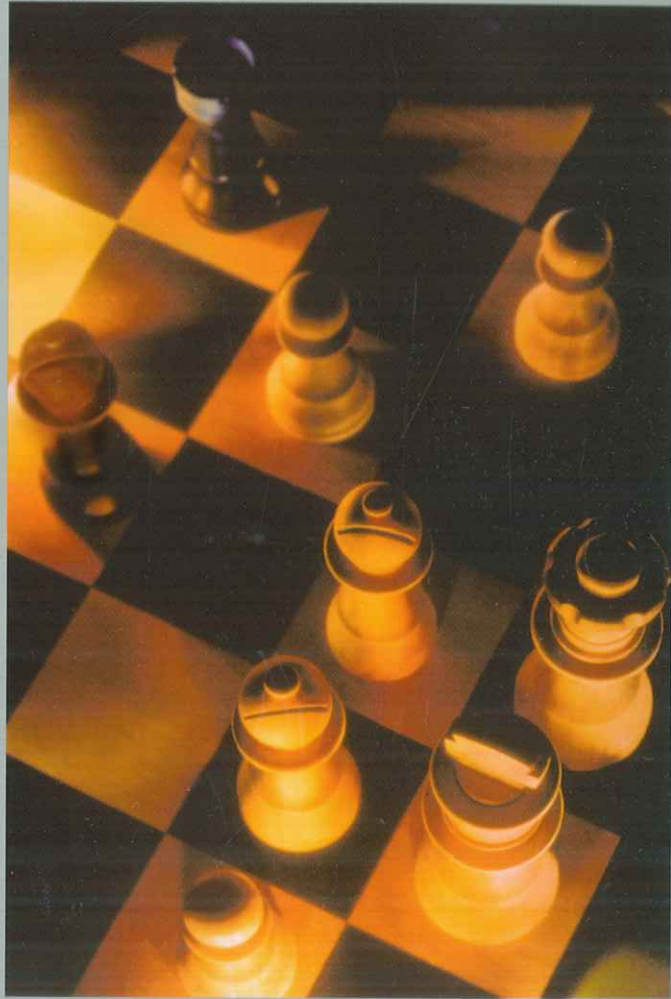


2002

ANNUAL REPORT 2002 - QUIÑENCO S.A.



QUIÑENCO S.A.



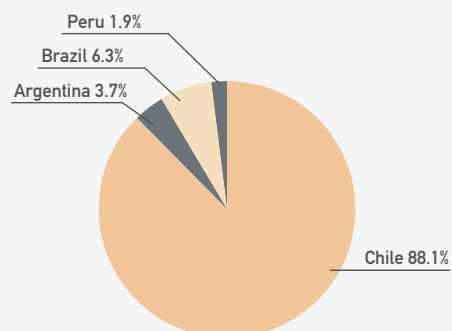
QUIÑENCO S.A.

## FINANCIAL SUMMARY

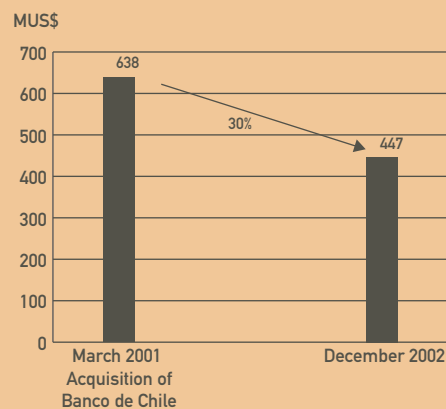
### 5 YEAR FINANCIAL HIGHLIGHTS

		1998	1999	2000	2001	2002
<b>CONSOLIDATED RESULTS</b>						
Net sales revenue	MCh\$	614,834	452,157	479,744	488,258	<b>396,299</b>
Operating income (loss)		51,368	(22,321)	16,641	18,041	<b>10,277</b>
EBITDA		93,890	19,924	49,334	50,729	<b>40,306</b>
Proportionate share of net income of equity method investments		18,871	16,214	17,799	37,340	<b>25,183</b>
Other non-operating income (loss)		(21,738)	210,678	(57,689)	(75,934)	<b>(131,968)</b>
Net income (loss) for the year		30,046	178,239	(5,998)	15,975	<b>(75,480)</b>
<b>FINANCIAL POSITION</b>						
Total assets	MCh\$	1,461,890	1,443,451	1,448,765	1,608,080	<b>1,523,238</b>
Total liabilities		662,685	597,543	663,635	817,813	<b>813,410</b>
Minority interest		235,520	110,579	108,664	92,566	<b>79,314</b>
Shareholders' equity	MCh\$	563,684	735,328	676,466	697,702	<b>630,515</b>
Current ratio (current assets/current liabilities)		1.58	1.30	1.14	1.04	<b>0.85</b>
Leverage (total liabilities/SH equity)		1.18	0.81	0.98	1.17	<b>1.29</b>
Earnings (loss) per share	Ch\$	27.83	165.08	(5.55)	14.79	<b>(69.91)</b>
Dividends per share for the year	Ch\$	8.29	48.37	-	5.88	-
<b>OTHER INFORMATION</b>						
Number of shareholders		2,583	2,816	3,005	2,898	<b>2,770</b>
Number of shares		1,079,740,079	1,079,740,079	1,079,740,079	1,079,740,079	<b>1,079,740,079</b>

**CONSOLIDATED ASSETS BY COUNTRY**  
As of December 31, 2002



**NET DEBT**  
corporate level



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.

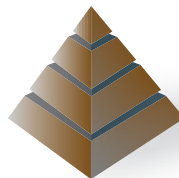
The economic and political events which weighed on Chile, and the world, during 2002 significantly influenced the operation of our companies, as well as their results. The year was characterized by global instability and a regional slowdown. Moreover, the recessive trend in Latin America was accentuated 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.

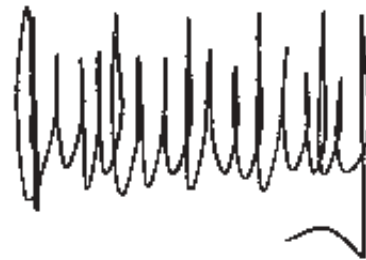
In January 2003, I was able to report, with satisfaction, that the case that we had before the Arbitration Court of the International Chamber of Commerce against the Schörghuber group, our German partners in Inversiones y Rentas S.A. (IRSA), was resolved through an out of court settlement. The process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



# HISTORY

Forestal Quiñenco S.A. initiates its operations, exploiting eucalyptus forests and making wooden supports for coal mines.

Lucchetti S.A. and Colcura Forestal S.A. join the holding group.

Hoteles Carrera S.A. becomes part of the group.

The group enters the finance business by acquiring Banco O'Higgins.

The group acquires a majority share in Madeco S.A.

Together with the German group Schörghuber, distributor of Paulaner beer, Quiñenco acquires a majority share in Compañía de Cervecerías Unidas S.A. (CCU).

Quiñenco acquires a majority stake in VTR S.A.

The group carried out purchases of shares of Banco de Santiago.

Quiñenco begins acquiring shares of Endesa S.A., amassing 9.2% of the company.

1957

1960s

1970s

1981

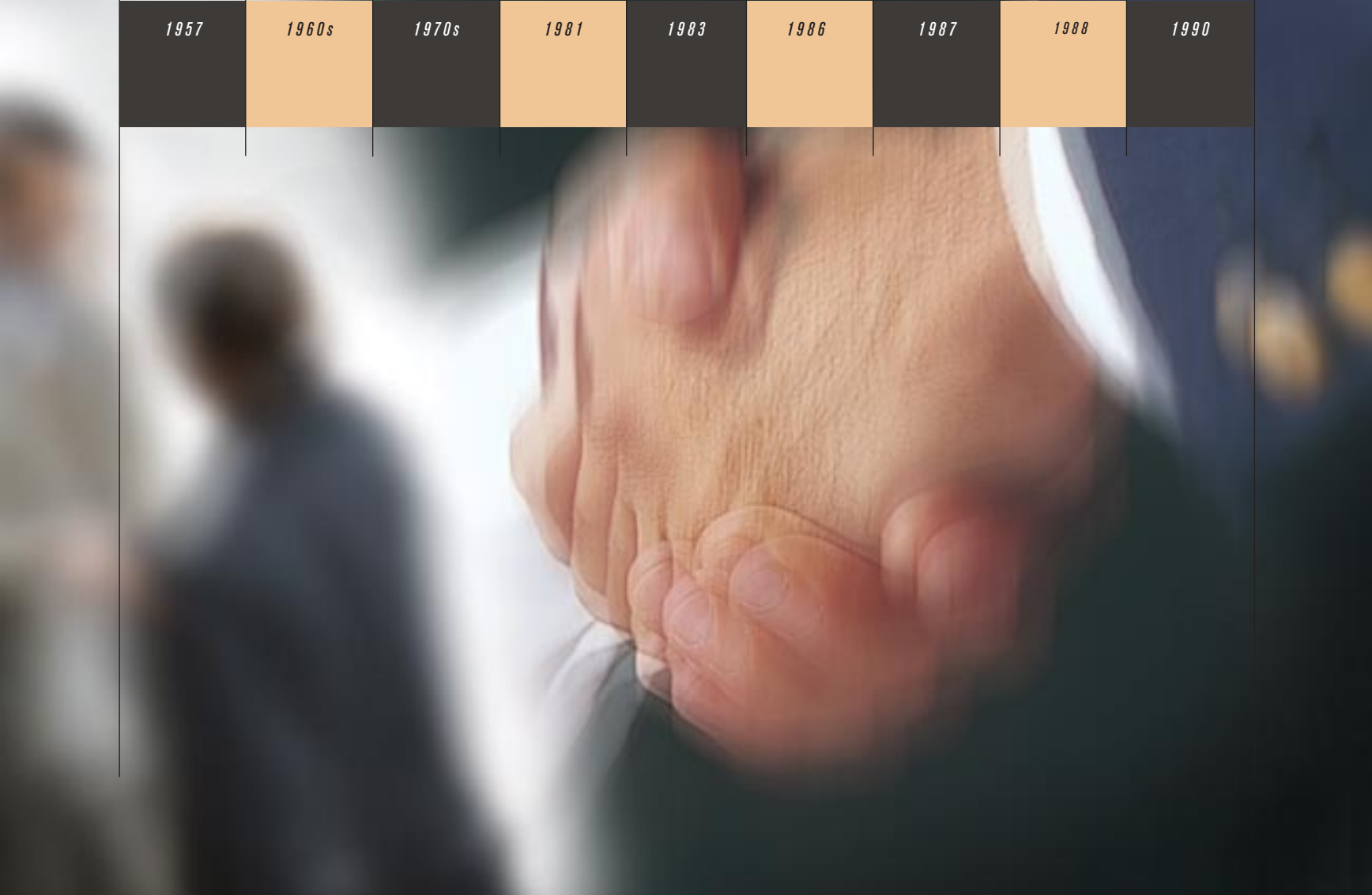
1983

1986

1987

1988

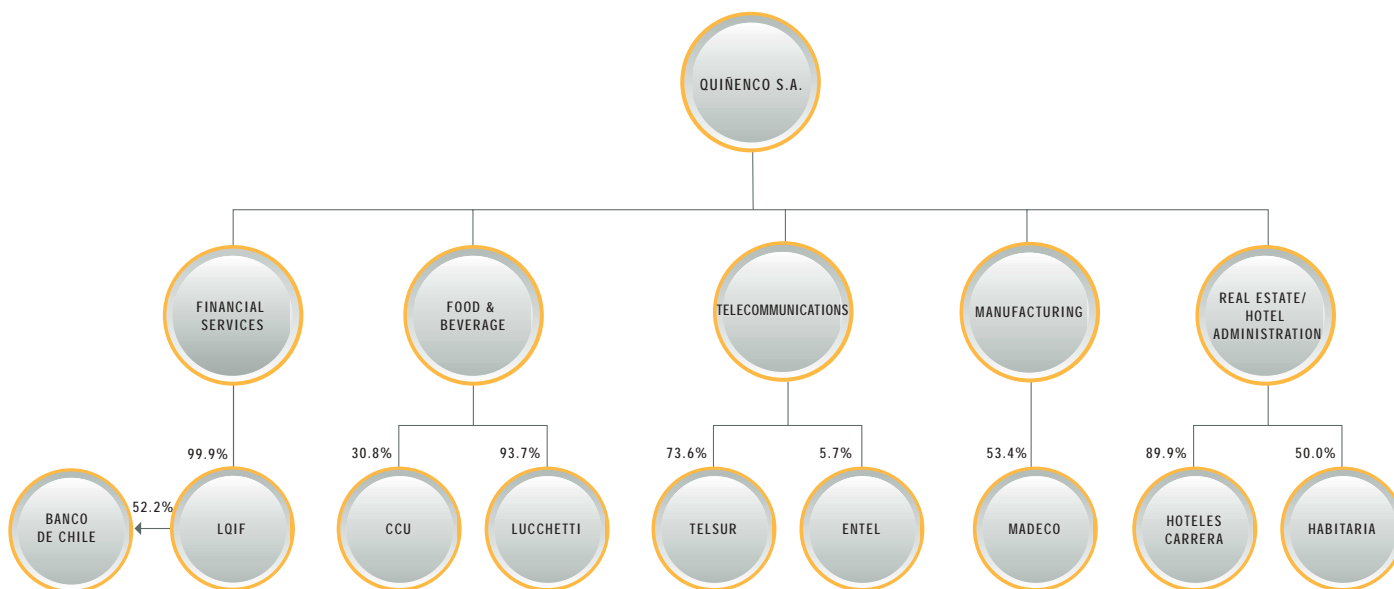
1990







1993	1995	1996	1997	1998	1999	2000	2001	2002
<p>In the financial sector, Quiñenco forms a partnership with Banco Central Hispanoamericano and the OHCH group.</p>	<p>The group sells a 6.2% stake in Endesa S.A.</p>	<p>Quiñenco regroups as a holding company by merging with Andes Trust (Chile) S.A. and Inversiones Anaconda S.A., both subsidiaries of Antofagasta Holdings plc and Inversiones Rimac S.A. The reorganization concentrates Antofagasta's businesses in the mining and railways sectors, while Quiñenco becomes the holding group for the Luksic family's financial and industrial interests.</p>	<p>Quiñenco raises US\$279 million in a public share offering on the New York and Santiago stock exchanges.</p> <p>VTR S.A. sells its stake in Startel S.A., leader in the mobile telephony market, to CTC.</p>	<p>VTR S.A. divests its long-distance telephony business.</p> <p>In partnership with the Spanish construction company Ferrovial Inmobiliaria, Quiñenco creates Habitaria S.A.</p>	<p>Quiñenco's stake in OHCH is sold to the BSCH consortium.</p> <p>Quiñenco acquires 51.2% of Banco de A. Edwards.</p> <p>Quiñenco acquires an 8% interest in Banco de Chile.</p> <p>Quiñenco acquires a 14% stake in Entel S.A.</p> <p>The holding group sells its 66% stake in VTR Hiper cable S.A. to UIH Latin America.</p> <p>The group acquires 100% of the outstanding shares of VTR S.A.</p>	<p>Quiñenco expands its investments in real estate and hotel administration business by acquiring 39.4% of Plava Laguna d.d., a resort on the Adriatic coast in Croatia.</p> <p>Quiñenco creates LQ Inversiones Financieras S.A., an investment vehicle for its holdings in the financial services sector.</p>	<p>Quiñenco gains control of Banco de Chile through the acquisition of 52.7% of the voting rights.</p> <p>The group sells an 8% stake in Entel.</p> <p>Quiñenco divests its 39.4% interest in Plava Laguna d.d. de Croacia, with a buy-back option in 2004.</p>	<p>At the beginning of the year, the group merges Banco de Chile with Banco Edwards, creating Chile's largest bank at the time.</p> <p>In early 2003, Madeco announces a capital increase of US\$137 million and reaches an agreement to restructure its debt with its main lenders.</p>



## QUIÑENCO PROFILE

Quiñenco is one of Chile's leading business conglomerates, with assets of more than US\$2 billion. Its investments are concentrated mainly in financial services, food and beverages, telecommunications, manufacturing and real estate and hotel administration, with the first two sectors accounting for 73% of total investments.

The group's business strategy is fundamentally based on the strengthening and consolidation of each of the companies in which it participates, with the final objective of creating shareholder value. In some cases, these goals are reached through a growth strategy aimed at market leadership. In others, when the main objective is increased productivity and effectiveness, it is done through a restructuring process. This notwithstanding, the company also considers the option of divestment in those cases where it deems this to be the best way to create value for its shareholders.

Quiñenco acts as controller in the great majority of its companies, either by virtue of a long term controlling stake or through strategic alliances. In the future, it intends to continue establishing accords with strategic partners as this has allowed the company to better develop its businesses as well as gain experience and other competitive advantages.

As a parent company, Quiñenco orients its businesses towards excellence in terms of capacity and ability. This is done by adopting "best practices" compared with those of its main competitors and peers in a given industry. It also takes care to define long term strategies in conjunction with the administration of each operating

company; set annual goals; supervise and control operational and financial performance; structure and manage relevant mergers and acquisitions; identify synergies through business units; and attract and retain quality personnel.

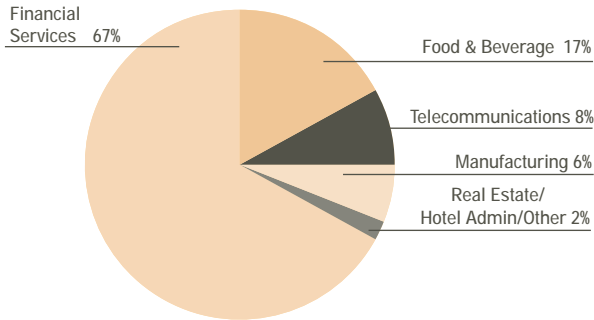
In general, Quiñenco believes that its management experience, together with its production facilities and the strength of its products, services and distribution networks, puts it in a strong position to capitalize on growth opportunities.

### Growth Strategy

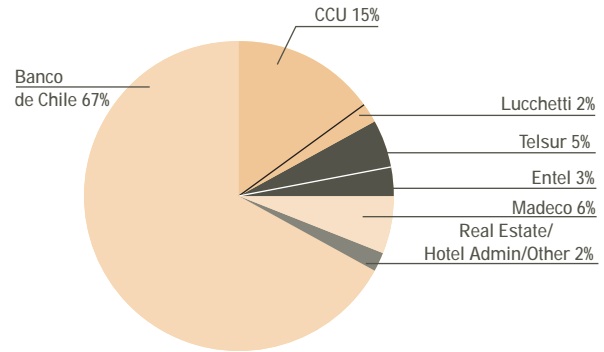
- Strengthen value creation in core businesses through:
  - Reorganizations and restructurings when necessary
  - Increases in productivity and efficiencies
  - Exploitation of synergies across business units
  - Adoption of best practices
  - Market leadership
  - Highly skilled personnel
- Acquire and divest businesses to create value based on:
  - Past experience
  - Access to strategic partners
  - Growth potential of the industry
- Investment criteria:
  - Brand and franchise development potential
  - Adequate critical mass
  - Distribution networks

CORPORATE LEVEL INVESTMENTS  
US\$1.3 billion

BY SECTOR

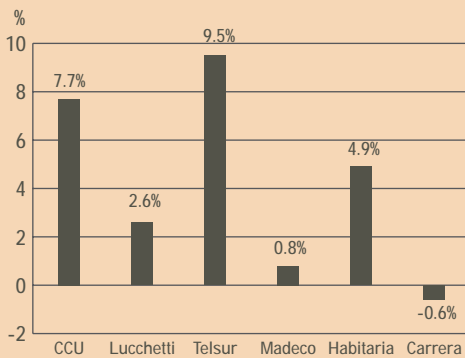


BY COMPANY



Book values as of 12.31.02 (Quiñenco and intermediate holding companies)

RETURN ON CAPITAL EMPLOYED IN 2002 (ROCE)  
(For the 12 months ended 12.31.2002)



VISION

Since the outset, Quiñenco has always aimed at being Chile's principal business group, in terms of the quality of its goods and services and the financial results it delivers to its shareholders. To do this, its main tool has been the constant support of an efficient and competent management team. This team has the proven ability to spot good business opportunities and the talent to restructure those businesses that need additional support.

In this regard, Quiñenco led the debt and capital restructuring process of Madeco in 2002 as well as negotiated a favorable agreement with its strategic partner in the beverage sector. These were excellent bits of news which auger well for the future.

