

LETTER FROM THE CHAIRMAN OF
THE BOARD

strategy



Dear Shareholders:

Once again it gives me great pleasure to address you all with a report on the activities of Quiñenco last year and our expectations for 2003. First of all, I think it is worthwhile to briefly go over the economic environment and market conditions for the specific sectors we work in as these had an important effect on the results of our investments in 2002.

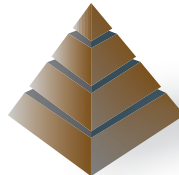
The economic and political events which weighed on Chile, and the world, during 2002 significantly influenced the operation of our companies, as well as their results. The year was characterized by global instability and a regional slowdown. Moreover, the recessive trend in Latin America was accentuated by the Argentine crisis and uncertainty created by the Brazilian elections as well as that country's own unstable financial situation. At a national level, the year was one in which growth in Chile fell from 2.9% in 2001 to less than 2%. What's more, domestic demand failed to recover as expected, despite the Central Bank's gradual reduction in interest rates, from a nominal 6.5% in January to 3% in December. All of these factors had a significant impact on the results of our group companies.

While the period could be considered negative from the point of view of the financial results – explained mainly by losses at our subsidiaries Lucchetti and Madeco, amid the difficult environment mentioned above – a broader revision shows that we met all of the goals set for ourselves in our 2001 annual report. I would like to detail the most relevant of these goals below.



One of the most important objectives identified for 2002 was the successful merger of Banco de Chile with Banco Edwards. In order to achieve this goal, we established an ambitious deadline and strict cost targets, all of which were amply met. I would also like to point out, that our experience and background in financial matters were key to our success in the integration of the different operations and independent structures of the two banks. Although profit generation was affected in the merger year, as much by merger costs - which reached US\$43 million for the year – as by a deterioration in economic activity – which led to provisions of US\$141 million – we are confident that the bank is well prepared for the challenges of 2003 and ready to produce results in line with our investment.

It is worth noting that Banco de Chile is the second-largest financial institution in the country, with a 19% share of the loans market and assets of US\$860 million. What is more, it is one of the best-known national brands, a fact that fills us with pride and inspires us to keep improving it every day.



In another area, we had to put into play our best practices at Madeco, where there was a serious deterioration as a result of the economic crisis in Argentina and the economic and political uncertainty in Brazil. We threw ourselves at the task and took measures which meant important changes at the company, both in its administrative and financial structure.

Ever conscious of the importance of our executives in the smooth management of our companies, we were able to count on Tiberio Dall'Olio, an outstanding former General Manager at Madeco, adept at personnel relations and abounding in experience and professional qualities. He retook the helm at Madeco, together with a team of Chilean and foreign professionals in October 2002.

The next step was to restructure Madeco's bank obligations, which we were able to do by reaching a favorable agreement with 14 lenders of the company. The financial restructuring process, which is to conclude with a US\$137 million capital increase in early 2003, will leave the company in an adequate financial position so that it may continue planning for the future. It is important to mention that Quiñenco is committed to subscribing to US\$70 million of the total increase, confirming our confidence in the progress and potential of Madeco.

With respect to Lucchetti Perú, the Municipal Council of Lima made the decision to shut down our production facilities and revoke the operating license for our pasta plant in the Chorrillos district. We believe the measure to be lacking in technical and legal fundamentals and akin, in our judgment, to an indirect expropriation of our investment. The situation forced us to seek the constitution of an arbitration tribunal in the International Centre for Settlement of Investment Disputes (ICSID), in Washington D.C. Through this arbitration case, Lucchetti is seeking just compensation for the economic damage to its business project in Peru caused by the Municipality's decision. We are hoping that international justice will vindicate us. For now, Lucchetti's return to Chile, where it is well recognized and has a 36% share of the market, seems like a good opportunity to capitalize on the whole experience.

Telefónica del Sur, our telecommunications company, pursued the tasks set out for the year, which focused on strengthening its foundations for future growth, not only in terms of product diversification, but also in the optimization of resources. This all comes within the framework of a highly competitive and dynamic industry, which calls for constant innovation. While broadening its geographical coverage, the company continues to develop more value-added products so that it may offer its clients the very latest technological alternatives in the world of telecommunications. At the same time, Telsur adopted an important initiative that will mean a permanent reduction in its cost structure.

With the objective of underpinning the foundations for future growth, Telsur, with the collaboration of Booz Allen & Hamilton, undertook to restructure the company in 2002, aiming at new efficiencies and permanent cost reduction. The process, whose objective is to improve profitability, involved a US\$2.1 million cost outlay in 2002. In the future, the company aims to develop an e-business segment, in which it will look to centralize operations, optimize resources, modernize processing, outsource services and redesign and install new information technology systems. In future years, it hopes to save up to US\$1.7 million per year as a result of the restructuring.

As for the beer and soft drinks market, this depends to a large degree on local consumption levels and consumer spending power. In 2002, while there was an increase in volume sales in Argentina, this recovery was not reflected in revenues. This is because increased production costs could not be passed on to consumers as higher prices, due to the fragility of the Argentine economy. However, the marked decrease in the Argentine operations was partially offset by higher revenues at the Chilean operation, particularly in the wine segment, which grew more than 8% in 2002.

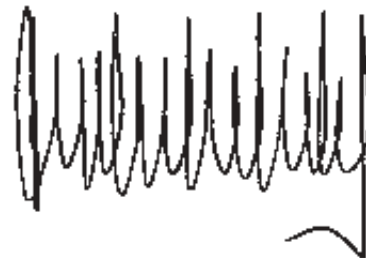
In January 2003, I was able to report, with satisfaction, that the case that we had before the Arbitration Court of the International Chamber of Commerce against the Schörghuber group, our German partners in Inversiones y Rentas S.A. (IRSA), was resolved through an out of court settlement. The process of designating an arbiter in the civil courts of Santiago has also been suspended.

As a result, IRSA has not only benefited from the resolution of differences between the two parties, but the outcome brings fresh resources for Quiñenco, which will be used towards our financial consolidation.

Without a doubt, 2002 was a busy year, a period of construction; it was intense and at moments, very difficult. Thanks to the efforts made, today we are managing a portfolio worth about US\$1.3 billion. We dealt well with the problems of the companies with foreign exposure; we concluded the merger of the Chile and Edwards banks; we opted to finance the Madeco capitalization following its bank debt restructuring; and, before closing the year's accounts, we successfully resolved the conflict with our German partners in CCU. We are certain that in 2003 we will reap the fruits of these efforts as we start to see the results of the actions already taken.

Nonetheless, it is clear to us that we must tread with caution, as we foresee only modest growth and economic activity for the 2003 reporting period. This will mean modest consumption and more efforts on our part to save and cut costs. We believe it is possible to keep reducing the debt associated with the Banco de Chile acquisition, just as we did when we cut net debt levels at the holding company from US\$640 million in 2001 to US\$450 million in 2002.

On behalf of the Board, I would like to thank our shareholders for the faith invested in us and in our pursuit of important goals, which in turn were achieved thanks to the professional quality and human endeavour of our people. Personally speaking, I would like to express my deep satisfaction and pride in being able to preside over such a prestigious organization. Thank you very much.



Guillermo Luksic Craig
Chairman of the Board