

# elements



## MADECO

**M**adeco is an industrial company dedicated to the manufacture of copper and aluminum based products. It draws on the experience afforded by more than 57 years of uninterrupted activity, supplying sectors such as telecommunications, construction, mining, energy and general industry. The company has four business units: wire and cable, brass mills, flexible packaging and aluminum profiles. The most important in terms of sales, accounting for 51.2% of consolidated revenue, is the manufacture of copper and aluminum wire and cables. This is followed by sales of brass mill products (22.1%), flexible packaging (15.8%) and aluminum profiles (10.9%).

The company operates in the Chilean, Brazilian, Argentine and Peruvian markets. In addition, Madeco exports a wide variety of products to all of Latin America, the USA and Europe. However, in early 2002 the company was forced to close its cable and brass mill plants in Argentina as a result of the economic instability in that country. At the moment, Argentina operates as a commercial platform for products made in Chile, Brazil and Peru. There is a periodic evaluation to weigh the possibilities of resuming production in the country, but this will largely depend on how the situation evolves in the Argentine market.

In 2002, Madeco underwent an important process of change in both its administrative and financial structure. This is attributable to the effects of the economic crisis in Argentina and political and economic uncertainty in Brazil. Both events triggered a drop in activity and forced the deferral of planned investments by

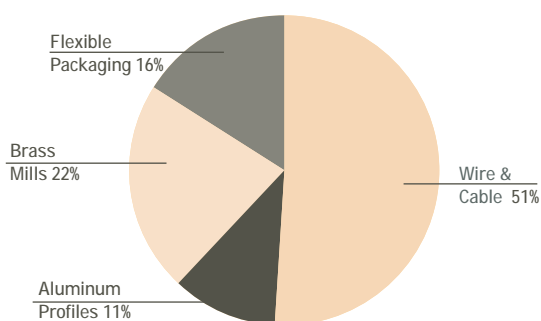
companies in the telecom and energy sectors, which are the main segments supplied by Madeco. Although its margins were affected by a change in its product mix, the Peruvian subsidiary continues to be a stable and profitable operation.

In Chile, the pace of economic growth did not change significantly during the reporting period. As a result, there was little change at the four business units operated by the company in Chile. However, the performance of the flexible packaging division was notable in that it recovered market share in the second half of the year.

The naming of Tiberio Dall'Olio as General Manager of the company was an important event. The executive arrived in April last year to head up a study on the technical and commercial viability of the Madeco group, with particular reference to the wire and cable operations. In October 2002, Mr. Dall'Olio took up the position of General Manager, together with a technical team especially designated to meet the challenges ahead.

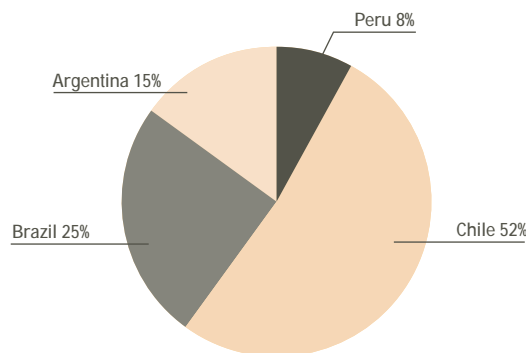
With the aim of strengthening Madeco's capital structure, which was severely deteriorated, the company initiated negotiations directed at shoring up, in the first quarter of 2003, a capital increase of about US\$137 million, of which Quiñenco committed to contributing US\$70 million. With the fortification of its financial structure as a key objective, the company then signed a debt refinancing agreement with fourteen lenders. This was negotiated at favorable terms for the company and will, along with the capital increase, allow Madeco to look to the future with greater confidence.

SALES BY SEGMENT 2002



MUS\$356.6

ASSETS BY COUNTRY



MUS\$526.2

**2002 RESULTS**

Madeco's sales level decreased by 25% to Ch\$256,283 million in 2002. Although the company experienced a decline in sales across business units, the reduction in wire and cable sales accounted for most of the total decline in sales during the year. The wire and cable business unit was hard hit by the downturn in investment by the telecom sector in Brazil which prevailed amidst political uncertainty in 2002. Additionally, wire and cable sales in Argentina were almost nil following the shutdown of plant facilities earlier in the year. Brass mills sales, also affected by the closure of the Argentine facilities as well as a general slowdown in exports and coin sales, also served to pull down consolidated sales in 2002.

Operating profit was directly affected by the lower sales level, falling by 63.6% from Ch\$10,986 million to Ch\$4,003 million. This translated into low gross (12.4% of sales) and operating margins (1.6% of sales), in spite of a substantial reduction in SG&A expenses of 21.7%. The wire and cable business unit accounted for the entire reduction in operating profit in 2002, the effect of which was partially offset by increases in operating profit in Madeco's other three business units.

Madeco reported non-operating losses of Ch\$47,575 million, down from the Ch\$63,496 million reported in 2001, mostly explained by lower non-operating expenses, which in 2001 included the temporary shutdown of the Argentine facilities, including write-offs and provisions for accounts receivable, unused assets and severance payments.

Madeco's bottom line for the year 2002 directly reflects the aforementioned weak operating and non-operating performance. The net loss for the period amounted to Ch\$40,166 million, significantly less than the Ch\$51,599 million loss reported in 2001, a year in which the company was also severely impacted by the regional slowdown, particularly in Brazil and Argentina.

| Market Share       | 2002 | 2001 |
|--------------------|------|------|
| Wire & Cable       |      |      |
| Chile              | 31%  | 32%  |
| Brazil             | 18%  | 12%  |
| Peru               | 56%  | 48%  |
| Argentina          | 4%   | 8%   |
| Brass Mills        |      |      |
| Chile              | 55%  | 55%  |
| Argentina          | 12%  | 25%  |
| Flexible Packaging |      |      |
| Chile              | 26%  | 26%  |
| Argentina          | 7%   | 7%   |
| Aluminum Profiles  |      |      |
| Chile              | 73%  | 74%  |