For the next couple of years, Quiñenco plans to maintain its profile as a leading business conglomerate through its investments in companies with strong brand orientation in those sectors in which it has traditionally operated with much success. Specifically, Quiñenco will seek the most efficient way to position its subsidiaries, ensuring a structure in tune with its growth and profitability goals.

BOARD OF DIRECTORS



organization



**Chairman**  
 Guillermo Luksic Craig  
 Director of Companies



**Vice Chairman**  
 Andónico Luksic Craig  
 Director of Companies



**Board Members**  
 Jean Paul Luksic Fontbona  
 Director of Companies  
 B.Sc. Management and Science,  
 London School of Economics, England



**Philip Adeane\***  
 Director of Companies



**Hernán Büchi Buc**  
 Civil Mining Engineer,  
 University of Chile

**Joaquín Errázuriz Hochschild\*\***  
 Chemical Engineer,  
 Columbia University, U.S.A.  
 Master in Administration and Economics,  
 Columbia University, U.S.A.



**Gonzalo Menéndez Duque\*\***  
 Business Administrator,  
 University of Chile



**Juan Andrés Fontaine Talavera**  
 Business Administrator,  
 Catholic University of Chile  
 Master in Economics,  
 University of Chicago, U.S.A.



**Advisors to the Board**  
 Gustavo Delgado Opazo  
 Director of Companies  
 General Accountant

**Fernando Silva Lavín**  
 Business Administrator,  
 Catholic University of Chile

**Vladimir Radic Piraino\*\***  
 Director of Companies

\* Due to international commitments, Philip Adeane does not appear in this photograph.  
 \*\* Member of the Directors' Committee



**CHIEF EXECUTIVE OFFICER**

Francisco Pérez Mackenna  
Business Administrator,  
Catholic University of Chile  
MBA, University of Chicago, U.S.A.

**STRATEGY AND PERFORMANCE APPRAISAL**

**Manager of Strategy and Performance Appraisal**

Luis Hernán Paúl Fresno  
Civil Engineer,  
Catholic University of Chile  
MBA, Massachusetts Institute of Technology, U.S.A.

**Manager of Performance Appraisal**

Pedro Marín Loyola  
Business Administrator,  
Catholic University of Chile  
M.S. Finance,  
London School of Economics, England

**NEW BUSINESS DEVELOPMENT**

**Manager of Business Development**

Felipe Joannon Vergara  
Business Administrator,  
Catholic University of Chile  
MBA, The Wharton School,  
Univ. of Pennsylvania, U.S.A.

**Manager of Mergers and Acquisitions**

Martín Rodríguez Guiraldes  
Business Administrator,  
Catholic University of Chile  
MBA, University of California  
at Los Angeles (UCLA), U.S.A.

**FINANCE AND ADMINISTRATION**

**Chief Financial Officer**

Luis Fernando Antúnez Bories  
Civil Industrial Engineer,  
Catholic University of Chile  
MBA, Georgia State University, U.S.A.

**Investor Relations Manager**

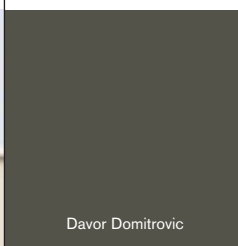
Cindi Freeman  
B.A., University of the Pacific, U.S.A.  
Master of International Management,  
American Graduate School of  
International Management  
(Thunderbird), U.S.A.

**General Accountant**

Oscar Henríquez Vignes  
Certified Public Accountant,  
University of Chile  
Graduate degree in Tax Planning,  
Catholic University of Chile



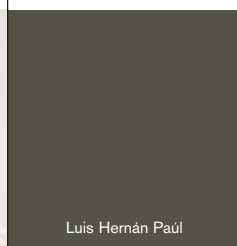
Francisco Pérez



Davor Domitrovic



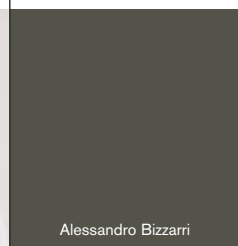
Oscar Henríquez



Luis Hernán Paúl



Martín Rodríguez



Alessandro Bizzarri



**LEGAL COUNSEL**

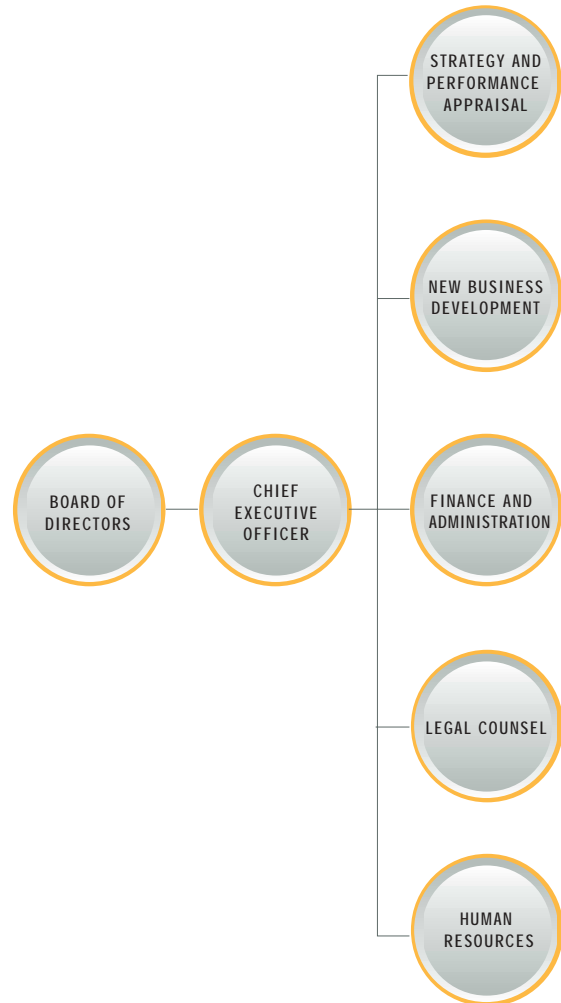
**Chief Counsel**  
 Manuel José Noguera Eyzaguirre  
 Attorney,  
 Catholic University of Chile

**Attorney**  
 Alessandro Bizzarri Carvallo  
 Attorney,  
 Catholic University of Chile  
 MBA, Adolfo Ibañez University

**Attorney**  
 Davor Domitrovic Grubisic  
 Attorney,  
 University of Chile

**HUMAN RESOURCES**

**Manager of Human Resources**  
 Sergio Cavagnaro Santa María  
 Civil Industrial Engineer,  
 Catholic University of Chile  
 DPA, Adolfo Ibañez University



12

13





The image features four hands of different skin tones raised against a solid black background. The hands are positioned in a way that suggests a collective gesture of support, agreement, or commitment. The lighting is soft, highlighting the texture of the skin and the lines on the palms. The word "commitment" is written in a large, white, lowercase sans-serif font at the bottom of the image, partially overlapping the lower arms of the hands.

commitment

**THE COMMUNITY**

The group plays an active and enthusiastic role in promoting good works and special social activities. These cover everything from artistic events to health programs, and include initiatives which have made the Quiñenco group an important community player. Thanks to ongoing campaigns initiated by each of the companies, fresh talents have been discovered and children of few resources have been given the opportunity to study.

**THE CHILDREN**

From the onset, the group has been involved in a diverse range of activities related to children, the future of our country. From among these programs, one which stands out is "Share with a Friend", promoted by one of the group companies, in which community-based activities are organized to support the work of important charitable foundations such as Fundación Mi Casa, Coanil and Hogar de Cristo.

Children also receive important assistance through the "Educación Empresa" (Company Education) program, in which school materials are periodically donated to the most needy public schools. In addition, the group makes scholarships available to the top scorers in the Prueba de Aptitud Académica (university entrance exam).

Another important project that counts on Quiñenco's support is the Teletón (Telethon), whose objective is to help handicapped children become self-sufficient and assist them in integrating into the wider community. In 2002, this work of solidarity mobilized thousands of employees throughout the companies within the group.

**THE ENVIRONMENT**

Each of the Quiñenco group companies is committed to protecting the environment through long-term sustainable development strategies. Those companies involved in the elaboration of mass-market consumer products have shown themselves to be particularly concerned with preserving nature. This concern is evidenced by the important levels of investment in the recycling processes of industrial waste, optimization of water resources and the planting of green areas.

This same dedication is also evident in the plant facilities of some of the group companies. For example, at CCU's plant in Temuco, there is a nursery for native trees, where 100,000 trees are cultivated to be later donated to diverse entities and projects concerned with urban landscaping and public spaces. For example, Fundación Integra receives 400 species every year, which it uses to create



natural settings at various establishments where 66,000 children per year learn about Chilean flora.

**CULTURE**

Artistic, cultural and sporting activities have also been a fundamental pillar of human development. For this very reason, the group is involved by giving financial support to young talent working in these different activities. Through its program called "Cerveza Cristal en el Arte", the group supports young talent in painting and sculpture. This initiative has served to give life to a prestigious pictorial collection of 200 works by Chilean contemporary artists, which have been shown in temporary exhibitions throughout the country. Other group companies offer emerging artists the chance to exhibit their works in corporate facilities. This program has allowed some interesting new talents to be shown publicly.

The Quiñenco group is also present in literary activities through events such as "Acercar la Literatura a la Gente" (Getting Literature to the People), the "Entre Libros" (Among Books) workshop, publication of the El Mercurio magazine of book reviews (Revista de Libros) and a radio program called "Vuelan las Plumas" (The Flying Quills).

**EDUCATION**

This is perhaps one of the most satisfying legacies of the group. One educational program that stands out is "Consumo Responsable de Alcohol" (Responsible Drinking), which proposes that drinking is acceptable only if it is done responsibly and in moderation. Another outstanding campaign is "Educar en Familia" (Education at Home), which looks at strengthening the role of parents in the civic education of their children. This project was hugely successful in 2002.

For its part, the "Educar en Fiestas Patrias" (National Holiday Education), an initiative developed by one of the group companies in conjunction with Chilean Police, addresses young people and sensible behavior on the roads. The program is also aimed at all pedestrians and drivers.

## NET INCOME CONTRIBUTION FROM OPERATING COMPANIES

(In millions of Ch\$ pesos as of December 31, 2002)

Companies	Quiñenco's Share (*) (%)	Sales Revenue	Net Profit (Loss)	Quiñenco's Prop. Share	Total Assets	S/H Equity
<b>Financial Services Sector</b> Banco de Chile	(1) 52.2	(**) 424,257	52,635	15,424	8,616,588	618,230
<b>Food &amp; Beverage Sector</b> CCU Lucchetti	30.8 93.7	345,891 83,799	22,065 (37,223)	6,794 (34,876)	652,959 76,345	433,485 16,189
<b>Telecommunications Sector</b> Telsur Entel	73.6 5.7	46,646 804,762	6,027 41,096	4,434 2,337	137,532 1,290,562	57,310 544,897
<b>Manufacturing Sector</b> Madeco	53.4	256,283	(40,166)	(22,319)	378,152	99,232
<b>Real Estate / Hotel Admin. Sector</b> Hoteles Carrera Habitaria	89.9 50.0	7,016 23,006	(996) 898	(896) 449	23,206 46,939	14,521 17,391
Total Operating Companies Quiñenco & Holding Companies Net Loss for the Year				(28,653) (46,827) (75,480)		

\* Direct or indirect

\*\* Corresponds to operating revenues

(1) Corresponds to voting rights

## 2002 FINANCIAL RESULTS

Quiñenco incorporates the profit and loss from more than 40 companies in its financial results each period. Nonetheless, it only consolidates its operations with a number of its investments, the main operating companies being Madeco, Lucchetti, Telsur and Hoteles Carrera. The profit or loss from other investments such as Banco de Chile and CCU, which are relevant to Quiñenco in terms of size and impact on its financial results for any given period, do not consolidate with the Company. Quiñenco's proportionate share of these companies' income or loss is included with non-operating results.

Quiñenco reported consolidated sales of Ch\$396,299 million in 2002, down by 18.8% from the 2001 level. Of the total decline in sales for the year, 93% corresponded to Madeco's operations, which were heavily affected by the regional downturn. To a lesser extent, the decrease in consolidated sales was also attributable to Lucchetti's operations. The overall reduction in consolidated sales translated directly into lower operating income earned during the year. It fell by 43% to Ch\$10,278 million, almost entirely attributable to Madeco's operations.

Quiñenco reported non-operating losses of Ch\$108,310 million, a significant increase from the Ch\$38,594 million non-operating loss reported in 2001. The variation was mostly attributable to an increase in other non-operating expenses, which included loss provisions of Ch\$30,678 million associated with the Lucchetti Perú plant closure, as well as the absence of extraordinary gains, which in 2001 amounted to Ch\$52,374 million and were earned in connection with the sale of an 8% participation in Entel and the divestiture of the Plava Laguna tourist resort in Croatia.

The financial results obtained by Quiñenco in 2002 reflect the difficult operating environment, which the Company's subsidiaries faced during the year, both in Chile and abroad. In particular, Quiñenco's subsidiaries, Lucchetti and Madeco were heavily impacted by events which occurred in their foreign operations, the effects of which at a consolidated level contributed heavily to Quiñenco's net loss of Ch\$75,480 million. In addition, costs associated with the 2001 acquisition of Banco de Chile and its subsequent merger with Banco Edwards in 2002 further weighed on Quiñenco's results for the year.

Undoubtedly, the most significant impact on Quiñenco's 2002 financial results was the effect of the controversy surrounding the Lucchetti Perú pasta plant and its subsequent closure in early 2003. The plant operations were under fire throughout the year due to allegations of environmental violations by Peruvian authorities, fueled by negative ad campaigns directed against the company. As a consequence, Lucchetti Perú's sales and margins fell dramatically in 2002. Additionally, the company was forced to incur significant cash outlays to defend its investment and right to operate. In January 2003, the Municipality of Chorrillos ordered the plant closed, thereby forcing the company to abandon its productive activities in Peru. Due to the impairment of its activities in Peru, Lucchetti, a 93.7% subsidiary of Quiñenco, recorded loss provisions of Ch\$30,678 million, which was charged to 2002 non-operating results, in accordance with Chilean accounting norms.

Madeco, Quiñenco's 53.4% copper manufacturing subsidiary, was faced with the temporary closure of its Argentine subsidiary in the early part of 2002 as a direct consequence of the deteriorated economic situation and currency devaluation in that country. In addition, its main operations in Brazil were stilted by the political and economic uncertainty that prevailed during much of the year and served to hamper long-term investment by the telecom sector. These regional developments, coupled with overall weak export demand, led to a net loss of Ch\$40,166 million in 2002, of which Ch\$21,448 million corresponded to Quiñenco's proportionate interest.

Interest expense and goodwill expense associated with the Banco de Chile acquisition in 2001 impacted Quiñenco's non-operating results by approximately Ch\$40,741 million in 2002. In addition, the bank itself underwent a merger with Banco Edwards in 2002, incurring merger related costs of Ch\$30,884 million. It also made net loan loss provisions of Ch\$101,527 million in 2002 to safeguard its portfolio against the effects of weak national and regional economies, in particular Argentina. As a result, Banco de Chile's results did not reflect the bank's income generating capacity in 2002. Banco de Chile reported net income of Ch\$52,635 million, down by 47.4% in comparison to 2001. Quiñenco's proportionate share of Banco de Chile's net income was Ch\$15,424 million in 2002.



Financial Services

Food & Beverage

Telecommunications

Manufacturing

Real Estate/Hotel Administration

balance

FINANCIAL SERVICES



vision



18

19

LQ INVERSIONES FINANCIERAS S.A.

# LQIF

LQ Inversiones Financieras, a 99.9%-owned subsidiary, was created in 2000 to concentrate Quiñenco's holdings in the financial services sector. Today, through its holdings in Banco de Chile and SM Chile S.A., LQIF has 52.2% of the voting rights and a 29.2% interest in the dividend rights of Banco de Chile.

The financial sector is Quiñenco's most important business sector. Its investments in this sector represent about 59% of corporate assets and 67% of its total investments. In 2002, the contribution to Quiñenco's net results from Banco de Chile amounted to Ch\$15,424 million, representing the most significant contribution to Quiñenco results of all of its operating units.

The group has plotted a long and successful course in the banking sector. It has been active in banking since 1981, and today is one of the most experienced financial conglomerates in the country. Its experience includes the merger of Banco Santiago and Banco O'Higgins in 1997 as well as the subsequent sale of the group's holding in the entity which merged with Banco Santander Central Hispanoamericano, for US\$600 million in 1999. In the same year, LQIF bought a 51.2% stake in Banco Edwards, well known for its

excellent service and for having carved out an important niche in the Chilean financial sector.

After the purchase of Banco Edwards, Quiñenco dedicated its efforts during two years to the acquisition of a majority stake in Banco de Chile, one of the most important and profitable institutions in the Chilean banking sector. After reaching an important agreement with the Penta group, which controlled Banco de Chile at the time, and a public tender offer on the Santiago stock market, the group gained control of the bank at the beginning of 2001.

With control of both banks, the group began the merger process by carrying out a study of the possible benefits and equity exchange terms. By the end of 2001, it had secured the approval of regulatory bodies and shareholders to merge Banco de Chile with Banco Edwards, meeting the target set months earlier. On January 1, 2002, the two banks were merged to create a powerful platform for the future growth of the company.

LQIF reported a net loss of Ch\$19,802 million in 2002, mainly owing to the financial costs and amortization of goodwill expense incurred in connection with the acquisition of Banco de Chile.





## Banco de Chile

**B**anco de Chile is the second-largest privately owned bank in the country, with assets of more than US\$11.9 billion, US\$8.6 billion in loans and US\$860 million in equity. Its market share was 18.6% at the end of 2002, according to the Superintendencia de Bancos e Instituciones Financieras (SBIF), a considerable feat given there are 25 national and international banks freely competing in the Chilean financial system.

The bank offers integral banking solutions to large, medium and small companies, as well as to individuals of all income levels. Its more than one million clients have easy access to a broad network of services encompassing 237 branches, 758 ATMs, and internet and international services which operate through a branch in New York, an agency in Miami and representative offices in Buenos Aires, Sao Paulo and Mexico City. The bank also counts on the additional support of a global network of more than 1,000 correspondent banks.

At the same time, Banco de Chile offers an extensive and interesting array of products and services through its subsidiary operations in insurance, stock brokerage, mutual funds, factoring, financial consultancy and securitization, among others. Given the prestige and value of the Banco Edwards brand - which stands for personal banking - the newly merged entity continues to make the most of this important brand through its branch network.

In terms of competitiveness, Banco de Chile is proud to be the only Chilean entity which is quoted on four international stock markets. With a market capitalization of more than US\$1.8 billion, the bank's

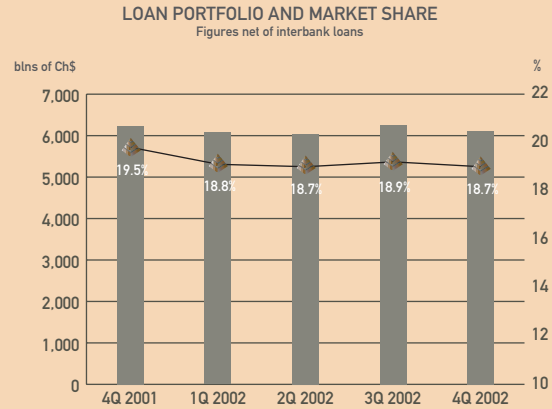
shares are traded not only on the Chilean stock exchanges, but also as American Depositary Receipts on the New York Stock Exchange. Since the end of 2002, the shares are also traded on the Latibex exchange in Madrid and on the London Stock Exchange.

During the 2002 reporting period, the focus at Banco de Chile was its merger process. The success of this operation is best measured as complete operative and technological integration, within budget, time and proposed cost limits, all the while maintaining the excellent service standards required by its clients. To achieve this, the bank started the year by integrating the two banks' information platform, leaving that of Banco de Chile's as the base. In October 2002, the merger process was concluded, successfully and ahead of schedule.

