDIARY SOCIEDAD MATRIZ DEL BANCO DE CHILE S.A.

During the extraordinary shareholders' meeting held on July 18, 1996, pursuant to Law No. 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 S.A. then created a second wholly-owned subsidiary, Sociedad Administradora de la Obligación Subordinada S.A., or SAOS S.A., 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.

On November 8, 1996, Banco de Chile was transformed into Sociedad Matriz del Banco de Chile S.A., or SM Chile S.A. and proceeded to transfer all its assets, liabilities and memorandum accounts, except the subordinated obligation, to the new banking company Banco de Chile. On the same date, the company subscribed and paid in a capital increase to SAOS S.A. through the transfer of 28,593,701,789 of Banco de Chile shares representing a 63.64% holding, which were pledged as collateral to the Central Bank of Chile; simultaneously responsibility passed to SAOS S.A. to pay the subordinated obligation, thus freeing SM Chile S.A. from the obligation. The company maintains the commitment to transfer to SAOS S.A. the dividends and free shares relating to 567,712,826 shares of Banco de Chile, while the latter still has the subordinated obligation with the Central Bank of Chile.

The company will remain in existence until the subordinated obligation of SAOS S.A. with the Central Bank of Chile is extinguished. When this occurs, its shareholders will be assigned the shares that the company has in Banco de Chile.

SM Chile S.A. is governed by Law No. 19,396 and is subject to the regulatory authority of the SBIF.

NOTE 26.3 – PROVISION FOR PAYMENT OF THE BANCO DE CHILE SUBORDINATED DEBT

The provision for payment of the seventh annual installment (of the 40 total installments of UF 3,187,363.9765 each) of the subordinated obligation with the Chilean Central Bank as of December 31, 2002 was ThCh\$22,545,825 (ThCh\$58,135,724 in 2001), equivalent to UF 1,346,492.07 (UF3,470,677.61 in 2001), which corresponds to the amount which according to the contract covering the obligation must be paid to the Central Bank in April 2003. The final amount of the annual installment will be known once Banco de Chile's shareholders have determined on the distribution of the 2002 net income.

NOTE 26.4 – ACCOUNTING CHANGES

There have been no accounting changes during 2002 that significantly affect these financial statements, except for the accounting change indicated in the consolidated financial statements of the subsidiary Banco de Chile of the elimination of investments in the Bank's own mortgage finance bonds, and the corresponding obligation, for an amount of MCh\$202,629.9 and MCh\$200,765.7 respectively, as established in SBIF Circular No. 3196.

NOTE 26.5 – SUBSEQUENT EVENTS

There are no other events of a financial or other nature occurring between December 31, 2002 and the date of issuance of these consolidated financial statements that would significantly affect their interpretation.

5. The notes accompanying this report are a summarized version of the financial statements filed with the Chilean Superintendency of Securities and Insurance. We have also issued a similarly dated audit opinion on the financial statements, which includes additional information required by the Chilean Superintendency of Securities and Insurance. Management believes that these additional disclosures are not necessary for an adequate understanding of the financial statements.



Arturo Selle S.

ERNST & YOUNG LTDA.

Santiago, Chile March 15, 2003