



## LETTER FROM THE CHAIRMAN OF THE BOARD

Dear Shareholders,

The 2001 business year was marked by numerous challenges and considerable achievements, but it was not without its difficulties. Notwithstanding, Quiñenco was able to strengthen its long-term potential and, aside from improving returns, is ready for what the future holds. For this reason, the Annual Report and Financial Statements for 2001 carry a stamp of optimism and confidence in what is to come.

Among the first tasks of the financial year was putting the final touches on the takeover of Banco de Chile, one of the most important financial institutions in the Chilean market. The bank is known for its efficiency and profitability, and boasts an extensive branch network - not only in Chile but also abroad - designed to best look after the needs of a broad and diversified client base. The takeover process, which started in 1999 and went through various phases - among them a public acquisition offering for five per cent of the equity - culminated successfully when Quiñenco amassed 52.7% of the shares in March 2001.

A crucial factor in the success of that operation was the underlying financial health of the company, as much in terms of liquidity as in its foreign exchange exposure at the time of the share purchase. The placement of Quiñenco's first-ever bond issue for UF6.5 million with eight and 21-year maturities, allowed the company to raise enough financing, in record time, to complete the deal without complications.

As a result of the new obligations, at the start of April 2001 Quiñenco was carrying debt of about US\$700 million. Although this level of indebtedness was viable for a company of Quiñenco's size and solidity, the administration's policy was to prioritise the sale of some investments, with the aim of reducing liabilities.

Given this, during 2001 Quiñenco sold eight per cent of its holding in Entel, at a price which it allowed it to nearly triple its original investment in less than three years, and cut its debt to US\$500 million. That operation once again brought to the fore the company's agility in investment portfolio management. As a result of the divestment, Quiñenco cut its shareholding in Entel to 5.7%. In another deal, the company sold, with an option to buy back, its 39.4% stake in Plava Laguna, a Croatian tourist complex, for US\$29.6 million. The sale netted the company an additional US\$2 million for the year.

With its proven experience in the financial sector, and specifically in the merger of banks, Quiñenco had the confidence during the year to lay the foundations for the tie-up of Banco de Chile and Banco Edwards, with the aim of creating the biggest bank in the country. This objective started to become reality towards the end of 2001, when both the regulatory authorities and more than 80% of the shareholders from the two banks approved the merger, paving the way for the new Banco de Chile to be launched in 2002.

Of course, this development has important and far-reaching implications for Quiñenco and its shareholders. The merger of two of the most-established financial institutions to create the biggest of its kind in Chile has allowed the group to strengthen its position in the banking sector and so capitalize on its considerable experience in this highly profitable business. This means even more value added for Quiñenco shareholders. At the same time, the extra dimension that the bank purchase adds to the company has encouraged us to consider a revamping of activities and investments, which means prioritizing and fortifying those companies with the best growth potential, as these are the key to Quiñenco's future.

Compañía Cervecerías Unidas (CCU), part of the industrial portfolio, began to benefit from the cost-cutting plan initiated during 2000. The effects of this growth strategy translated into diverse innovations in the commercial field, and in important savings across all business sectors. Notwithstanding the political problems and economic instability that the Argentine subsidiary had to deal with, in addition to sluggish consumer growth in Chile, CCU showed important growth, clearly reflected in its sales figures, operating margins and net profits. In fact, the Ch\$38,377 million reported in profits are among the highest of recent times.

However, during the year Quiñenco found itself confronted with an obvious conflict-of-interest dilemma involving Schörghuber, the German group which is equal partner with Quiñenco in Inversiones y Rentas (IRSA), venture that controls CCU. This conflict arose from the German group's plans to link with Heineken, the Dutch brewer which competes with CCU in Argentina and Chile. Against a situation of such scope, Quiñenco initiated arbitration proceedings to protect its interests. This process is still under way, and we hope for a favorable conclusion as soon as possible.

In the telecommunications sector, Telefonica del Sur also posted a notable performance, thanks to an ongoing policy of geographic expansion and development of new products and services. The former has allowed it to stand out from the competition with extensive local telephone coverage and other services. Telsur managed a more than 10% profit rise during the reporting period, reporting Ch\$8,482 million pesos.

Another company which did very well during the year was Habitaria. Indeed, the company reported profits - of Ch\$417million - for the first time in the three years since it began operating in the Chilean real estate sector. The fact is all the more worthy of mention because it happened in the middle of a major crisis in the construction sector, a fact which suggests that Habitaria is a company which is able to generate sales in adverse conditions. It managed to successfully complete various important projects, booking sales of Ch\$19,474 million.

Lucchetti, for its part, is in a better financial position than the year before, despite losses in 2001 of Ch\$6,407 million. After the sale of its Argentine business in May and a capital increase at the end of the year, the company was able to restructure its debt, cutting its bank liabilities by more than 46%, from US\$160 million in 2000 to US\$86 million. This position will allow the company to concentrate its efforts on operational aspects and take on, with a sharpened focus, the challenges which come with such a competitive business environment. As to Lucchetti's Peruvian operation, the company has initiated the preliminary steps toward international arbitration, in the interests of defending its right to run its plant in Lima. In conclusion, and in the same context, recent court decisions in Peru have reaffirmed that our representatives acted with legitimacy in the matter.

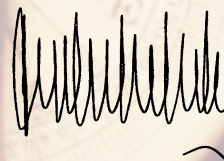
Madeco came up against a difficult situation in the second half of the year, stemming mainly from its foreign operations. To the political and economic crisis in Argentina, one has to add the heavy decline in demand for copper-based products seen in the Brazilian telecommunications market. For this reason, of the whole group, Madeco was the company whose results were most severely affected. The fall in sales was dramatic, particularly in the final quarter, which was what made it necessary to close some operations in Argentina and carry out a deep restructuring in Brazil. As a result of all this, Madeco incurred a loss of Ch\$50,096 million for the fiscal 2001 year.

However, it is important to emphasize that Madeco's management is working hard to soften the impact of this difficult situation. Apart from other measures, the company has opted to sell non-core businesses and restructure debt to better match the reality of its cash flow generation. It is hoped that the fruits of this exercise will begin to show over the next few quarters. This will be, without doubt, a priority for us.

In 2002, Quiñenco looks to be in a strong position to continue the consolidation of its businesses, despite a complex outlook for the commercial and macro-economic environment. Our objective is value-creation for shareholders based on professional and efficient management of our companies and intelligent portfolio decision-making at Quiñenco headquarters.

One priority for 2002 is the satisfactory conclusion of the Banco de Chile merger. We are aiming to build a new institution which satisfies all its clients, and one that is not only the biggest in Chile, but the most efficient and profitable. Another priority is the resolution of the conflict with our associates in Inversiones y Rentas SA. Finally, our biggest effort is dedicated to improving the performance and capital structure of the operating units of the company.

In concluding this letter, I must, as representative of the whole board of Quiñenco, thank all the staff of Quiñenco and its subsidiary companies for the tremendous effort put in over the reporting period. Without your dedication and sacrifice, none of our achievements would have been possible. People are our first and most-prized asset. Personally, I wish to extend the same gratitude to our investors, for the confidence and support granted us throughout the whole year.



GUILLERMO LUKSIC CRAIG  
Chairman