Banco de Chile		12/31/2001*	12/31/2002
Total loans	MCh\$	6,259,647	6,162,396
Total assets	MCh\$	9,252,500	8,597,051
Shareholders' equity	MCh\$	656,769	618,230
ROAA		1.07%	0.58%
ROAE		16.2%	8.9%
Net Financial Margin		4.1%	4.1%
Efficiency ratio		57.3%	60.6%

\* Proforma figures are included for purposes of comparison





On a parallel basis, and with the aim of cutting costs and increasing the efficiency of the newly merged bank's operations, a total of 51 branches were closed. At the same time, there was a 15% reduction in personnel, which left the structure more in tune with the size of its business.

In 2003, the bank is looking to consolidate its significant share in the loan market, which will allow it to achieve commercial synergies. Its short-term objective in terms of return on equity and indicators of asset quality is to hit targets above the industry average.

**2002 RESULTS**

Banco de Chile reported a net profit of Ch\$52,635 million in 2002, down from the Ch\$99,983 million reported in 2001. The reduction in net profit was primarily attributable to merger related costs and allowances for loan losses made during the year.

Operating revenues were Ch\$424,257 million in 2002, a slight reduction from the Ch\$435,617 million reported in 2001. The decline in operating revenues was due to a lower level of net interest revenue earned and lower gains on sales of financial instruments, partially offset by an increase in fee income, which grew by more than 12% during the year.

Allowances for loan losses increased by 31.9% in 2002 to Ch\$118,750 million. The additional allowances were made cohering to the bank's conservative credit policy in a context of low economic growth in Chile and as a safeguard against risks associated with

Argentine borrowers. As a consequence, the Bank's risk index rose to 3% as of December 31, 2002.

Costs related to the merger process totaled Ch\$30,884 million in 2002, of which Ch\$25,530 million and Ch\$5,374 million corresponded to operating expenses and non-operating expenses, respectively.

SM Chile S.A., through its wholly-owned subsidiary, SAOS S.A., maintains a subordinated debt with the Central Bank of Chile. Repayment terms require that 42.8% of the total dividends paid by Banco de Chile each year are used to service the subordinated debt obligation.



# senses







# CCU

With more than 150 years of tradition, Compañía Cervecerías Unidas S.A. (CCU) has been able to position itself as the leading Chilean company in the production of beer, soft drinks, wine and mineral water. It boasts a diversified base of products and services, with operations throughout the Southern Cone of South America.

CCU is the largest beer producer at the national level, with a market share of 88%. Its main brands - Cristal, Royal Guard, and Escudo – are the first choice of millions of consumers, earning the company a position of market leadership. CCU also commercializes prestigious international brands such as Budweiser, Paulaner and Guinness. In addition, CCU operates in the Argentine market through the production and commercialization of the Budweiser, Schneider, Córdoba, Salta and Santa Fe brands.

In the area of soft drinks, CCU, through its ECUSA subsidiary, is the country's second-largest bottler of carbonated soft drinks and nectars and the largest bottler of mineral water. Chief among the own-brands are Bilz, Pap, Kem, Show, Agua Mineral Cachantun and Porvenir. From the brands under licence from Cadbury Schweppes and PepsiCo, the best known are Orange Crush, Limón Soda, Ginger Ale, Pepsi and 7up. In nectars, CCU commercializes the Watt's brand.

It is worth mentioning that the CCU products in the beer and soft drinks sectors include a wide array of imported brands and those produced or sold under licence. The company maintains licensing agreements with Paulaner Brauerei AG, Anheuser Bush

Incorporated, Schweppes Holdings Ltd., Guinness Brewing Worldwide, PepsiCo Inc. and Watt's Alimentos S.A.

In the wine industry, the company operates in Chile and Argentina, with more than 1,900 planted hectares, supplying roughly 24% of the company's annual needs in the production of wine. Through its subsidiary, Viña San Pedro, CCU is the third-largest vineyard in terms of national sales, with a 17% market share, and the second-largest exporter with sales in more than 60 countries.

With the aim of generating efficiencies and taking advantage of its vertical integration, CCU operates a solid logistics and distribution company in Chile and a unit dedicated to the elaboration of plastic bottles. These investments have been fundamental to the success which CCU has achieved, as much economically as in terms of its overall business development.

It is important to mention that at the beginning of 2003, Quiñenco and Schörghuber, its German partner in Inversiones and Rentas S.A. (IRSA), reached an agreement which put an end to the ongoing arbitration process in the International Arbitration Court of the International Chamber of Commerce and in the civil tribunals of Santiago. The conflict started in 2001 when Schörghuber, owner of the Paulaner beer brand, announced that it would sell its stake in IRSA to the Dutch brewer, Heineken.

In accordance with the agreement reached in January 2003, Heineken, the world's second-largest brewer, will have the option to become a partner of Quiñenco in IRSA, the entity which controls



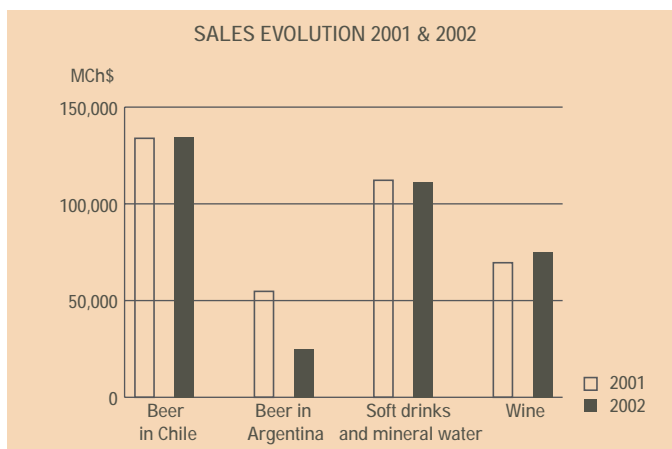
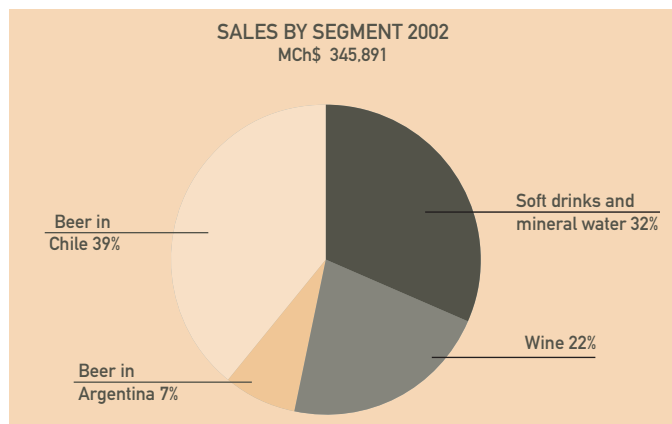
61.6% of CCU, thereby replacing Schörghuber who will withdraw permanently from the national market. The Schörghuber group will be able to sell, within three years, its shares to Heineken provided that it grants CCU the exclusive rights to produce, market, sell and distribute the powerful Heineken brand in Chile and Argentina. This operation is of great benefit to Quiñenco and to CCU, which will remain well positioned to tackle the challenges of a dynamic and competitive market.

For 2003, CCU plans to make investments amounting to approximately US\$30 million, which will include the upgrading of plant and equipment, expansion projects in wine-production, and the launching of Ruta Norte, a new brand of pisco.

**2002 RESULTS**

CCU reported a net profit of Ch\$22,065 million in 2002, a 44.2% decrease compared to 2001. The variation in net profit between 2002 and 2001 can mostly be explained by a reduction in non-operating results. In March of 2001, CCU sold its stake in Backus & Johnston in Peru, generating a gain on sale of Ch\$17,199 million in that period. In addition, 2002 results were dragged down by CCU's Argentine subsidiary as a consequence of the economic collapse and currency devaluation experienced in Argentina since late 2001.

Sales fell by 6.6% to Ch\$345,891 million as a result of an 8.5% decrease in average prices, partially offset by a 2.4% increase in the volume sold. Sales of the Argentine subsidiary, which represented 7.2% of consolidated sales, declined by 54.5%, accounting for the overall reduction in CCU's sales for the year. In Chile, sales increased by 2.2% due to higher sales volume. However, weak internal demand in Chile did not allow for price adjustments in line with inflation during the year.



Market Share	2002	2001
Beer Chile	88%	88%
Beer Argentina	13%	12%
Soft drinks	23%	24%
Mineral water	63%	62%
Fruit juice	50%	43%
Domestic wine (VSP)	17%	14%
Export wine (VSP)	13%	13%

Volume Sold (*)	2002	2001
Beer Chile	3,502	3,483
Beer Argentina	1,604	1,512
Soft drinks and mineral water	4,136	4,127
Domestic wine	512	428
Export wine	455	418

(\*) Thousands of hectoliters

Operating profit was Ch\$37,594 million, Ch\$7,368 million lower than in 2001, mainly due to the aforementioned deterioration in CCU Argentina, that in addition to the sharp drop in sales, also experienced significant increases in raw material costs. The effect of the decline in the Argentine subsidiary's results on consolidated operating profit was Ch\$5,029 million, partially offset by an increase of Ch\$859 million in the Chilean operation's gross profit and a slight decrease (as a percentage of sales) in SG&A expenses.



During its more than 100 years of existence, Empresas Lucchetti S.A. has maintained the quality, tradition and brand recognition of its wide variety of pastas, edible oils, and soups, as well as their delicious taste and high nutritional value. This dedication has made the Lucchetti brand a favorite among millions of Chileans.

The company's products are marketed under the Lucchetti, Napoli, Talliani, Romano, Miraflores, Oro Vegetal, El Dorado, Doña Sofía and Naturezza brands, among others. Each brand has strived to find more and better solutions for consumers, with the aim of delivering reliable, easy-to-prepare products at accessible prices. In this way, Lucchetti's operations in Chile have gained a market share of 36% in pastas, 28% in edible oils and 18% in soups, creams and broths.

In Peru, where Lucchetti had a presence since 1995, the company faced continued hostility from local authorities in the form of a smear campaign for supposed environmental infringements. This affected product sales and precipitated the loss of important third-party representation.

As a result of the forced closure of Lucchetti's Lima plant, ordered by the municipal authority of Chorrillos in compliance with an ordinance from the Municipality of Lima in January 2003, assets are being liquidated in order to meet obligations with banks, creditors, employees and suppliers. In accordance with generally accepted accounting principles in Chile, Lucchetti made loss provisions with respect to its Peruvian operations of Ch\$30,678 million, charged against 2002 results. These provisions, although significant, do not fully reflect the real economic and public setback suffered by the company.

In future years, the company's strategy will be based in Chile, where it will focus on three strategic pillars: growth, profitability, and sustainability. The accent will be on growing the most profitable businesses, improving commercial practices and realizing the full value of its brands, human capital, productive and business processes.

#### 2002 RESULTS

Lucchetti reported a net loss of Ch\$37,223 million in 2002. The net loss reported for the year was attributable to loss provisions made in connection with the forced closure of Lucchetti's Peruvian operations in early January 2003, charged to 2002 results in accordance with local accounting principles.

Lucchetti reported sales of Ch\$83,799 million for the year 2002, down 5.7% from 2001. Lucchetti's Argentine subsidiary was sold in 2001, thereby explaining Ch\$6,658 million of the variation between the two years. Isolating the effect of the divestiture on consolidated sales, Lucchetti's sales would have increased by 2% in 2002 as a consequence of a 9.9% increase in sales in the Chilean operations, partially offset by an 18.5% decrease in sales in Peru. Chilean sales experienced a significant increase in 2002, mainly due to higher pasta sales volume, which increased by 16% during the year, as well as new product launches in the soups, creams and broths product line. The Chilean operations accounted for 77.6% of consolidated sales and the Peruvian operations for the remaining 22.4%. Operating profit was Ch\$2,678 million, down by Ch\$48 million from 2001.



TELECOMMUNICATIONS

A woman and a man are shown from the chest up, talking on mobile phones. They are positioned in a futuristic, brightly lit tunnel with a series of glowing, arched openings. The woman is on the left, wearing a dark, ribbed sweater, and the man is on the right, wearing a dark jacket. The overall atmosphere is high-tech and modern.

access



26

27

Compañía Nacional de Teléfonos, Telefónica del Sur (Telsur) is the result of more than 100 years of experience in the telecommunications business. It is the leading supplier of telecommunication services in the south of Chile, with more than 172,000 lines in service for residential and commercial clients in the 8th, 9th, 10th, and 11th regions, home to important national cities such as Concepción, Temuco, Valdivia, Osorno, Puerto Montt and Coyhaique.

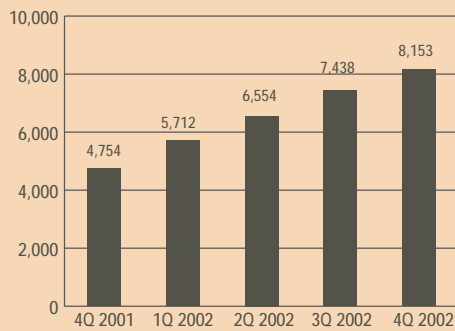
Thanks to its satellite system, distance and geography are no impediment to the delivery of top-quality service. Telsur's services encompass everything from voice transmission to interconnection services and data transmission, with a range of band widths in tune with the specific needs of clients. The company also relies on a modern fiber optic network, which allows it to provide national and international long distance services around the country through its Telefónica del Sur Carrier subsidiary and the 121 Telefónica del Sur brand. At the same time, 121 Telefónica del Sur acts as a carrier for other carriers, providing lines and infrastructure to other companies. In 2002, in Temuco, the company swung into action with its first Consumer Telephony Meter, which detects telephone calls made, measures their duration and registers and produces permanent records. The variety of products, along with its excellent level of client service and tariff stability has allowed the company to achieve important market shares in those areas in which it operates.

One of the greatest challenges of the company during the past several years has been, apart from widening its geographic coverage, the development and sale of new value-added products. Such was the case in 2001, when it added internet and fixed wireless services in the main southern cities and rural zones. In 2002, it launched the Novell Small Business Suite 6 platform, which allows companies in the region to incorporate the internet economy with access to high speed ADSL services, web hosting, email, firewalls and internet connections via satellite networks. This step, which is part of a five-year plan, involves a US\$50 million investment and looks to reach an additional 35,000 clients between the 7th and 11th regions.

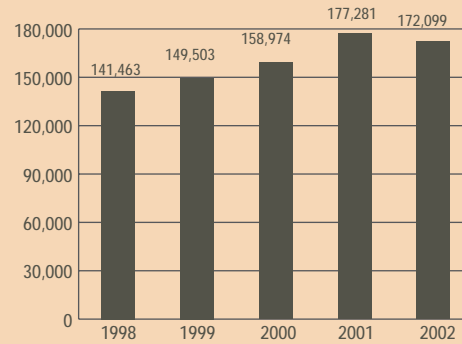
With the aim of fortifying its base for future growth, Telsur, with the assistance of Booz Allen & Hamilton, undertook a restructuring of the company in 2002. This meant the reorganization of the management structure and a 12% cut in personnel, both measures of which were designed to reduce costs and raise efficiency levels. The restructuring process, whose objective was to improve company profitability, implied a cash outlay of US\$2.1 million. Going forward, the company plans to develop the e-business side of its business, by centralizing functions, optimizing resources, modernizing processes, outsourcing services and redesigning new systems and information technology. From next year on, it expects to see annual savings of US\$1.7 million as a result of the restructuring.



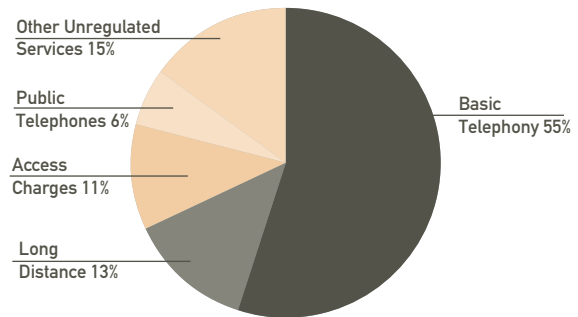
WIDE BAND CLIENTS



LINES IN SERVICE



SALES COMPOSITION 2002



Market Share	2002	2001
Concepción	11.6%	7.5%
Temuco	45.2%	42.5%
10th Region	81.4%	84.3%
11th Region	87.1%	90.4%

**2002 RESULTS**

Telsur's revenues reached Ch\$46,646 million in 2002, almost unchanged from the Ch\$46,701 million reported in 2001. 2002 sales revenue reflected a change in the sales mix following the consolidation of internet, call center and security services. As a result, non regulated services accounted for 15% of total sales, up from 9% in 2001. The increase in revenues from non-regulated services was practically offset by a reduction in fixed telephony and long distance revenues compared to 2001. Fixed telephony traffic (in minutes) fell by 5% in 2002, mainly due to the weak economic environment which prevailed in the south of Chile during the year as well as the effect of substitution from fixed to mobile alternatives.

Operating profit decreased by 5% to Ch\$13,148 million in 2002. Operating profit was affected by the incorporation of direct costs and depreciation expense associated with the new consolidated internet and security services as well as higher SG&A expenses related to the Concepción office.

Non-operating expenses were Ch\$3,763 million, up by 19.0% from the Ch\$3,161 million reported in 2001. In addition, Telsur reported extraordinary charges of Ch\$1,526 million in connection with the internal restructuring carried out in mid 2002, oriented towards the achievement of greater cost efficiencies.

Net profit in 2002 amounted to Ch\$6,027 million, representing a 31% decrease from the Ch\$8,736 million reported in 2001. The reduction in bottom line results for the year was attributable to lower operating and non-operating results as well as the extraordinary charges related to the restructuring program.



Market leader in Chilean telecommunications, Entel has more than four million clients in the areas of mobile telephony, long-distance and internet services. Mobile telephony, a sector which has seen high growth levels in Chile in the past decade, is the single most important business for Entel, which boasts a 34% market share. On December 31, 2002, Quiñenco held a 5.7% stake in Entel.

In 2002, Entel reported net profit of Ch\$41,096 million, of which Ch\$2,337 million corresponded to Quiñenco's proportionate share under the equity investment method.

# 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

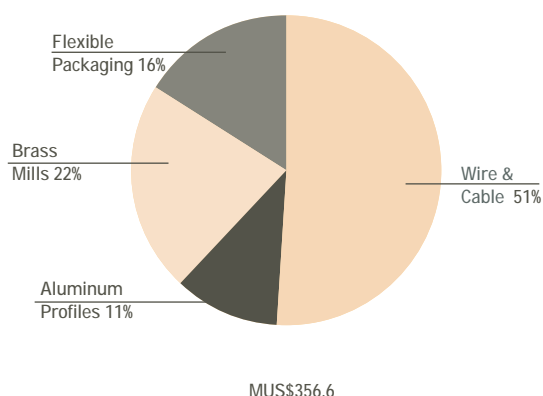
companies in the telecom and energy sectors, which are the main segments supplied by Madeco. Although its margins were affected by a change in its product mix, the Peruvian subsidiary continues to be a stable and profitable operation.

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.

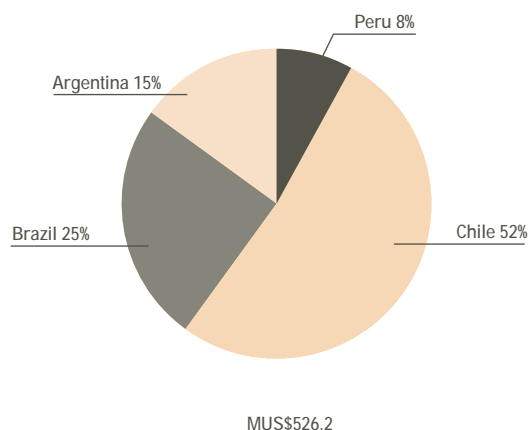
The naming of Tiberio Dall'Olio as General Manager of the company was an important event. The executive arrived in April last year to head up a study on the technical and commercial viability of the Madeco group, with particular reference to the wire and cable operations. In October 2002, Mr. Dall'Olio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



ASSETS BY COUNTRY



**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.

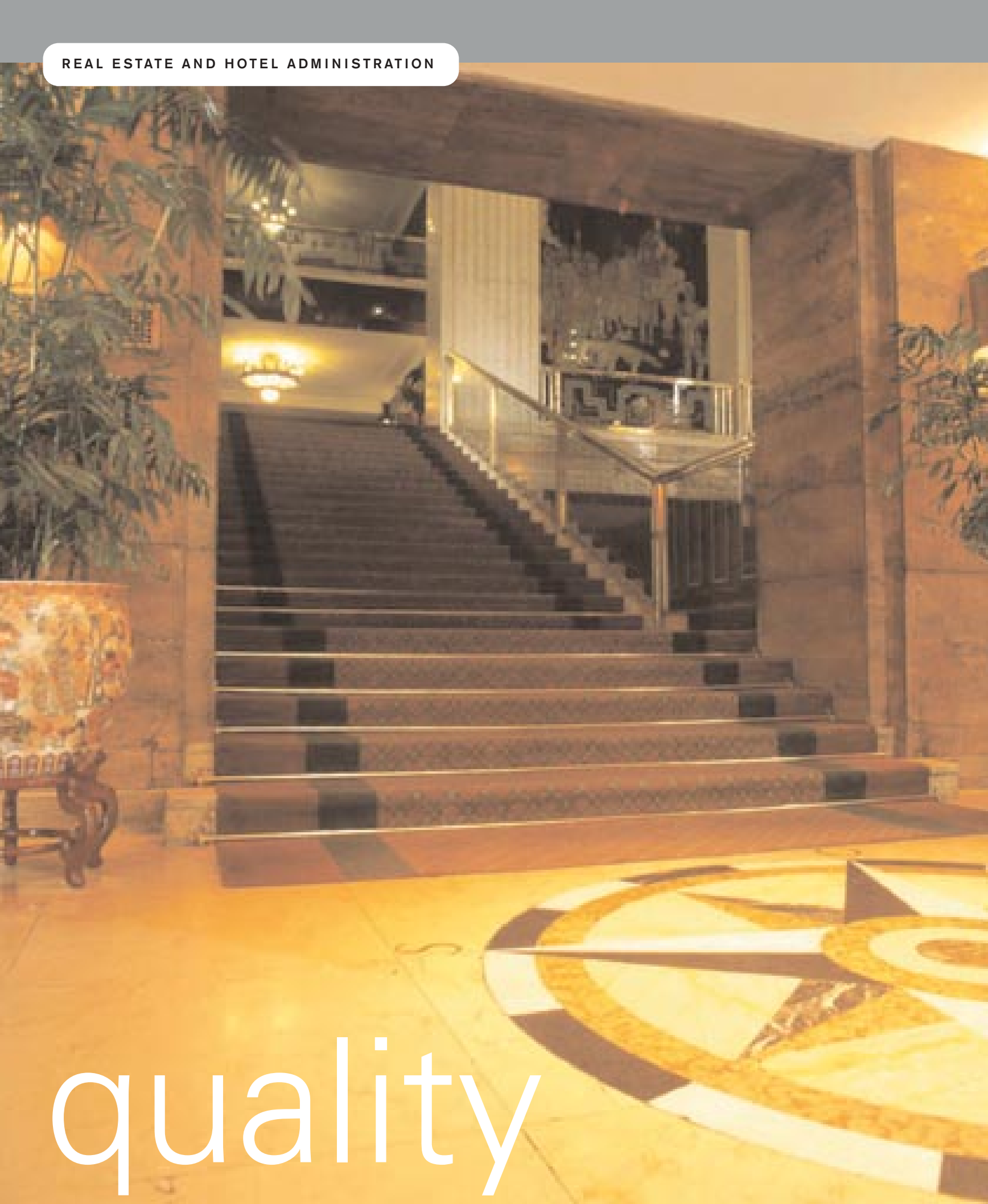
Operating profit was directly affected by the lower sales level, falling by 63.6% from Ch\$10,986 million to Ch\$4,003 million. This translated into low gross (12.4% of sales) and operating margins (1.6% of sales), in spite of a substantial reduction in SG&A expenses of 21.7%. The wire and cable business 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%





quality



## HotelCarrera

Symbol of the best in Chilean hotel accommodations, the Carrera is a veritable bulwark in Santiago's civic center. Located for the past 62 years in Teatinos Street, a few steps from the Presidential Palace, the hotel has always been characterized by the superior quality of its service and is the first choice in central Santiago of visiting officials and business executives.

The prestige of the hotel and its reputation for excellent service have contributed towards its membership in the exclusive "Leading Hotels of the World" club, putting it alongside the most renowned hotels in the world.

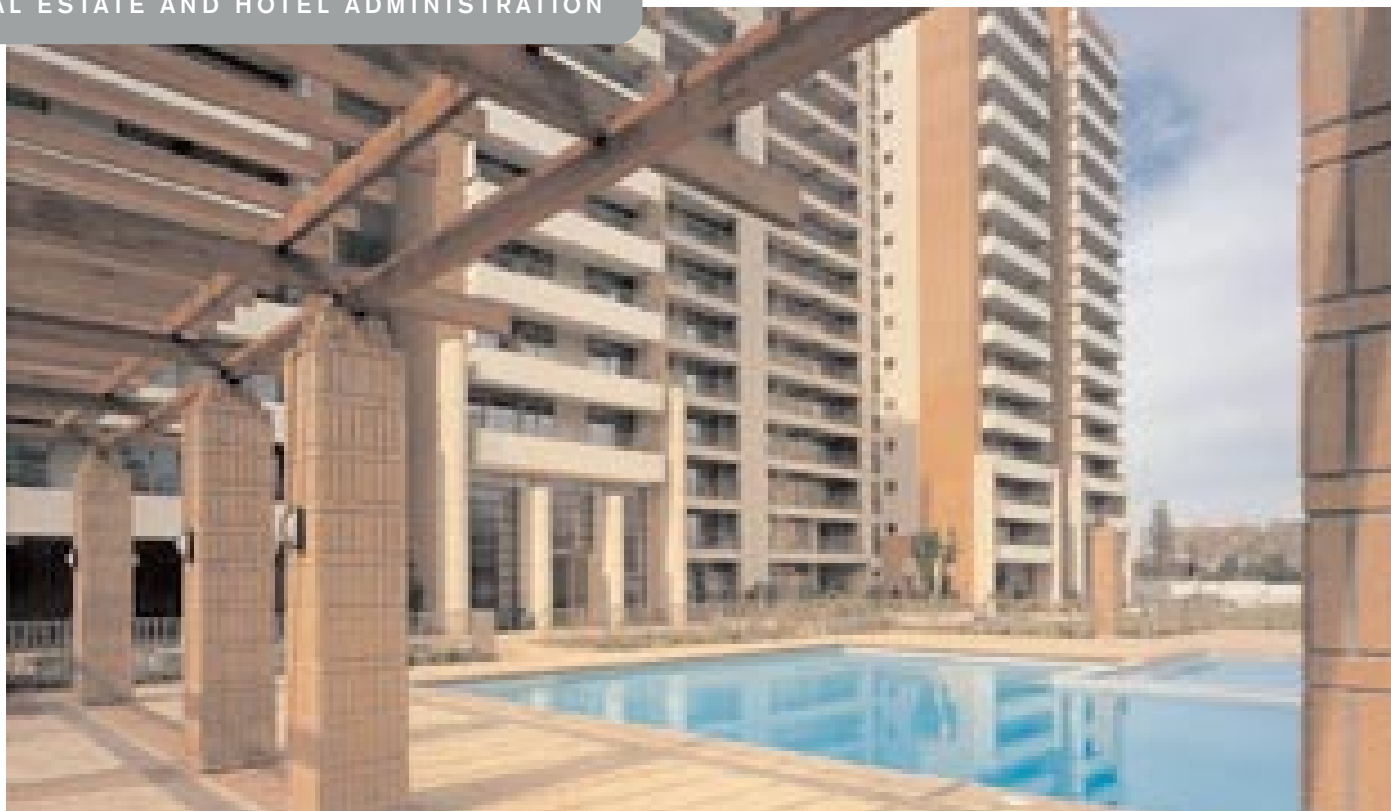
Throughout the 1990s, Hotel Carrera took advantage of the good name it had earned, its five-star reputation, administrative experience and solid infrastructure to expand its chain. Joining the five-star Santiago establishment were three new regional hotels, all offering the same level of service which has distinguished the main hotel throughout its long history. The Hotel Carrera in Santiago and the four-star Hotel Araucano in Concepción are owned by Hoteles Carrera, while the other three establishments, the La Serena Club Resort and the Carrera Resorts in Iquique and Antofagasta, are operated by Hoteles Carrera.

During 2002, a tremendous effort was made to strengthen and reposition the Hotel Carrera image in the face of tough competition from international chains. Among other things, this meant sharpening the focus, improving efficiencies, adjusting the staff structure to the new requirements of the market, and redecorating with colors and schemes more in tune with the times.

### 2002 RESULTS

Hoteles Carrera's sales decreased by 7.4% to Ch\$7,016 million in 2002. The decrease in revenues during the year was mainly related to lower occupancy rates across the hotel chain, and to a lesser extent, a reduction in average room rates in the Santiago establishment. In general terms, the business was affected by sluggish internal demand, particularly the luxury hotel segment in Santiago. The hotels in the north of Chile were also affected by low tourist demand from Argentine visitors as a consequence of the ongoing economic crisis in that country.

Hoteles Carrera reported a net loss in 2002 of Ch\$996 million, down slightly from the net loss reported in 2001 of Ch\$1,175 million. The net loss resulted from both the weak operating performance as well as non-operating losses which amounted to Ch\$617 million and included a loss on the sale of a property site of Ch\$150 million.



## HABITARIA

Despite only four years of activity in Chile, Habitaria has managed to position itself among the market leaders in the Santiago metropolitan region in the area of residential development for middle and upper middle income families. It owes this success to the quality of its designs, the variety of projects, strong brand name recognition, excellent client service and economies of scale, backed up by the credibility and solvency of the company.

Habitaria is a joint venture between Quiñenco and Ferrovial Inmobiliaria Chile Ltda, an indirect subsidiary of Ferrovial Inmobiliaria, one of the leading and most reputable construction companies in Spain.

Since its inception in June 1998, Habitaria has worked at introducing a new concept in urban living based on comfort, security and a healthy family life. Using this model, the company has developed nine projects in diverse sectors of Santiago and the 5th Region, the two largest population centers in Chile.

During the year, Habitaria expanded its sales channels beyond the usual on-site commercial offices. As well as inaugurating a network of property consultants, it launched an internet sales operation and signed an agreement with Ripley, the department store group, to sell property through its main outlets. There was also a strategic alliance with ACOP, which is an association of

property agents. In the first year of operation alone, these non-traditional channels were responsible for generating for 26% of Habitaria's sales.

Habitaria invested UF 725,000 (about US\$16.9 million) in project development in 2002, and has plans to invest another UF 300,000 (US\$7.2 million) in 2003 in order to complete new stages in existing projects.

### 2002 RESULTS

Habitaria reported a net profit of Ch\$898 million in 2002, the highest level since the initiation of its activities in 1998 and 109% higher than in 2001. During 2002, Habitaria sold 436 housing units, compared to 398 units in 2001, resulting in a sales increase of 14.7% for the year. The increase in sales reflected a relatively more dynamic local real estate market, stimulated by low prevailing interest rates. In addition, Habitaria's larger overall project inventory available for sale (corresponding to 8 housing projects) contributed to the higher sales level reported during the year.

As of the end of 2002, Habitaria had pre-sold an additional 142 apartments to be delivered in future periods (not included in 2002 sales revenues). Its inventory of finished stock as of December 31, 2002 (excluding pre-sold units as of the same date) was 266 apartments and homes. During 2003, Habitaria is expected to finish constructing three additional phases of ongoing projects.



## SHAREHOLDERS

At the close of the year 2002, subscribed and paid-in capital was divided among 1,079,740,079 shares, held by 2,770 shareholders. The Company's shares have been traded on the New York Stock Exchange and the Santiago Stock Exchange (Bolsa de Comercio de Santiago) since 1997. The twelve largest shareholders as of December 31, 2002 are:

Corporate I.D. #	Name	Shares	%
77.629.860-3	Inversiones FCAB Ltda.*	362,757,196	33.60
59.039.730-k	Ruana Copper A.G. Agencia Chile*	240,938,000	22.31
78.306.560-6	Sociedad Inmob. y de Inv. Río Claro Ltda.*	142,819,109	13.23
96.536.010-7	Inversiones Consolidadas S.A.*	124,819,108	11.56
97.008.000-7	Citibank N.A. **	94,319,630	8.74
96.871.750-2	Inversiones Salta S.A.*	18,000,000	1.67
98.000.400-7	A.F.P. Provida S.A. Fondo Tipo C	7,855,997	0.73
80.537.000-9	Larrain Vial S.A. Corredora de Bolsa	6,476,120	0.60
99.012.000-5	Compañía Seg. Vida Consorcio Nac. de Seguros S.A.	6,301,515	0.58
96.571.220-8	Banchile Corredores de Bolsa S.A.	4,700,073	0.43
98.001.000-7	A.F.P. Cuprum S.A. Fondo Tipo C	4,043,003	0.37
98.000.400-7	A.F.P. Provida S.A. Fondo Tipo B	2,872,238	0.27
	<b>Total</b>	<b>1,015,901,989</b>	<b>94.09</b>

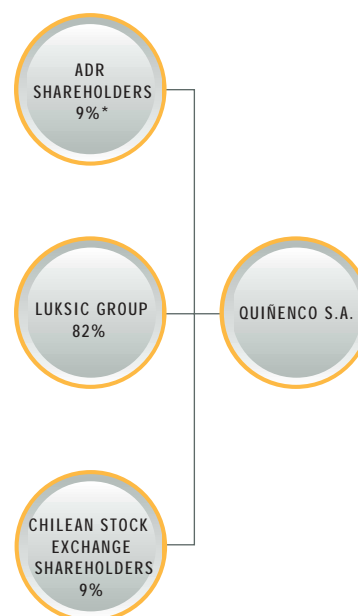
\* Companies related to the Luksic Group  
 \*\* Depository bank for ADR shareholders

34

35

Quiñenco is controlled 82.4% by the Luksic Group, through its companies Inversiones FCAB Ltda., Ruana Copper A.G. Agencia Chile, Inversiones Consolidadas S.A., Sociedad Inmobiliaria y de Inversiones Río Claro Limitada and Inversiones Salta S.A. All of these companies are linked to Antonio Andrónico Luksic Abaroa, Andrónico Mariano Luksic Craig, Guillermo Antonio Luksic Craig and Jean Paul Luksic Fontbona, the principal members of the Luksic Group. There are no formal agreements as to the voting or disposition of shares between members of the Luksic Group.

Antonio Andrónico Luksic Abaroa indirectly holds a 60.9% interest in Inversiones FCAB Ltda. and a 100% interest in Ruana Copper A.G. Agencia Chile. Andrónico Mariano Luksic Craig and his family hold 100% of Inversiones Consolidadas S.A. and Inversiones Salta S.A., both directly and indirectly. Guillermo Luksic Craig holds a 99.9% direct interest in Sociedad Inmobiliaria y de Inversiones Río Claro Limitada. Jean Paul Luksic Fontbona holds a 4.2% indirect interest in Inversiones FCAB Ltda.



\* 1 ADR is equivalent to 10 ordinary shares.

One of the main objectives of Quiñenco is to create teams of professionals sufficiently motivated to meet the targets of value creation set by the parent company and its subsidiaries.

For this very reason, the Human Resources area has always strived to reinforce the main pillars upon which each group company is built. These pillars represent value-creation, leadership, innovation, and ethics. At the same time, there is a constant effort to:

- motivate as a way of improving productivity
- align the interests of shareholders and workers
- stimulate creativity and training, strengthen a sense of belonging to the group
- maintain an explicit commitment to the community and environment
- establish specific and general mechanisms for recruitment and personal evaluations and
- properly manage executive career development.

Another important task is to follow the career track of group executives, evaluate them and position them so that their potential is allowed to flourish. In this way, executives have the constant incentive to develop themselves professionally, which is in itself a reward for their contribution to the creation of value. The evaluation process is also directed at finding emerging talents, and ensuring that these people are nurtured and given ample opportunity to develop professionally.

In helping to ensure that executives give their best, Quiñenco strives to create an optimal organizational climate and workplace conditions. It also initiates organizational changes, effected through reorganizations, constant fine-tuning and the implementation of best practices.

Quiñenco seeks to unite group companies through the development of beneficial synergies, as in the case of the acquisition of certain goods and services and the definition of administrative policy and procedures related to the area of human resources.

PERSONNEL (AS OF DECEMBER 31, 2002)

Company	Executives	Professionals & Technicians	Other Workers	Total
Quiñenco	12	17	10	39
Banco de Chile and subsidiaries	268	4,226	4,113	8,607
Madeco and subsidiaries	52	331	2,405	2,788
Telsur and subsidiaries	26	298	212	536
Lucchetti and subsidiaries	24	203	354	581
Hoteles Carrera	10	25	242	277
Other subsidiaries	13	76	33	122
<b>Total</b>	<b>405</b>	<b>5,176</b>	<b>7,369</b>	<b>12,950</b>

As of December 31, 2002, the affiliate companies CCU and Habitaria had 3,899 and 85 employees, respectively.

**CORPORATE HEADQUARTERS**

Quiñenco's corporate headquarters are located in the El Golf sector of Santiago at Enrique Foster Sur Street #20, and occupy approximately 2,500 square meters of office space owned by Quiñenco.

**INVESTMENT POLICY**

Most of Quiñenco's resources are dedicated to companies under its control, either directly or in conjunction with strategic partners. Resources may also be used to invest in industries or companies that it believes will strengthen the Group's growth potential.

Quiñenco seeks out investment opportunities in companies with a strong brand orientation and in industries where it has proven experience. When the Company detects opportunities in areas where it has no prior experience, in the past it has formed strategic alliances.

**FINANCING POLICY**

Quiñenco finances its activities and investments with dividends and profit distributions from its operating companies and with funds obtained from the sale of assets and the issuance of debt and equity instruments.

The Company prioritizes long-term financing in order to maintain a liability structure that reflects the liquidity of its assets and whose maturity profiles are compatible with its cash flow generation capacity.

**RISK FACTORS**

The primary risks affecting Quiñenco and its subsidiaries are those risks inherent to the markets and economies in which each business operates, in Chile and abroad. These risks are reflected in the prices, costs and sales volumes of the products and services of every business the Company is involved in.

Quiñenco is a Chilean-based company. As such, its results from operations and financial position depend to a great extent on the general level of economic activity in Chile. Even though the Chilean economy experienced average annual growth of 7.7% between 1990 and 1997, since 1998 average annual growth has been less than 3%. There can be no assurance that the country will return to the growth levels achieved during the 1990s. Factors that could have an adverse effect on the Company and its results from operations include a slowdown in the Chilean economy, inflationary pressures and a deterioration in exchange rate terms, among others.

Certain subsidiary and affiliate companies operate in or export to Argentina, Brazil and Peru, all of which have been characterized in the past as countries which are economically and politically unstable or volatile. Quiñenco's businesses, their earnings and the value of their assets could be affected by inflationary pressures, exchange

rates, interest rates, political governability, price and salary controls, regulatory issues, expropriation and social instability in these countries, among other things.

In recent years, Argentina has suffered a prolonged recession which in 2001 culminated in the current economic crisis, driven by that country's economic and political instability and included government imposed restrictions on bank deposits and withdrawals, exchange controls, suspension of payment of external debt and the abrogation of peso convertibility. Although Argentina is showing some signs of economic recovery, it cannot be determined when the economy will strengthen or what effects this may have on Quiñenco and its group companies.

Historically, Quiñenco and its group companies have required significant amounts of capital to finance their operations and expand their businesses. As such, future growth is directly related to the Company's access to capital. In the past, Quiñenco and its group companies have satisfied their capital needs with internally generated cash flow and with issues of debt and equity. Nonetheless, there is no assurance that funds will be readily available to finance the future capital needs and expansion plans of the Company. The inability to raise capital could severely impede Quiñenco from growing in the future, either in its existing businesses or in new businesses, thereby producing an adverse effect on the Company's financial position and its results from operations.

As a holding company, Quiñenco's debt service and repayment capacity, as well as its ability to make dividend distributions depends on the level of dividends and profit distributions it receives from its subsidiary and affiliate companies. In certain cases, these companies may have restrictions on earnings and cash flow, which would prevent them from making cash distributions to Quiñenco.

Another risk factor the Company faces is associated with interest rates. A portion of Quiñenco's debt is subject to variable interest rates, which could have an impact on the company in periods in which the variable rate rises. A risk also exists with respect to exchange rate fluctuations on debt instruments maintained in foreign currencies.

Many of Quiñenco's businesses are publicly traded entities whose equity value may vary depending on market value fluctuations. The equity value of Quiñenco's investments could be affected by downturns in the Chilean securities markets and other securities markets, such as the New York Stock Exchange. In addition, should publicly-traded shares experience low trading volumes, price and share liquidity could be affected.

Quiñenco is exposed to the fluctuation in inventory values in some of its subsidiaries.

**INSURANCE**

Quiñenco and its subsidiaries maintain annual insurance policies with leading insurance providers that cover all relevant assets, including buildings, machinery, vehicles, raw materials, work-in-progress, finished goods, etc. The policies cover damages caused by fire, earthquake and other contingencies.

**DIVIDEND POLICY**

At the Annual Shareholders' Meeting to be held on April 30, 2003, the Board of Directors will propose to maintain its dividend policy of distributing at least 30% of annual net profits. For the year ended December 31, 2002, the Board of Directors has agreed not to distribute dividends.

**DIVIDENDS**

Dividend Number	Payment Date	Dividend per Share*	Total Dividend*	For the Year Ended December 31*
N° 11	05-12-99	Ch\$7.31819	ThCh\$7,901,743	1998
N° 12	05-04-00	Ch\$44.54132	ThCh\$48,093,048	1999
N° 13	05-10-02	Ch\$5.74560	ThCh\$6,203,753	2001

\* Historic figures

**BOARD COMPENSATION**

As agreed upon at the Annual Shareholders' Meeting held in 2002, compensation paid to members of the Board of Directors during the year was as indicated below (per diem and profit sharing, respectively):

Guillermo Luksic Craig, ThCh\$4,391 and ThCh\$10,588 (ThCh\$3,812 and Ch\$0 in 2001); Andrónico Luksic Craig, ThCh\$733 and ThCh\$10,588 (ThCh\$1,025 and Ch\$0 in 2001); Jean Paul Luksic Fontbona, ThCh\$1,024 and ThCh\$10,588 (ThCh\$439 and Ch\$0 in 2001); Philip Adeane, Ch\$0 and ThCh\$10,588 (Ch\$0 and Ch\$0 in 2001); Hernán Büchi Buc, ThCh\$1,903 and ThCh\$10,588 (ThCh\$1,613 and Ch\$0 in 2001); Joaquín Errázuriz Hochschild, ThCh\$2,195 and ThCh\$10,588 (ThCh\$1,759 and Ch\$0 in 2001); Juan Andrés Fontaine Talavera, ThCh\$1,757 and ThCh\$10,588 (ThCh\$1,613 and Ch\$0 in 2001); Gonzalo Menéndez Duque, ThCh\$2,195 and ThCh\$10,588 (ThCh\$1,759 and Ch\$0 in 2001); and Vladimir Radic Piraíno, ThCh\$1,902 and ThCh\$10,588 (ThCh\$1,759 and Ch\$0 in 2001). In addition, Joaquín Errázuriz Hochschild, Gonzalo Menéndez Duque and Vladimir Radic Piraíno were compensated for their service on the Directors' Committee in the amounts of ThCh\$2,338, ThCh\$2,338 and ThCh\$2,338 (ThCh\$1,819, ThCh\$1,819 and ThCh\$1,672 in 2001), respectively.

The following Quiñenco board members received compensation for their services as board members of subsidiary companies as indicated below:

- In Banco de Chile (per diem and fees, respectively), Guillermo Luksic Craig, ThCh\$25,425 and ThCh\$39,351 (ThCh\$26,516 and ThCh\$59,588 in 2001); Andrónico Luksic Craig, ThCh\$13,897 and ThCh\$78,702 (Ch\$0 and Ch\$0 in 2001) and Gonzalo Menéndez Duque, ThCh\$107,327 and ThCh\$74,513 (ThCh\$112,607 and ThCh\$29,794 in 2001).

- In 2001 in Banco Edwards (per diem and fees, respectively), Guillermo Luksic Craig, ThCh\$5,864 and ThCh\$325; Andrónico Luksic Craig, ThCh\$68,294 and Ch\$0 and Gonzalo Menéndez Duque, ThCh\$8,144 and ThCh\$15,962. Banco Edwards was merged with Banco de Chile on January 1, 2002.

- In Madeco S.A.(per diem and fees, respectively), Guillermo Luksic Craig, ThCh\$3,650 and Ch\$0 (ThCh\$1,474 and Ch\$0 in 2001); Andrónico Luksic Craig, ThCh\$729 and ThCh\$836 (ThCh\$924 and ThCh\$2,863 in 2001); Jean Paul Luksic Fontbona, ThCh\$550 and Ch\$0 (ThCh\$729 and Ch\$0 in 2001) and Hernán Büchi Buc, ThCh\$3,285 and ThCh\$10,779 (ThCh\$2,570 and ThCh\$15,175 in 2001).

- In Telefónica del Sur S.A. (per diem and profit sharing, respectively), Guillermo Luksic Craig ThCh\$8,201 and ThCh\$25,902 (ThCh\$6,582 and ThCh\$31,589 in 2001); Jean Paul Luksic Fontbona, Ch\$0 and Ch\$0 (Ch\$0 and ThCh\$711 in 2001) and Gonzalo Menéndez Duque, ThCh\$9,160 and ThCh\$31,329 (ThCh\$8,554 and ThCh\$32,627 in 2001).

- In Empresas Lucchetti S.A. (per diem and fees, respectively), Guillermo Luksic Craig, ThCh\$2,341 and ThCh\$13,646 (ThCh\$1,758 and ThCh\$13,657 in 2001); Andrónico Luksic Craig, ThCh\$1,756 and ThCh\$13,646 (ThCh\$2,637 and ThCh\$13,657 in 2001) and Hernán Büchi Buc, ThCh\$10,549 and Ch\$0 (ThCh\$7,634 and Ch\$0 in 2001).

- In Hoteles Carrera S.A. (per diem), Joaquín Errázuriz Hochschild, ThCh\$1,612 (ThCh\$1,906 in 2001) and Vladimir Radic Piraíno, ThCh\$1,904 (ThCh\$1,759 in 2001).

**MANAGEMENT COMPENSATION**

Compensation paid to Quiñenco's main executives during the year 2002, including salaries, benefits and performance bonuses, totaled ThCh\$2,035,061.

**INCENTIVE PLAN**

In March 2000, a long-term incentive plan was established for Quiñenco executives. Loans, which as of December 31, 2002 amounted to ThCh\$4,729,878, were granted to acquire shares of Quiñenco and its subsidiaries at market price. The loan, expressed in UF, repayable in annual installments, and the shares acquired, are delivered in guarantee and may be delivered in payment. The plan was made in accordance with the directives of the Board of Directors on March 8, 2000.

**AUDIT COMMITTEE**

The Board of Directors, in its meeting of March 17, 2001, in accordance with Article 50 bis, Law Number 18,046, designated as members of the Audit Committee, Vladimir Radic Piraíno, Gonzalo Menéndez Duque and Joaquín Errázuriz Hochschild. The Audit Committee initiated its activities on May 3, 2001. In its first meeting, the committee established procedures for requesting information from the Company's administration and set a calendar of regular monthly meetings for the year, outside of the extraordinary meetings that may take place from time to time. It also established committee guidelines and rules and reviewed the norms established by law with respect to the Committee's responsibilities. Gonzalo Menéndez Duque was named Chairman of the committee and Quiñenco's Chief Counsel, Manuel José Noguera Eyzaguirre, was named Secretary. The committee meets once a month, and Francisco Pérez Mackenna, CEO, and Luis Fernando Antúnez, CFO, are also regular participants at each session.

During 2002, there were no changes in the designated committee members. The Committee met on a monthly basis and Francisco Pérez Mackenna, CEO and Luis Fernando Antúnez, CFO also attended the meetings regularly. In the General Ordinary Shareholders' Meeting held on April 30, 2002, it was agreed that each committee member would receive a per diem payment of

UF10 for attending each meeting. At the same meeting it was also agreed that the Directors' Committee would be allotted an expense budget of UF1,000 in 2002.

The Audit Committee, in accordance with Article 50 of the Corporations Law (Ley de Sociedades Anónimas) and its predetermined meeting schedule, carried out the following activities in 2002:

a) An examination of and subsequent report on the type of operations referred to in Articles 44 and 89 of the Corporations Law. The Committee reviewed in detail the information relative to the following transactions:

1. A US\$70 million loan granted to LQ Inversiones Financieras S.A. by Andsberg Finance Corporation, a financial institution related to the controlling shareholder.
2. Modification of the "Contrato de Promesa de Compraventa" (preliminary agreement in which the parties agree to formally execute a purchase agreement at a future date) of Banedwards Compañía de Seguros de Vida S.A. between the subsidiary Inversiones Vita S.A. and Banco de Chile.
3. Rescheduling of the subsidiary Madeco S.A.'s bank loans.

b) A review of the salary and compensation packages of Quiñenco's main executives.

38

**SHARE TRANSACTIONS IN 2002 BY CONTROLLING SHAREHOLDERS**

39

2002	In 2002, the controlling shareholders did not purchase or sell any shares of the company.					
2001	Number of Shares		Transaction Amount (*)		Price per Share (*)	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	Ch\$	Ch\$
Northern Mines Sociedad Contractual Minera Antofagasta (Chili) and Bolivia Railway Co. P.L.C.	-	33,571,898	-	3,200,755	-	95.34
Inversiones FCAB Ltda.	362,757,196	-	27,797,470	-	(**) 76.63	-

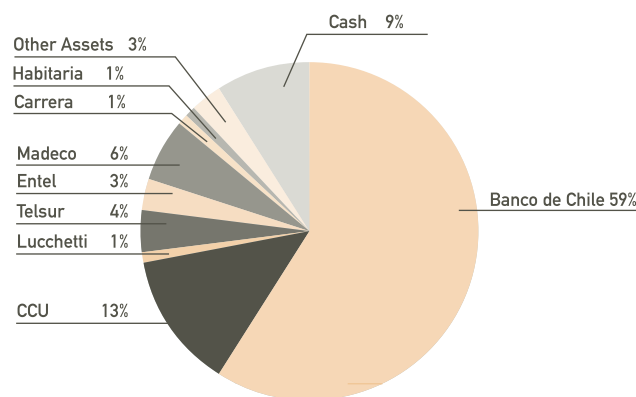
**SHARE TRANSACTIONS IN 2001 AND 2002 BY OFFICERS AND EXECUTIVES OF THE COMPANY**

Name	Number of Shares		Transaction Amount (*)		Price per Share (*)	
	Purchased (Sold)		Purchased (Sold)		Purchased (Sold)	
	2002	2001	2002	2001	2002	2001
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	Ch\$	Ch\$
Juan Correa García (Ex-Executive)	(13,788)	(145,287)	(6,067)	(81,321)	(440.00)	(559.73)
Patricio León Délano (Ex-Executive)	(159,347)	-	(46,211)	-	(299.00)	-
Davor Domitrovic Grubisic (Executive)	-	145,287	-	81,321	-	559.73
Cindi Freeman (Executive)	-	42,246	-	15,631	-	370.00

\* Historic figures

\*\* Average price

**COMPOSITION OF ASSETS**  
As of December 31, 2002



US\$1.5 billion  
Corporate level (Quiñenco and intermediate holding companies)

c) A review of the reports issued by the Company's external auditors, including the Internal Control Report periodically sent to the Company's administration. The committee, prior to the presentation of the 2002 Audited Financial Statements to shareholders, reviewed the documents.

d) The committee proposed to the Board of Directors the designation of Ernst Young Limitada as external auditors for the year 2003. If this firm for whatever reason can not be contracted, it would then propose PriceWaterhouseCoopers, and as a third alternative, Deloitte & Touche. Feller Rate and Humphreys were proposed as the Company's risk classifiers for 2003.

**BOARD OF DIRECTOR EXTERNAL CONSULTING EXPENSES**

In 2002, the Board of Directors did not incur any expenses with respect to external consultants.

**EMPLOYEE SEVERANCE PAYMENTS**

In 2002, the Company incurred expenses associated with severance payments to its managers and key executives of ThCh\$47,647.

**STOCK SHARE PRICE AND VOLUME TRADED**

The following table sets forth on a quarterly basis, the average share price and volume traded on the Santiago Stock Exchange during the last three years:

Period	Number of Shares	Transaction amount (*) ThCh\$	Average price (*) Ch\$
<b>2002</b>			
1st Quarter	6,418,134	2,865,831	446.52
2nd Quarter	13,444,833	4,624,507	343.96
3rd Quarter	9,053,587	2,490,600	275.10
4th Quarter	14,897,151	4,649,265	312.09
<b>2001</b>			
1st Quarter	15,443,669	6,622,534	428.82
2nd Quarter	11,447,275	4,995,221	436.37
3rd Quarter	10,582,837	5,243,839	495.50
4th Quarter	6,245,261	2,786,740	446.22
<b>2000</b>			
1st Quarter	16,040,197	9,935,809	619.43
2nd Quarter	12,510,162	7,010,912	560.42
3rd Quarter	19,808,418	9,927,131	501.16
4th Quarter	17,891,394	8,279,650	462.77

(\*) Historic figures





## SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS

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

### Contents

Report of Independent Accountants

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Cash Flows

Summarized Notes to the Consolidated Financial Statements

\$	- 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



## Report of Independent Auditors

(Translation of a report originally issued in Spanish – See Note 2)

To the Shareholders and Directors  
Quiñenco S.A. and subsidiaries

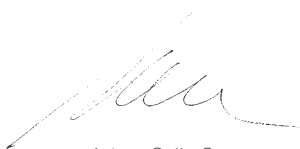
1. We have audited the accompanying consolidated balance sheets of Quiñenco S.A. and subsidiaries (The "Company") as of December 31, 2001 and 2002 and the related consolidated statements of income and cash flows for each of the two years in the period ended December 31, 2002. These financial statements (including the accompanying notes) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, based on our audits. We did not audit the consolidated financial statements of Madeco S.A. and subsidiaries, or the equity method investments in Compañía Cervecerías Unidas S.A. and Entel S.A., which in aggregate represent 35.9% and 35.6% of total consolidated assets for the years ended December 31, 2001 and 2002 respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other auditors.

2. We conducted our audit in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3. In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Quiñenco S.A. and subsidiaries as of December 31, 2001 and 2002 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in Chile and the guidelines issued by the Chilean Superintendency of Securities and Insurance.

4. As described in Note 26-2, in accordance with Law N° 19,396, the subordinated debt obligation with the Chilean Central Bank assumed by Sociedad Matriz del Banco de Chile S.A. through its subsidiary Sociedad Administradora de la Obligación Subordinada S.A. has not been recorded in the consolidated financial statements of Quiñenco S.A.

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.

Santiago, Chile March 15, 2003

ERNST & YOUNG LTDA.

## CONSOLIDATED BALANCE SHEETS

As of December 31

Assets	2002	2001
	ThCh\$	ThCh\$
<b>Current assets</b>		
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
<b>Total current assets</b>	<b>258,590,980</b>	<b>273,723,813</b>
<b>Property, plant and equipment</b>		
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
	696,946,654	707,227,714
Less: Accumulated depreciation	(304,479,998)	(276,909,752)
<b>Property, plant and equipment, net</b>	<b>392,466,656</b>	<b>430,317,962</b>
<b>Other assets</b>		
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
<b>Total other assets</b>	<b>872,180,397</b>	<b>904,038,695</b>
<b>Total Assets</b>	<b>1,523,238,033</b>	<b>1,608,080,470</b>

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



<b>Liabilities and Shareholders' Equity</b>	<b>2002</b>	<b>2001</b>
	<b>ThCh\$</b>	<b>ThCh\$</b>
<b>Current liabilities</b>		
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	642,393	3,615,782
<b>Total current liabilities</b>	<b>303,821,752</b>	<b>263,642,578</b>
<b>Long-term liabilities</b>		
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	714,249	722,309
<b>Total long-term liabilities</b>	<b>509,587,860</b>	<b>554,170,321</b>
<b>Minority interest</b>	<b>79,313,609</b>	<b>92,565,528</b>
<b>Shareholders' Equity</b>		
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	(75,480,211)	15,974,663
<b>Net shareholders' equity</b>	<b>630,514,812</b>	<b>697,702,043</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,523,238,033</b>	<b>1,608,080,470</b>

44

45

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



## CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31

Consolidated Statements of Income	2002	2001
	ThCh\$	ThCh\$
<b>Operating results</b>		
Revenues	396,298,694	488,258,497
Cost of sales	(315,941,435)	(387,902,319)
Gross margin	80,357,259	100,356,178
Administrative and selling expenses	(70,080,374)	(82,315,236)
<b>Operating income</b>	<b>10,276,885</b>	<b>18,040,942</b>
<b>Non-operating results</b>		
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	(13,919,044)	(7,054,872)
<b>Non-operating loss</b>	<b>(108,309,855)</b>	<b>(38,594,401)</b>
Loss before income taxes	(98,032,970)	(20,553,459)
Income tax benefit	141,436	4,892,540
Loss before minority interest	(97,891,534)	(15,660,919)
Minority interest	20,522,294	22,448,122
(Loss) income before amortization of negative goodwill	(77,369,240)	6,787,203
Amortization of negative goodwill	1,889,029	9,187,460
<b>Net (loss) income for the year</b>	<b>(75,480,211)</b>	<b>15,974,663</b>

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

**Consolidated Statements of Cash Flows**

	2002	2001
	ThCh\$	ThCh\$
<b>Cash flows from operating activities</b>		
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)
<b>Net cash provided by operating activities</b>	<b>30,006,986</b>	<b>14,127,719</b>
<b>Cash flows from financing activities</b>		
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)
<b>Net cash provided by (used in) financing activities</b>	<b>5,130,157</b>	<b>(60,540,490)</b>

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

## CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31

Consolidated Statements of Cash Flows (continuation)	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 capitalized 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	877,447	(37,629,159)
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	54,500,596	139,498,190
<b>Cash and cash equivalents, end of year</b>	<b>93,087,172</b>	<b>54,500,596</b>

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

**Consolidated Statements of Cash Flows****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)
<b>Net cash provided by operating activities</b>	<b>30,006,986</b>	<b>14,127,719</b>

48

49

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



## 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



## 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.

50

## 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.

51

## 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)

### d) Basis of consolidation

Subsidiary companies included in the consolidation:

	Ownership percentage			
	2002			2001
	% Direct	% 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.



The financial statements of VTR S.A. and subsidiaries include the consolidation of the following direct and indirect subsidiaries: Compañía Nacional de Teléfonos, Telefónica 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).

52

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).

53

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.



## 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)

### 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.

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.

54

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.

55

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.

## 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)

### 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.

### 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

a) Notes and accounts receivable from related parties:

Company	Short term		Long term	
	2002 ThCh\$	2001 ThCh\$	2002 ThCh\$	2001 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	-
<b>Total</b>	<b>3,161,631</b>	<b>9,418,117</b>	<b>4,607,801</b>	<b>40,421</b>

(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.

## 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 )

### b) Notes and accounts payable to related companies:

Company	Short term	
	2002 ThCh\$	2001 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
<b>Total</b>	<b>321,631</b>	<b>434,403</b>

### 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	-





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.

#### NOTE 5 – Inventories, Net

58

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

59

	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
<b>Total</b>	<b>63,417,429</b>	<b>81,032,739</b>

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.

## 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)

### 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.

#### 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
<b>Total recoverable taxes</b>	<b>6,605,529</b>	<b>9,135,765</b>



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\$
<b>Temporary differences</b>								
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)	-	-
<b>Total</b>	<b>3,585,472</b>	<b>22,028,645</b>	<b>1,184,339</b>	<b>7,671,611</b>	<b>7,098,834</b>	<b>13,744,097</b>	<b>367,142</b>	<b>5,736,057</b>

60

61

e) Composition of tax expense:

	2002 ThCh\$	2001 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)
<b>Total</b>	<b>141,436</b>	<b>4,892,540</b>

## 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)

### 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
<b>Total</b>	<b>94,909,924</b>	<b>47,323,727</b>

### 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\$
<b>Accumulated depreciation:</b>		
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
	304,479,998	276,909,752
<b>Depreciation for the year:</b>		
Operating expenses	25,746,056	28,401,120
Administrative and selling expenses	3,412,528	3,290,293
	29,158,584	31,691,413
Other non-operating expenses (1)	2,995,211	-
	32,153,795	31,691,413
<b>Other property, plant and equipment</b>		
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
	55,137,082	73,652,432
<b>Revaluation from technical appraisals</b>		
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
	25,977,468	25,398,587
Accumulated depreciation	4,380,083	3,931,615
Depreciation for the year	487,461	465,173
	4,867,544	4,396,788

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



## 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 method value ThCh\$	Unrealized loss ThCh\$	Book value ThCh\$
			equity of company 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	-	-	-	
<b>Total</b>						<b>522,753,582</b>	<b>(29,812,057)</b>	<b>492,941,525</b>	

62

63



## 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)

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

Company	Country	Ownership percentage	Shareholders'			Equity method value	Unrealized income	Book value
			equity of company	Net income (loss)	Accrued net income (loss)			
			ThCh\$	ThCh\$	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
Cía. 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
<b>Total</b>						<b>488,995,756</b>	<b>-</b>	<b>488,995,756</b>

### 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		Ownership	
			Inversiones		Percentage of	
	2002	2001	SM Chile S.A.		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%
<b>Total</b>	<b>12,582,052,427</b>	<b>12,582,052,427</b>	<b>6,460,358,967</b>	<b>6,460,358,967</b>	<b>51.35%</b>	<b>51.35%</b>

64

65

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

## 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.

## 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)

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	
	in Banco de Chile (million)	of LQIF in each series	votes for LQIF	voting rights	
	2002	2002	2002	2002	2001
<b>Owned by SM Chile and SAOS</b>					
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%
<b>Total voting rights in Banco de Chile</b>				<b>52.16%</b>	<b>52.66%</b>

#### 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%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>29.15%</b>	<b>17.80%</b>

#### 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 ThCh\$	2001 ThCh\$
<b>Balance sheet</b>		
<b>Assets</b>		
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
<b>Total Assets</b>	<b>8,891,106</b>	<b>3,945,151</b>
<b>Liabilities and Shareholders' Equity</b>		
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
<b>Total Liabilities and Shareholders' Equity</b>	<b>8,891,106</b>	<b>3,945,151</b>
<b>Statement of Income</b>		
Operating revenue	2,680,421	3,291,088
Operating costs	(2,378,883)	(3,413,086)
	301,538	(121,998)
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	2,184	22,245
	214,107	177,296
Income before taxes	515,645	55,298
Income taxes	(82,093)	(6,461)
<b>Net income for the year</b>	<b>433,552</b>	<b>48,837</b>

66

67

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

## 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)

### NOTE 10 – Goodwill And Negative Goodwill

a) Goodwill:

Company	2002		2001	
	Amortization for	Goodwill (net)	Amortization for	Goodwill (net)
	the year	ThCh\$	the year	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
<b>Total</b>	<b>20,531,853</b>	<b>349,468,407</b>	<b>28,230,631</b>	<b>366,983,624</b>

b) Negative goodwill:

Company	2002		2001	
	Amortization for	Negative	Amortization for	Negative
	the year	goodwill (net)	the year	goodwill (net)
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
<b>Total</b>	<b>1,889,029</b>	<b>7,914,143</b>	<b>9,187,460</b>	<b>10,135,416</b>





## NOTE 11 – Current Bank Obligations

Short-term obligations to banks are as follows:

	2002 ThCh\$	2001 ThCh\$
<b>Short-term</b>		
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
<b>Total</b>	<b>107,329,070</b>	<b>125,464,195</b>
<b>Short-term portion of long-term bank obligations</b>		
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
<b>Total</b>	<b>116,438,842</b>	<b>51,015,171</b>

68

## NOTE 12 – Long-Term Bank Obligations

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

	2002 ThCh\$
<b>Years to maturity:</b>	
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
<b>Total</b>	<b>293,983,227</b>

69

## 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)

### NOTE 13 – Bonds Payable

#### Current portion of long-term bonds payable

Registration or identification number of instrument	Series	Nominal value of current liability	Measure- ment unit	Interest rate	Maturity date	Payment periods		Book value		Domestic or foreign issuance
						Interest	Amortization	2002	2001	
								ThCh\$	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
<b>Total current portion</b>								<b>19,439,940</b>	<b>7,487,893</b>	

#### Long-term bonds payable

Registration or identification number of instrument	Series	Nominal value of current liability	Measure- ment unit	Interest rate	Maturity date	Payment periods		Book value		Domestic or foreign issuance
						Interest	Amortization	2002	2001	
								ThCh\$	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
<b>Total long-term</b>								<b>199,735,609</b>	<b>215,573,534</b>	



## NOTE 14 - Provisions And Write-Offs

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

	2002 ThCh\$	2001 ThCh\$
<b>Current liabilities:</b>		
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
<b>Total</b>	<b>17,777,989</b>	<b>20,533,118</b>
<b>Long-term liabilities:</b>		
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
<b>Total</b>	<b>7,362,575</b>	<b>14,279,816</b>
<b>Allowances against assets</b>		
<b>Current assets:</b>		
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
<b>Long-term assets:</b>		
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
<b>Write-offs made:</b>		
Bad debts	1,139,489	2,085,049
Inventories	-	149,662

70

71

## 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)

(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 ThUS\$107,515, net of extraordinary provisions of ThUS\$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
<b>Total</b>			<b>79,313,609</b>	<b>92,565,528</b>	<b>20,522,294</b>	<b>22,448,122</b>



## 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
<b>Balance as of December 31, 2001</b>	<b>441,499,289</b>	<b>24,618,505</b>	<b>198,884,829</b>	<b>(3,131,381)</b>	<b>15,509,382</b>	<b>677,380,624</b>
<b>Balance restated for comparative purposes</b>	<b>454,744,268</b>	<b>25,357,060</b>	<b>204,851,374</b>	<b>(3,225,322)</b>	<b>15,974,663</b>	<b>697,702,043</b>
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)
<b>Balance as of December 31, 2002</b>	<b>454,744,268</b>	<b>41,417,911</b>	<b>211,215,302</b>	<b>(1,382,458)</b>	<b>(75,480,211)</b>	<b>630,514,812</b>

72

73

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
<b>Total</b>	<b>1,382,458</b>	<b>1,382,458</b>



## 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)

### NOTE 17 – Non-Operating Income And Expenses:

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

	2002 ThCh\$	2001 ThCh\$
<b>Other non-operating income</b>		
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
<b>Total</b>	<b>5,976,776</b>	<b>59,356,869</b>
<b>Other non-operating expenses</b>		
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
<b>Total</b>	<b>64,662,775</b>	<b>43,507,689</b>



## NOTE 18 – Price-Level Restatement

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

	Indexation unit	2002 ThCh\$	2001 ThCh\$
<b>Assets</b>			
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
<b>Total credits</b>		<b>46,337,370</b>	<b>44,566,246</b>
<b>Liabilities</b>			
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)
<b>Total charges</b>		<b>(41,314,263)</b>	<b>(48,462,170)</b>
<b>Net gain (loss) due to price-level restatement</b>		<b>5,023,107</b>	<b>(3,895,924)</b>

74

75

## NOTE 19 – Foreign Exchange Differences

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

	Currency	2002 ThCh\$	2001 ThCh\$
<b>Assets (charges)/ credits</b>			
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
<b>Total gains</b>		<b>17,537,344</b>	<b>14,646,496</b>
<b>Liabilities (charges)/ credits</b>			
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)
<b>Total losses</b>		<b>(31,456,388)</b>	<b>(21,701,368)</b>
<b>Net foreign exchange loss</b>		<b>(13,919,044)</b>	<b>(7,054,872)</b>

## 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)

### 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
<b>Total</b>	<b>93,087,172</b>	<b>54,500,590</b>

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
<b>Total</b>	<b>23,054,384</b>	<b>1,621,593</b>

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 Specific item	Purchase/ Sale	Hedged item			Derivative instruments effect			
									Asset / Liability		Effect on income	
									Amount	Realized	Deferred	
	ThCh\$	ThCh\$	ThCh\$									
Forward	CCPE	11,103,450	1st qtr. 2003	Ex rt US\$	P	US\$ loan	11,103,450	10,779,150	OCA	296,330	-	(296,330)
Forward	CCPE	7,358,300	1st qtr. 2003	Ex rt US\$	P	US\$ loan	7,358,300	7,186,100	OCA	183,596	-	(183,596)
Forward	CCPE	7,355,300	1st qtr. 2003	Ex rt US\$	P	US\$ loan	7,355,300	7,186,100	OCA	124,729	-	(124,729)
Forward	CCPE	5,123,650	1st qtr. 2003	Ex rt US\$	P	US\$ loan	5,123,650	5,030,270	OCA	103,158	-	(103,158)
Forward	CCPE	7,017,500	1st qtr. 2003	Ex rt US\$	P	US\$ loan	7,017,500	7,186,100	OCA	196,579	-	196,579
Forward	CCPE	9,189,570	1st qtr. 2003	Ex rt US\$	P	US\$ loan	9,189,570	9,341,930	OCA	141,509	-	141,509
Forward	CCPE	7,319,500	1st qtr. 2003	Ex rt US\$	P	US\$ loan	7,319,500	7,186,100	OCA	149,363	-	(149,363)
Forward	CCPE	7,032,500	1st qtr. 2003	Ex rt US\$	P	US\$ loan	7,032,500	7,186,100	OCA	189,282	-	189,282
Forward	CCPE	5,564,560	1st qtr. 2003	Ex rt US\$	P	US\$ loan	5,564,560	5,748,880	OCA	192,926	-	192,926
Forward	CCPE	10,405,500	1st qtr. 2003	Ex rt US\$	P	US\$ loan	10,405,500	10,779,150	OCA	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	-

OCA Other current assets  
CA Current assets  
CL Current liabilities  
LTL Long-term liabilities

76

77

## 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.

## 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)

### 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 months' 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, 2002, 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 does 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.

## 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)

### f) 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. Marcelo Bastidas Villarroel 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:

i. 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.

ii. Compañía de Teléfonos de Coyhaique S.A.

- 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.

80

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.:

	<b>Annual</b>	<b>Semi-annual</b>
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.:

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

81

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.

## 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)

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 Perú 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/Shareholders' 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 2.20 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.



## 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)

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		Type of guarantee	Assets committed		Balance outstanding as of December 31			Release of collateral				
	Name	Relationship		Type	Book value	2002 ThCh\$	2001 ThCh\$	2003 ThCh\$	Assets	2004 ThCh\$	Assets	2005 ThCh\$	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		Type of guarantee	Assets committed Type	Book value	Balance outstanding as of December 31			Assets 2003	Release of collateral			
	Name	Relationship				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
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 BHF	LQ Inversiones Financieras S.A.	Subsidiary	Pledge	Shares	18,629,576	27,460,357	27,470,885	-	-	18,629,576	Shares	-	-
Deutsche Bank AG	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 AG	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, trade marks & shares	18,088,815	8,439,500	4,113,125	-	-	-	-	18,088,815	shares
Banco Edwards	Lucchetti Chile S.A.	Subsidiary	Mortgage	PP&E, trade marks & shares	-	-	4,906,885	-	-	-	-	-	shares
Banco Corbanca	Lucchetti Chile S.A.	Subsidiary	Mortgage	PP&E, trade marks & shares	14,470,734	6,751,599	7,216,008	-	-	-	-	14,470,734	shares
Banco Crédito e Inversiones	Lucchetti Chile S.A.	Subsidiary	Mortgage	PP&E, trade marks & shares	14,470,734	6,751,599	7,216,008	-	-	-	-	14,470,734	shares

## 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)

Creditor	Debtor		Type of guarantee	Assets committed Type	Book value	Balance outstanding as of December 31			Assets	Release of collateral			Assets
	Name	Relationship				2002 ThCh\$	2001 ThCh\$	2003 ThCh\$		2004 ThCh\$	Assets 2005 ThCh\$	Assets	
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	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
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 Inmobiliaria	Customer	Performance bond	-	-	-	25,497	-	-	-	-	-	-
Banco Security	Las Verbenas	Customer	Performance bond	-	-	-	17,852	-	-	-	-	-	-
Banco Security	Hewston Y Puga Ltda.	Customer	Performance bond	-	-	-	10,574	-	-	-	-	-	-
Sudameris/Real Seg,Bras./Inter-Atlántico	Ficap S.A.	-	E Np contract performance	-	-	75,862	-	75,862	-	-	-	-	-
Sudameris	Ficap S.A.	-	E Np contract (bid)	-	-	87,964	-	44,287	-	43,677	-	-	-
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	-	-	-	-	-



Creditor	Debtor		Type of guarantee	Assets committed	Balance outstanding as of December 31			Release of collateral					
	Name	Relationship		Type	Book value	2002 ThCh\$	2001 ThCh\$	2003 ThCh\$	Assets	2004 ThCh\$	Assets	2005 ThCh\$	Assets
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	-	-	-	-	-	-
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	-	-	-	-	-	-

## 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)

### 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 BrauHolding 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.



## 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)

### LQIF and Banking Subsidiaries

#### Consolidated Balance Sheets

##### Assets

	2002 ThCh\$	As of December 31	2001 ThCh\$
<b>Cash</b>	<b>676,426,489</b>		<b>794,963,275</b>
<b>Loans</b>			
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)
<b>Total loans, net</b>	<b>5,911,258,231</b>		<b>6,036,160,342</b>
<b>Other credit operations</b>			
Interbank loans	54,817,908		29,653,430
Investments purchased under agreements to resell	46,439,061		53,822,974
<b>Total other credit operations</b>	<b>101,256,969</b>		<b>83,476,404</b>
<b>Investments</b>			
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
<b>Total investments</b>	<b>1,609,252,881</b>		<b>2,059,221,442</b>
<b>Other assets</b>			
Other assets	191,965,638		167,934,711
<b>Total other assets</b>	<b>191,965,638</b>		<b>167,934,711</b>
<b>Fixed assets</b>			
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
<b>Total fixed assets</b>	<b>455,662,317</b>		<b>483,479,025</b>
<b>Total Assets</b>	<b>8,945,822,525</b>		<b>9,625,235,199</b>

**LQIF and Banking Subsidiaries****Consolidated Balance Sheets****Liabilities and Shareholders' Equity****Deposits and other obligations**

	2002 ThCh\$	As of December 31	2001 ThCh\$
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
<b>Total deposits and other obligations</b>	<b>6,975,743,614</b>		<b>8,053,834,113</b>

**Bonds obligation**

Bonds	4,592,542		8,170,813
Subordinated bonds	277,654,204		271,527,418
<b>Total bonds obligation</b>	<b>282,246,746</b>		<b>279,698,231</b>

**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
<b>Total borrowings from financial institutions</b>	<b>808,881,330</b>		<b>591,988,636</b>

**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
<b>Total other liabilities</b>	<b>161,258,709</b>		<b>220,938,039</b>
<b>Total liabilities</b>	<b>8,228,130,399</b>		<b>9,146,459,019</b>

**Voluntary provisions**

20,557,257 38,913,294

**Minority interest**

290,683,194 292,206,841

**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)
<b>Total Shareholders' Equity</b>	<b>406,451,675</b>		<b>147,656,045</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>8,945,822,525</b>		<b>9,625,235,199</b>

90

91

## 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)

### LQIF and Banking Subsidiaries

#### Consolidated Statements of Income

	For the years ended December 31	
	2002 ThCh\$	2001 ThCh\$
<b>Interest revenue and expenses</b>		
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
<b>Total operating revenues</b>	<b>816,815,321</b>	<b>939,741,808</b>
<b>Less :</b>		
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)
<b>Gross margin</b>	<b>417,241,491</b>	<b>423,483,989</b>
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)
<b>Net margin</b>	<b>158,538,888</b>	<b>169,335,906</b>
Provision for loan losses	(132,554,026)	(95,336,019)
Loan loss recoveries	11,913,733	16,072,227
<b>Operating income</b>	<b>37,898,595</b>	<b>90,072,114</b>
<b>Non-operating results</b>		
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)
<b>Income before taxes</b>	<b>(1,456,634)</b>	<b>67,958,558</b>
Provision for income taxes	1,803,894	2,110,974
<b>Income after taxes</b>	<b>347,260</b>	<b>70,069,532</b>
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)
<b>Net loss for the year</b>	<b>(19,801,574)</b>	<b>(11,891,917)</b>

**LQIF and Banking Subsidiaries****Consolidated Statements of Cash Flows**

For the years ended December 31

	2002 ThCh\$	2001 ThCh\$
<b>Cash flows from operating activities</b>		
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
<b>Net cash provided by operating activities</b>	<b>192,429,330</b>	<b>205,791,263</b>
<b>Cash flows from investing activities</b>		
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)
<b>Net cash used in investing activities</b>	<b>(43,583,176)</b>	<b>(623,033,406)</b>
<b>Cash flows from financing activities</b>		
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)
<b>Net cash (used in) provided by financing activities</b>	<b>(232,522,648)</b>	<b>494,060,596</b>
<b>Net cash flow for the year</b>	<b>(83,676,494)</b>	<b>76,818,453</b>
<b>Effect of inflation on cash and cash equivalents</b>	<b>(22,965,667)</b>	<b>(24,455,913)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(106,642,161)</b>	<b>52,362,540</b>
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	546,149,876	745,024,621
Cash and cash equivalents, end of year	690,688,137	797,387,161

92

93

## 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)

### 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.

94

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).

95

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



## SUMMARIZED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Al 31 de diciembre de 2002 y 2001

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

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.

96

#### **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.

97

#### **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.

## SIGNIFICANT INFORMATION

On January 22, 2002, Quiñenco subscribed to 273,768,064 shares of a capital increase of LQ Inversiones Financieras S.A. for ThCh\$265,007,486. As a result of the capital increase, Quiñenco increased its participation in LQ Inversiones Financieras S.A. from 50.5196% to 82.7135%.

On May 13, 2002, Quiñenco reported to the Superintendency of Securities and Insurance (SVS) the following information:

In compliance with Official Circular Letter No.079 dated January 14, 2002, the Company is reporting the following with respect to its investments in the Republic of Argentina:

Quiñenco, as a holding company, is exposed to the continuing economic crisis and currency devaluation in Argentina through its 56.1% subsidiary, Madeco S.A. (Madeco) and Compañía Cervecerías Unidas S.A. (CCU), an affiliate company in which Quiñenco holds an indirect 30.8% interest.

Madeco has reported estimated losses incurred in connection with its investments in Argentina of Ch\$17,780 million, to be included in its financial statements for the year ended December 31, 2001. Quiñenco's proportionate share of 56.1% of Madeco's losses amounts to Ch\$9,975 million.

Affiliate company CCU has reported losses of Ch\$1,806 million in its financial statements for the year ended December 31, 2002 in relation to its investments in Argentina. Quiñenco's proportionate share of 30.8% of CCU's losses amounts to Ch\$556 million.

Quiñenco, as the holding entity of its investments in Madeco and CCU, will include these losses in its financial statements for the year ended December 31, 2001.

Due to the gravity of the situation in Argentina and its continuing nature, no assurance can be given that its investments in Argentina will not suffer further financial effects.

For the year ended December 31, 2002

Quiñenco reported a net loss of Ch\$75,480 million in 2002, compared to net income of Ch\$15,975 million in 2001. The difference is mainly attributable to lower results from the companies that consolidate with Quiñenco, particularly Lucchetti, which recorded a loss provision in accordance with local accounting principles of Ch\$30,678 million in connection with the forced closure of its plant in Peru. The variation between 2002 and 2001 is also explained by the absence of extraordinary gains, which in 2001 amounted to Ch\$52,374 million, earned in connection with the sale of an 8% participation in Entel and the divestiture of the Plava Laguna tourist resort in Croatia.

**Table N°1: Composition of net income (loss)**

<b>In millions of Ch\$ as of December 31, 2002</b>		
	<b>2002</b>	<b>2001</b>
Operating income	10,277	18,041
Non-operating loss	(108,310)	(38,594)
Other non-operating results (1)	22,553	36,528
<b>Net income (loss) for the year</b>	<b>(75,480)</b>	<b>15,975</b>

(1) Includes income tax, minority interest and amortization of negative goodwill.

## Operating Income

In 2002, Quiñenco reported operating income of Ch\$10,277 million, down by Ch\$7,764 million from 2001. Table 2 shows a comparison of consolidated operating income:

**Table N°2: Composition of consolidated operating income**

<b>In millions of Ch\$ as of December 31, 2002</b>		
	<b>2002</b>	<b>2001</b>
Madeco	4,003	10,986
Lucchetti	2,678	2,726
Telsur	13,148	13,845
Carrera	(378)	(557)
Quiñenco and others (1)	(9,175)	(8,959)
<b>Total operating income</b>	<b>10,277</b>	<b>18,041</b>

(1) Includes Quiñenco, intermediate holding companies and eliminations.

Consolidated operating income declined by 43% compared to 2001, primarily due to a reduction in Madeco's operating results and, to a lesser extent, Telsur's.

Madeco's operating income fell by 63.6% to Ch\$4,003 million in 2002 as a consequence of a 25% reduction in consolidated sales, despite a reduction in absolute terms of cost of goods sold and SG&A expenses. Madeco's operating income represented 1.6% of sales, reflecting the closure of the manufacturing plants in Argentina and reduced demand for cable products by the Brazilian telecommunications sector.

Telsur's operating income declined by 5% to Ch\$13,148 million in 2002 due to the incorporation of direct costs and depreciation related to the newly consolidated internet, security and call center services as well as higher costs related to the regional office in Concepción.

## MANAGEMENT'S ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2002

### Net Sales

During 2002, consolidated sales amounted to Ch\$396,299 million, a decrease of 18.8% compared to 2001. This reduction is explained by lower sales at Madeco, and to a lesser extent, at Lucchetti. The composition of consolidated sales is shown in Table 3:

**Table N°3: Composition of consolidated sales**

	In millions of Ch\$ as of December 31, 2002	
	2002	2001
Madeco	256,283	341,869
Lucchetti	83,799	88,843
Telsur	46,646	46,701
Carrera	7,016	7,579
Quiñenco and others (1)	2,556	3,266
<b>Total sales</b>	<b>396,299</b>	<b>488,258</b>

(1) Includes Quiñenco, intermediate holding companies and eliminations.

Madeco's sales fell by 25% in 2002 due to weak demand for cables by the Brazilian telecommunications sector and the closure of the cables plant in Argentina. Sales of tubes and sheets also declined in 2002 due to a general deceleration in exports and lower sales of blank coins, the effects of which were further exacerbated by the aforementioned plant closures in Argentina.

Lucchetti's sales decreased by 5.7% in 2002, mainly due to the non-consolidation of its Argentine operations that were sold in 2001 (effect on sales was a reduction of Ch\$6,658 million). Isolating the effects of the divestment, sales for the year would have increased by 2% due to higher sales corresponding to the Chilean operations, partially offset by a decrease in sales in Peru. Sales in Chile rose due to an increase in pasta volumes as well as new product launches in the soups, creams and broths product line.

Telsur's sales fell slightly by 0.1%, mainly as a result of reduced basic and international long-distance revenues, the effect of which was partially offset by an increase in revenues from internet and call center services which began to consolidate with Telsur in 2002. The reduced volume of basic telephone traffic reflected the weak economic situation in the south of Chile and the substitution of fixed telephone for mobile telephones.

Carrera saw its sales fall by 7.4% in 2002. The reduction can be explained by reduced demand for five star hotels in Santiago, which resulted in lower occupancy rates during the year and, to a lesser extent, a fall in average room charges. The hotels in the north of Chile were affected by reduced numbers of Argentine visitors as a result of the continued crisis in that country.

### Cost Of Sales

Consolidated cost of goods sold decreased by 18.6% compared to 2001, in line with the 18.8% reduction in sales. This is mainly explained by a decrease in the cost of goods sold at Madeco, in line with its reduction in sales, mainly in cables, tubes and sheets. The composition of consolidated cost of goods sold is presented in Table 4:

**Table N°4: Composition of consolidated cost of goods sold**

<b>In millions of Ch\$ as of December 31, 2002</b>		
	<b>2002</b>	<b>2001</b>
Madeco	(224,587)	(295,494)
Lucchetti	(61,384)	(62,292)
Telsur	(19,292)	(18,927)
Carrera	(5,998)	(6,347)
Quiñenco and others (1)	(4,680)	(4,843)
<b>Total cost of goods sold</b>	<b>(315,941)</b>	<b>(387,902)</b>

(1) Includes Quiñenco, intermediate holding companies and eliminations.

### Selling, General And Administrative Expenses

Consolidated SG&A expenses decreased by 14.9% in 2002, mainly due to Madeco's operations as a result of the lower sales level, as well as lower SG&A expenses associated with Lucchetti's operations due to the non-consolidation of the Argentine subsidiary in 2002.

100

### Non-Operating Results And Other Items

Quiñenco reported a total non-operating loss of Ch\$85,757 million in 2002, compared to a non-operating loss of Ch\$2,066 million in 2001. This is mainly attributable to (i) a reduction in income from related companies that do not consolidate with Quiñenco, mainly Banco de Chile and CCU; (ii) a reduction in other non-operating income, which in 2001 included a gain of Ch\$52,374 million on the sale of shares of Entel and Plava Laguna; (iii) higher other non-operating expenses which in 2002 included a loss provision of Ch\$30,678 million made in connection with the forced closure of the Lucchetti Peru pasta plant; and (iv) higher foreign exchange losses associated with Madeco's operations as a consequence of the devaluation of the Argentine peso and Brazilian real. Non-operating losses were partially offset by a lower level of interest expense and price-level restatement gains. Table 5 shows the composition of non-operating results and other items:

101

**Table N°5: Breakdown of non-operating results and other items**

<b>In millions of Ch\$ as of December 31, 2002</b>		
	<b>2002</b>	<b>2001</b>
Interest income	5,348	8,177
(Net) income from related companies	25,183	37,340
Goodwill amortization	(20,532)	(28,23)
Other non-operating income	5,977	59,357
Other non-operating expenses	(64,663)	(43,508)
Interest expense	(50,727)	(60,780)
Price-level restatement	5,023	(3,896)
Foreign exchange losses	(13,919)	(7,055)
Non-operating loss	(108,310)	(38,594)
Income taxes	141	4,893
Extraordinary items	-	-
Minority interest	20,522	22,448
Negative goodwill amortization	1,889	9,187
<b>Total non-operating (loss) and other items</b>	<b>(85,757)</b>	<b>(2,066)</b>



## MANAGEMENT'S ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2002

### Composition Of Net Income

Table 6 below shows Quiñenco's net income composition, broken down by its main operating companies:

**Table N°6: Net income contribution**

Sector/Company	In millions of Ch\$ as of December 31, 2002					
	Net income (loss)		Quiñenco's ownership		Quiñenco's proportionate share in	
	2002	2001	2002	2001	2002	2001
Financial Services						
Banco Chile (1)	52,635	89,577	52.2%	52.7%	15,424	15,993
Banco Edwards (2)	-	10,406	-	51.2%	-	5,325
Food & Beverage						
CCU (3)	22,065	39,529	30.8%	30.8%	6,794	12,171
Lucchetti (4)	(37,223)	(6,599)	93.7%	93.3%	(34,876)	(5,907)
Telecommunications						
Telsur (5)	6,027	8,736	73.6%	73.6%	4,434	6,427
Entel (6)	41,096	35,230	5.7%	5.7%	2,337	3,174
Manufacturing						
Madeco (7)	(40,166)	(51,599)	53.4%	56.1%	(22,319)	(28,952)
Real Estate/ Hotel Admin.						
Carrera (8)	(996)	(1,175)	89.9%	87.2%	(896)	(1,033)
Habitaria	898	430	50.0%	50.0%	449	215
<b>Total operating companies</b>					<b>(28,653)</b>	<b>7,413</b>
<b>Quiñenco &amp; others</b>					<b>(46,827)</b>	<b>8,562</b>
<b>Net income (loss) for the year</b>					<b>(75,480)</b>	<b>15,975</b>

Notes:

- (1) Indirect ownership through LQ Inversiones Financieras S.A. Net income is shown in a proportion of 29.2% because of the payment of subordinated debt
- (2) Merged with Banco de Chile on January 2, 2002.
- (3) Indirect ownership through Inversiones y Rentas S.A.
- (4) Indirect ownership through Inversiones Río Bravo Ltda.
- (5) Indirect ownership through VTR S.A.
- (6) Indirect ownership through VTR S.A. and Comatel S.A.
- (7) Direct and indirect ownership through Inversiones Río Grande S.A.
- (8) Indirect ownership through Agrícola El Peñón S.A.

### Net Income Contribution Of Main Operating Companies

As shown in Table 6, the reduction of Ch\$36,066 million in the contribution of operating companies in comparison with 2001 is mainly explained by the increased loss corresponding to Lucchetti's operations and, to a lesser extent, the reduction in earnings of Banco de Chile and CCU. This was partially offset by a lower net loss at Madeco.

The increase in Lucchetti's net loss is attributable to a loss provision made in accordance with local accounting principles of Ch\$30,678 million, related to the forced closure of its business in Peru.



Banco de Chile's net income decreased by 47% to Ch\$52,635 million in 2002 due mainly to increased costs related to the merger with Banco Edwards of Ch\$30,884 million and higher allowances for loan losses.

CCU's net income fell by 44% to Ch\$22,065 million mainly due to the absence of extraordinary gains on sale in 2002. 2001 net results included a gain on the sale of shares in Backus & Johnson, which generated extraordinary income of Ch\$17,199 million that year. Net income in 2002 was also affected by the poor performance of CCU Argentina as a result of the economic crisis in that country.

The 22% reduction in the net loss of Madeco to Ch\$40,166 million was mainly the consequence of lower non-operating losses, which in 2001 included significant charges related to the temporary plant closures in Argentina.

### Quiñenco And Others

As shown in the line Quiñenco and Others in Table 6, losses at the corporate level amounted to Ch\$46,827 million in 2002, compared to income of Ch\$8,562 million in 2001. This change is mainly explained by the absence of extraordinary gains on sale, which in 2001 included income related to the disposal of an 8% interest in Entel and a 39.4% interest in Plava Laguna. The loss of Ch\$46,827 million of Quiñenco and Others in 2002 is mainly composed of interest expense and amortization of goodwill, both principally related to the acquisition of Banco de Chile.

102

103

### Balance Sheet

#### Assets

As of December 31, 2002, Quiñenco had consolidated assets of Ch\$1,523,238 million, a reduction of 5.3% compared to 2001. This change was mainly due to (i) the non-consolidation of Lucchetti's Peruvian operations, and (ii) a reduction in inventories and accounts receivable at Madeco.

Current assets at the end of the year represented 17% of total consolidated assets.

Table N°7 shows a comparison of the composition of the consolidated assets at the close of each year:

**Table N°7: Composition of consolidated assets**

	<b>In millions of Ch\$ as of December 31, 2002</b>	
	<b>2002</b>	<b>2001</b>
Madeco	378,152	416,840
Lucchetti	76,345	122,807
Telsur	137,532	135,683
Carrera	23,206	24,204
Quiñenco and others (1)	908,003	908,546
<b>Total consolidated assets</b>	<b>1,523,238</b>	<b>1,608,080</b>

(1) Includes Quiñenco, intermediate holding companies and eliminations.

## MANAGEMENT'S ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2002

### Liabilities

Table N° 8 presents Quiñenco's consolidated liabilities at the close of each year.

**Table N° 8: Composition of consolidated liabilities and shareholders' equity**

<b>In millions of Ch\$ as of December 31, 2002</b>		
	<b>2002</b>	<b>2001</b>
Current liabilities	303,822	263,643
Long-term liabilities	509,588	554,170
<b>Total liabilities</b>	<b>813,410</b>	<b>817,813</b>
Minority interest	79,314	92,566
Shareholders' equity	630,515	697,702
<b>Total liabilities and shareholders' equity</b>	<b>1,523,238</b>	<b>1,608,080</b>

As of December 31, 2002, consolidated liabilities amounted to Ch\$813,410 million, a slight 0.5% decrease compared to the year 2001. Worth mentioning is that cash and cash equivalents increased by Ch\$54,501 million to Ch\$93,087 million, which served to reduce the net debt level of the company.

Table N° 9 shows the composition of consolidated liabilities at the close of 2001 and 2002:

**Table N° 9: Composition of consolidated liabilities**

<b>In millions of Ch\$ as of December 31, 2002</b>		
	<b>2002</b>	<b>2001</b>
Madeco	265,535	274,675
Lucchetti	60,155	74,269
Telsur	79,440	78,268
Carrera	8,685	8,686
Quiñenco and other (1)	399,594	381,914
<b>Total liabilities</b>	<b>813,410</b>	<b>817,813</b>

(1) Includes Quiñenco, intermediate holding companies and eliminations.

Consolidated leverage increased from 1.17 at the close of 2001 to 1.29 in 2002, mainly explained by a 9.6% reduction in shareholders' equity after incorporating the net loss for the year. Current liabilities represented 37.4% of total liabilities as of December 31, 2002.

Minority interest at the end of 2002 was Ch\$79,314 million, 14.3% lower than the year before, principally related to Madeco.

### Shareholders' equity

At the close of 2002, shareholders' equity amounted to Ch\$630,515 million, a decrease of 9.6% compared to 2001. The book value of Quiñenco's shares as of December 31, 2002 was Ch\$583.95 per share and the loss per share for the year was Ch\$69.91.



## Financial Indicators

Financial indicators		12.31.02	9.30.02	12.31.01
<b>LIQUIDITY</b>				
Current ratio		0.9	0.9	1.0
Acid test ratio		0.3	0.2	0.2
<b>INDEBTEDNESS</b>				
Debt/equity ratio		1.29	1.25	1.17
Short-term debt/Total debt		37.35%	36.91%	32.24%
Long-term debt/Total debt		62.65%	63.09%	67.76%
Interest coverage ratio	Times	-0.49	0.13	1.18
<b>BALANCE SHEET</b>				
Total assets	MCh\$	1,523,238	1,611,280	1,608,080
Inventory rotation	Times	4	3	5
Inventory turnover/days		82	118	79
<b>INCOME STATEMENT</b>				
Sales	MCh\$	396,299	309,119	488,258
Cost of goods sold	MCh\$	(315,941)	(246,829)	(387,902)
Operating income	MCh\$	10,277	10,423	18,041
Interest expense	MCh\$	(50,727)	(40,617)	(60,780)
Non-operating income (loss)	MCh\$	(108,310)	(62,216)	(38,594)
Net income (loss) for the year	MCh\$	(75,480)	(36,031)	15,975
<b>PROFITABILITY</b>				
ROE		-11.4%	-5.1%	2.3%
ROA		-4.8%	-2.2%	1.0%
Return on operating assets (*)		1.5%	1.4%	2.4%
Earnings (loss) per share	Ch\$	-69.91	(33.37)	14.79

(\*) Excludes other consolidated assets

104

105

## Difference Between Book Value And Fair Value Of Main Assets

Asset valuations include adjustments for price-level restatement and allowances to record certain assets at their fair market value.

## Market Analysis

Quiñenco is an investment company and as such it does not directly participate in any market. As of December 31, 2002, its investments in operating companies were concentrated in five sectors as shown in Table N° 6 "Net income contribution" which makes a comparative analysis of the contribution of each of these sectors to Quiñenco's net results. For further details about consolidated sales trends, see the analysis related to Table 3 "Composition of consolidated sales".

## MANAGEMENT'S ANALYSIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2002

### Cash Flow Summary

	In millions of Ch\$ as of December 31, 2002	
	2002	2001
Net cash flow provided by operating activities	30,007	14,128
Net cash flow (used) provided by financing activities	5,130	(60,541)
Net cash flow provided (used) by investing activities	877	(37,629)
<b>Total net cash flow for the year</b>	<b>36,014</b>	<b>(84,042)</b>
Price-level restatement on cash and cash equivalents	2,572	(955)
Net increase (decrease) in cash and cash equivalents	38,586	(84,997)
Cash and cash equivalents at the beginning of the year	54,501	139,498
<b>Cash and cash equivalents at the end of the year</b>	<b>93,087</b>	<b>54,501</b>

As of December 31, 2002, Quiñenco generated consolidated net cash flow of Ch\$36,014 million due to the cash flow provided by its operating activities of Ch\$30,007 million, cash flow provided by its financing activities of Ch\$5,130 million and that by its investing activities of Ch\$877 million.

The positive operating cash flow was mainly comprised of collection of accounts receivable and dividends, interest income and other distributions received, partially offset by payments to suppliers and personnel and interest expense paid. Net cash flow provided by financing activities was mainly made up of loans obtained from related companies.

### Exchange Rate Risk And Interest Rate Risk

Table N° 10 Foreign currency exchange rate risk exposure

2002	In millions of Ch\$ as of December 31, 2002					
	US dollar	Euro	Argentine peso	Peruvian sol	Brazilian real	Other currencies
Assets	255,508	852	9,545	4,803	24,868	1,284
Liabilities	261,925	148	2,770	-	6,070	-
FX forwards	77,470	-	-	-	(15,893)	-
Net exposure in assets (liabilities)	71,052	703	6,775	4,803	2,905	1,284

2001	In millions of Ch\$ as of December 31, 2002					
	US dollar	Euro	Argentine peso	Peruvian sol	Brazilian real	Other currencies
Assets	265,313	2,016	15,755	18,727	29,512	-
Liabilities	370,647	696	9,016	-	8,812	211
FX forwards	4,726	-	-	-	(22,819)	-
Net exposure in assets (liabilities)	(100,608)	1,320	6,739	18,727	(2,119)	(211)

With respect to interest rate risk, 51.9% (59.1% in 2001) of Quiñenco's interest bearing debt has been contracted at fixed rates and amounts to Ch\$385,712 million (Ch\$433,178 million in 2001). The remaining 48.1% (40.9% in 2001) corresponds to variable rates, equivalent to Ch\$357,874 million (Ch\$299,350 million in 2001). The exposure in terms of interest rate risk was equivalent to 23.5% of consolidated assets at the end of 2002. Management believes the exposure is reasonable and has not therefore covered this risk.

Francisco Pérez Mackenna  
Chief Executive Officer

## Subsidiary and Affiliate Companies

As of December 31, 2002

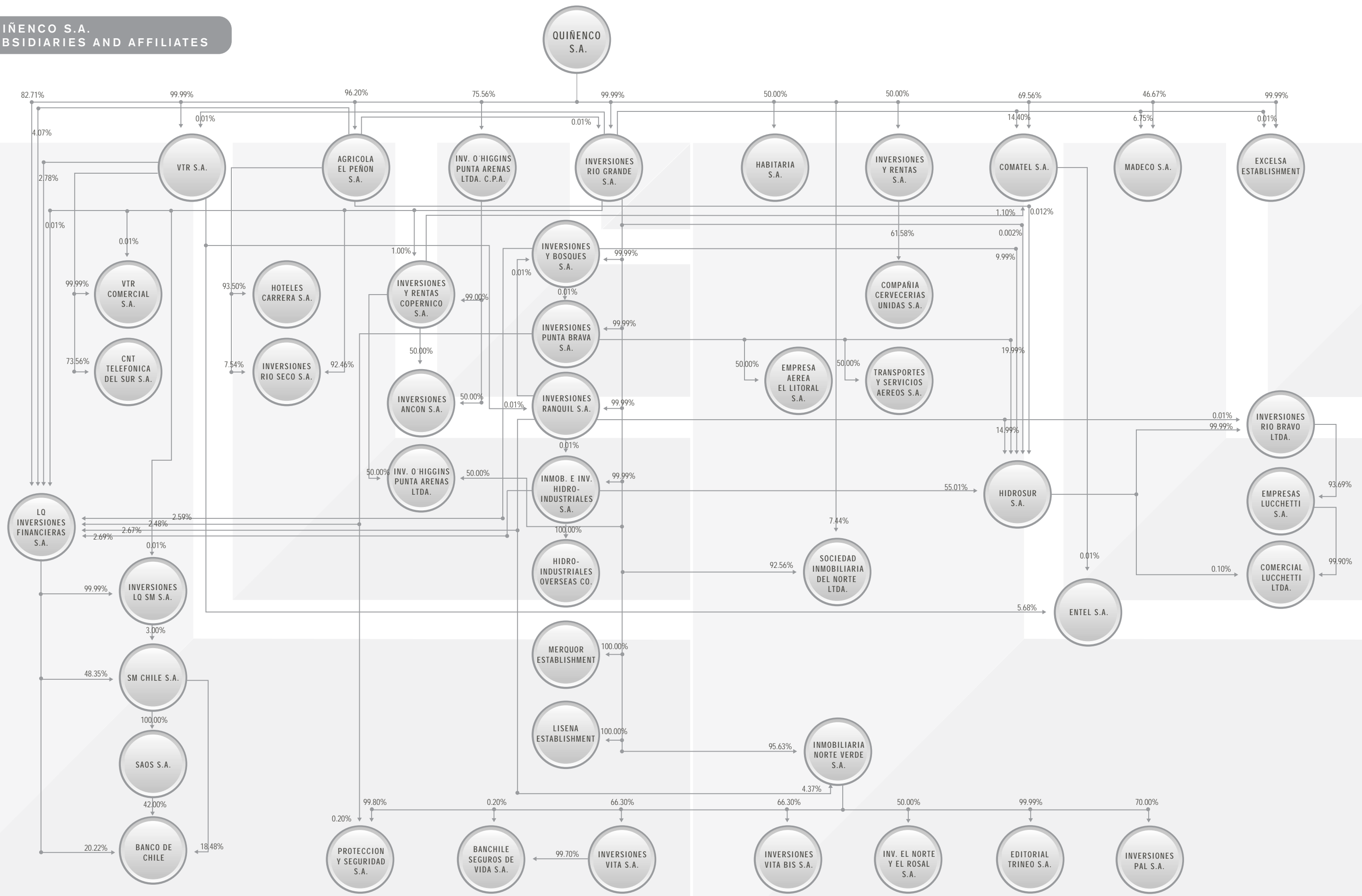
106

107



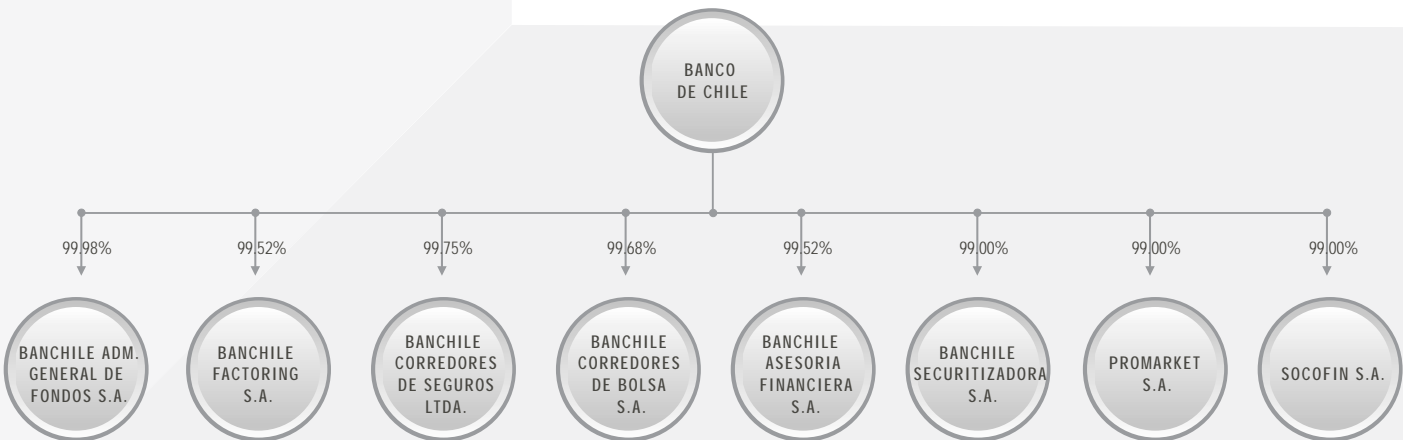
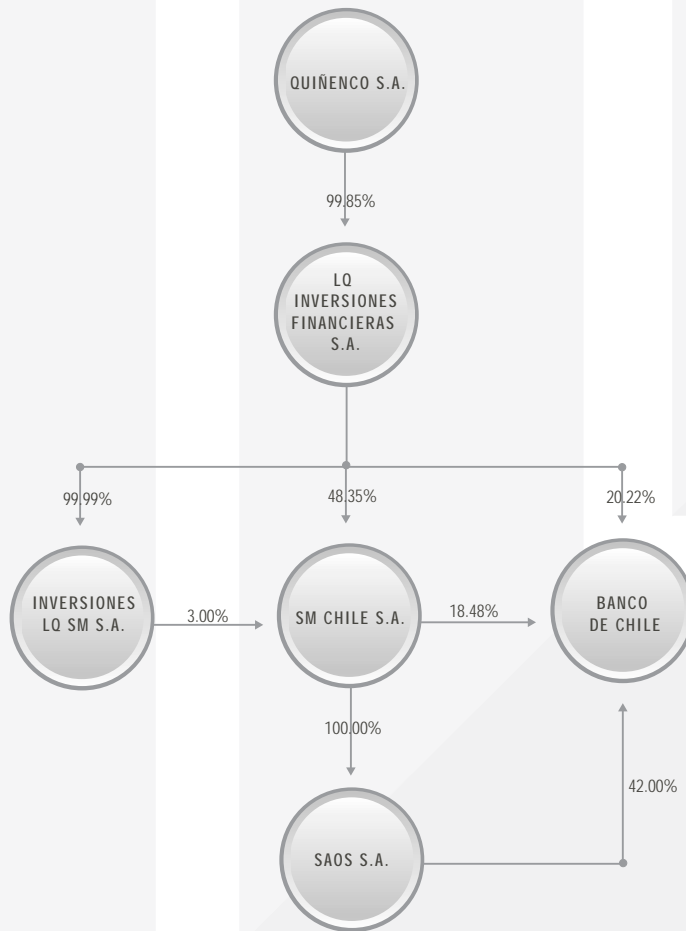
QUIÑENCO S.A.

QUIÑENCO S.A.  
SUBSIDIARIES AND AFFILIATES

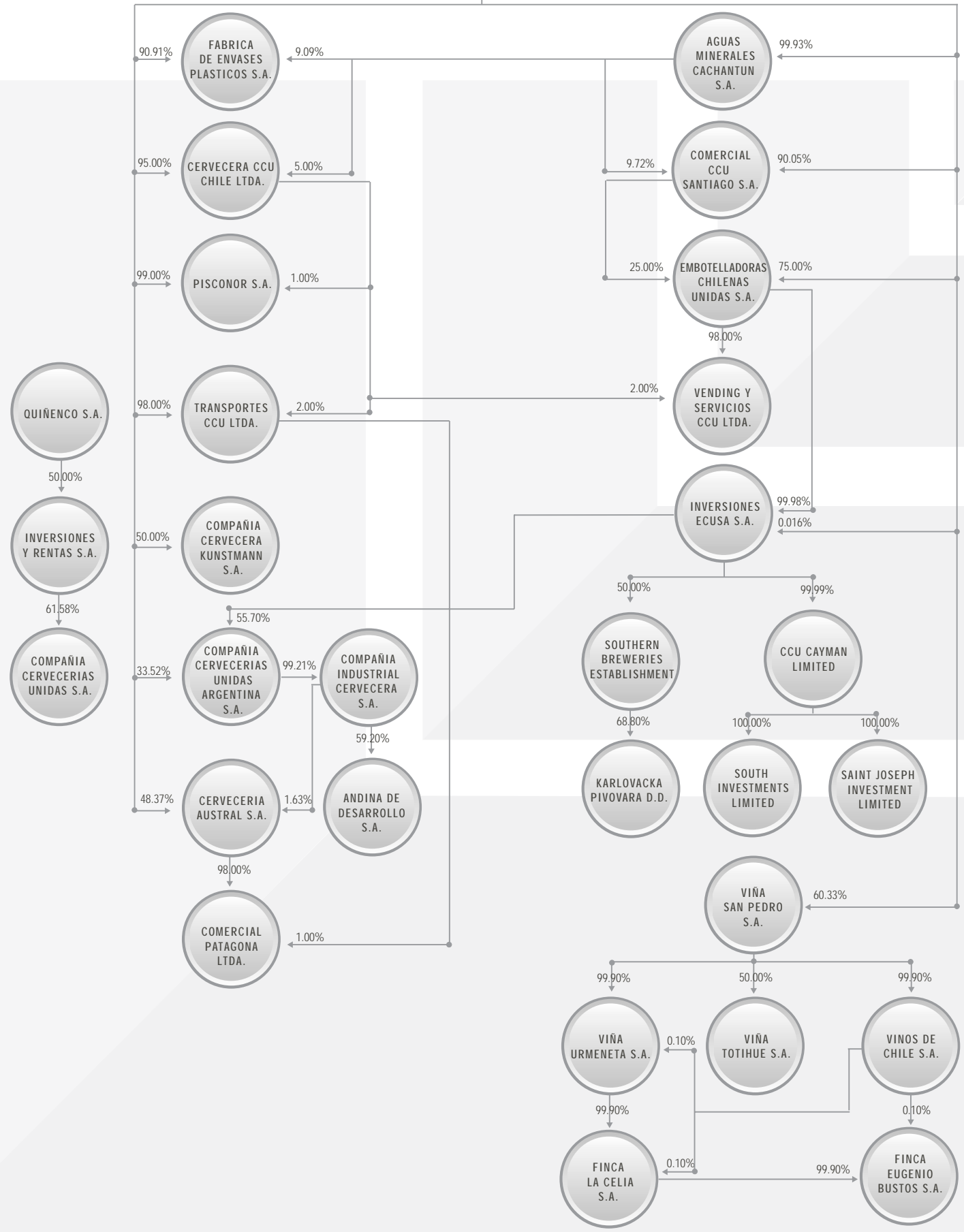




**LQ INVERSIONES FINANCIERAS S.A.  
SUBSIDIARIES AND AFFILIATES**



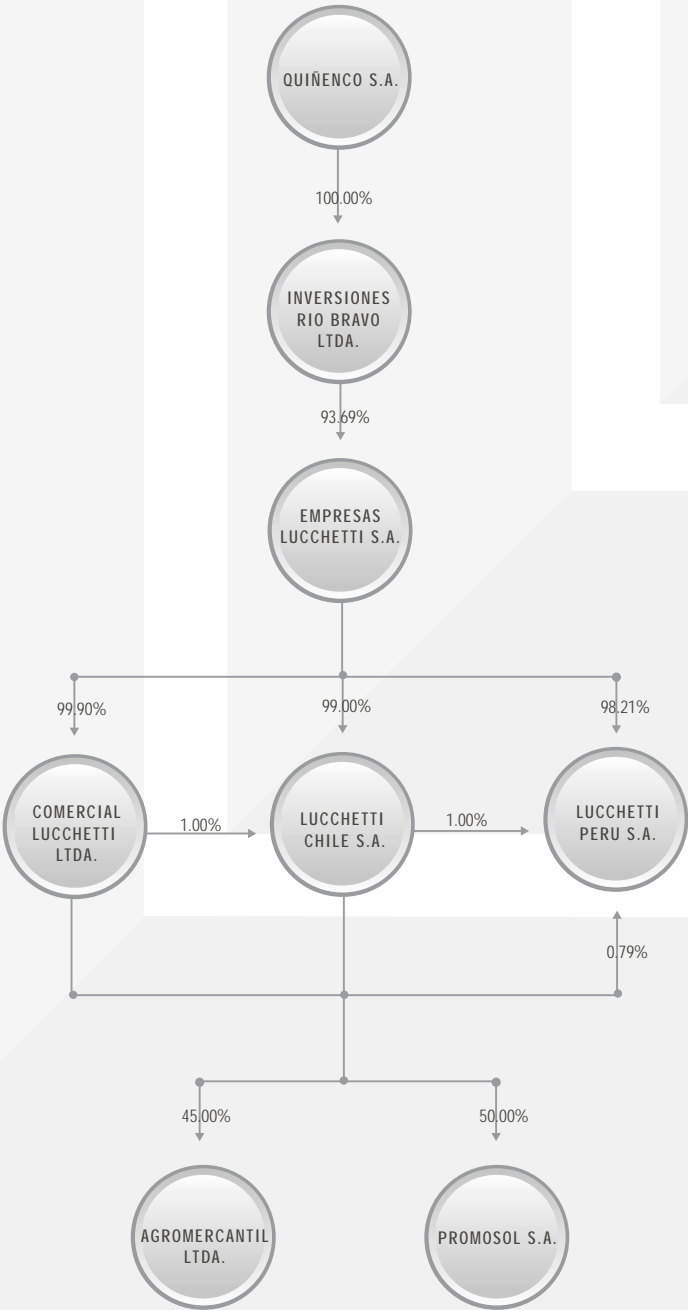
**COMPAÑIA CERVECERIAS UNIDAS S.A.  
SUBSIDIARIES AND AFFILIATES**



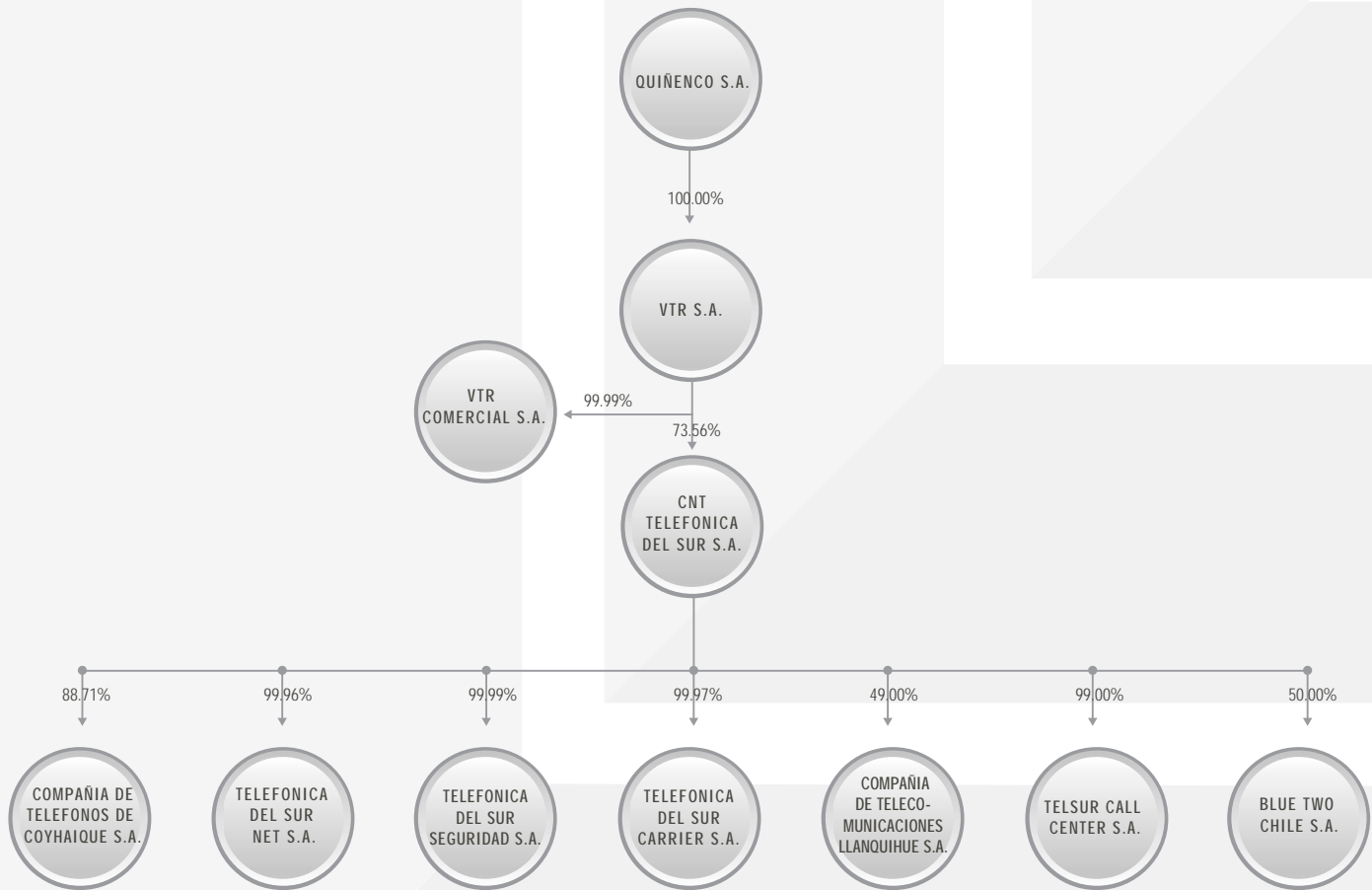
110

111

**EMPRESAS LUCCHETTI S.A.  
SUBSIDIARIES AND AFFILIATES**



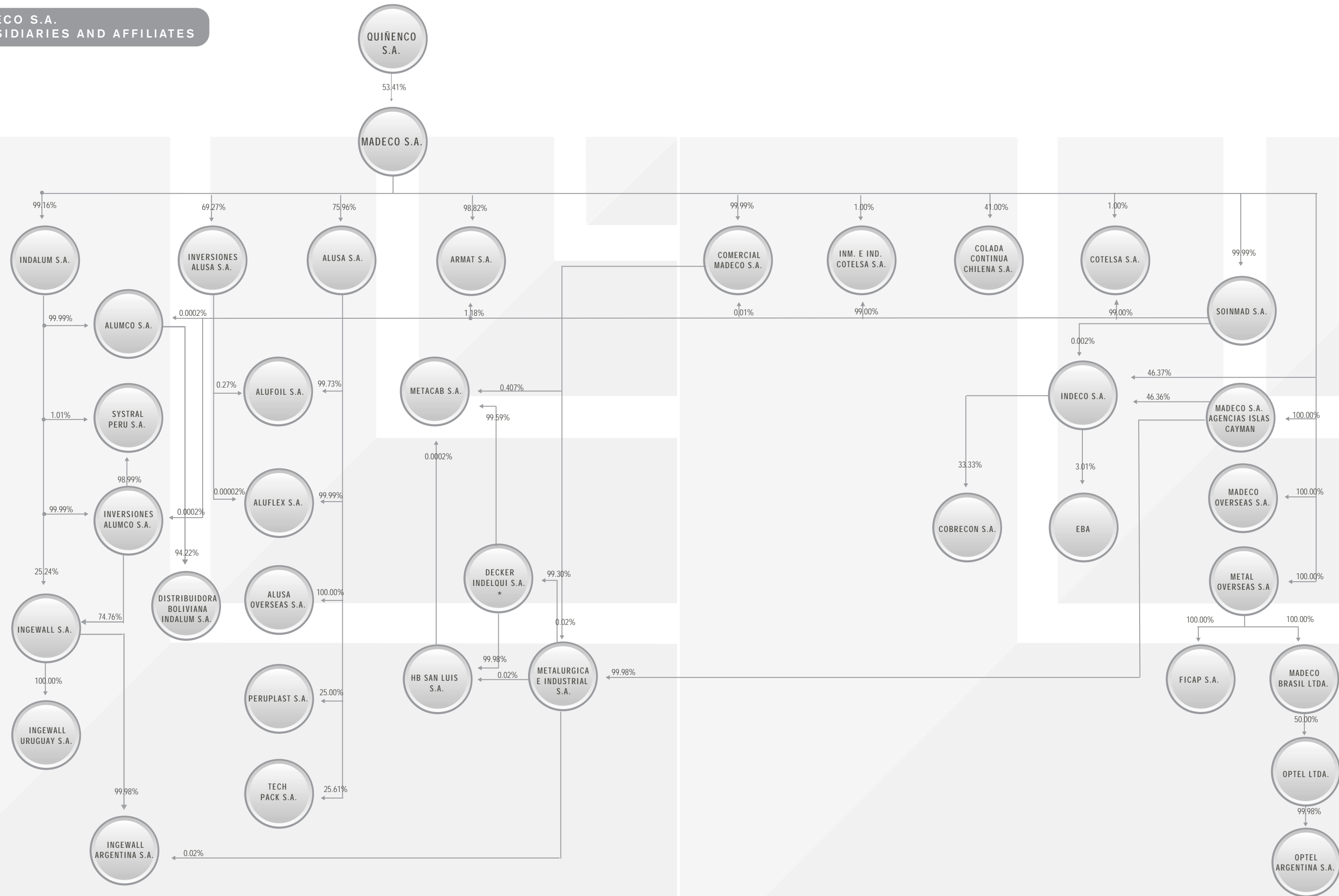
COMPAÑIA NACIONAL DE TELEFONOS  
TELEFONICA DEL SUR S.A. SUBSIDIARIES AND AFFILIATES



112

113

**MADECO S.A.  
SUBSIDIARIES AND AFFILIATES**



\*As of December 31, 2002 Madeco holds 0.034% of its own shares.



96,20%



93,50%



**HABITARIA S.A.  
SUBSIDIARIES AND AFFILIATES**



116

117



Design and production: Espacio Vital Diseño  
[www.espaciovital.cl](http://www.espaciovital.cl)

Printer:  
Editorial Trineo S.A.  
[www.trineo.cl](http://www.trineo.cl)