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QUINENCO SA  
Form 20-F  
June 29, 2005

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 20-F  
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(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-14656

Quinenco S.A.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Republic of Chile

(Jurisdiction of incorporation or organization)

Enrique Foster Sur 20, 14th Floor, Las Condes, Santiago, Chile

(Address of principal executive offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act

Title of each class  
-----

Name of each exchange on which registered  
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American Depositary Shares representing Common Stock  
Common Stock, without par value

New York Stock Exchange  
New York Stock Exchange\*

\* Not for trading, but only in connection with the registration of American Depositary Shares which are evidenced by American Depositary Receipts.

Securities registered or to be registered pursuant to Section 12(g) of the Act.  
Not applicable

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Securities for which there is a reporting obligation pursuant to  
Section 15(d) of the Act.  
Not applicable

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common stock, without par value ..... 1,079,740,079

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

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### INTRODUCTION

Quinenco S.A. is a sociedad anonima abierta (open stock corporation) organized under the laws of the Republic of Chile ("Chile"). Unless the context otherwise requires, references herein to "Quinenco" are to Quinenco S.A. and references herein to the "Company" are to Quinenco together with its consolidated subsidiaries and the companies in which Quinenco holds significant non-consolidated equity interests. References herein to "intermediate holding companies" are to subsidiaries of Quinenco through which, in certain cases, Quinenco holds its interest in the consolidated operating companies and certain equity investments. Unless the context otherwise requires:

#### Consolidated subsidiaries:

- "Hoteles Carrera" refers to Hoteles Carrera S.A., a 90.0%-owned consolidated subsidiary of Quinenco.
- "Indalsa" refers to Industria Nacional de Alimentos S.A., a 97.0%-owned consolidated subsidiary of Quinenco, together with Indalsa's consolidated subsidiaries as of December 31, 2004. Indalsa was formerly known as Empresas Lucchetti S.A. ("Lucchetti"). On March 31, 2004, approximately 85% of Lucchetti's assets were sold, including trademarks and other intangible assets. As a result, on May 14, 2005, Lucchetti's name was changed. All references herein to will be made to Indalsa.
- "LQIF" refers to LQ Inversiones Financieras S.A., a 99.9%-owned consolidated subsidiary of Quinenco.
- "Madeco" refers to Madeco S.A., a consolidated subsidiary 51.2%-owned by Quinenco, together with Madeco's consolidated subsidiaries.
- "Telefonica del Sur" refers to Compania Nacional de Telefonos, Telefonica del Sur S.A., a consolidated subsidiary, 73.7%-owned by Quinenco through its subsidiary VTR S.A. ("VTR"), together with Telefonica del Sur's consolidated subsidiaries.

#### Non-consolidated subsidiaries and equity interests:

- "Banco de Chile" refers to Banco de Chile, a 53.5% non-consolidated subsidiary of Quinenco, together with its consolidated subsidiaries.
- "CCU" refers to Compania Cervecerias Unidas S.A., in which Quinenco owns an indirect 30.8% non-consolidated equity investment, together

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with CCU's consolidated subsidiaries.

- "Entel" refers to Empresa Nacional de Telecomunicaciones S.A., in which Quinenco owns a 5.7% non-consolidated equity interest.
- "Habitaria" refers to Habitaria S.A., in which Quinenco owns a 50.0% non-consolidated equity investment, together with Habitaria's consolidated subsidiaries.

Unless otherwise indicated, references herein to Quinenco's percentage ownership of Madeco, Telefonica del Sur, Indalsa, Hoteles Carrera, CCU, Banco Edwards, Habitaria and Entel are to the percentage of the effective economic interest owned by Quinenco, and in certain cases, by intermediate holding companies of Quinenco. References herein to Quinenco's percentage ownership of Banco de Chile are to the percentage of voting rights owned by Quinenco, either directly or through intermediate holding companies. See "Item 5. Operating and Financial Review and Prospects".

The condensed financial statements of Banco de Chile, Telefonica del Sur, Indalsa, Hoteles Carrera and Habitaria set forth in Item 4 of this Annual Report are derived from the financial statements of the respective companies which, as of and for the years ended December 31, 2004, 2003 and 2002 have been audited by Ernst & Young Servicios Profesionales de Auditoria y Asesoría Limitada ("Ernst & Young Limitada"), a member firm of Ernst & Young Global.

The condensed financial statements of Madeco set forth in Item 4 of this Annual Report are derived from the financial statements of Madeco, which, as of and for the year ended December 31, 2004, have been audited by Ernst & Young Limitada. As of and for the years ended December 31, 2003

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and 2002, Madeco's consolidated financial statements have been audited by Deloitte & Touche, a member firm of Deloitte Touche Tohmatsu.

The condensed financial statements of CCU set forth in Item 4 of this Annual Report are derived from the financial statements of CCU, which, as of and for the years ended December 31, 2004, 2003 and 2002 have been audited by PricewaterhouseCoopers, a member firm of PricewaterhouseCoopers International Limited.

The condensed financial statements of Entel set forth in Item 4 of this Annual Report are derived from Entel's Annual Report corresponding to the years 2004, 2003 and 2002, the financial statements of which, as of and for the year ended December 31, 2004 have been audited by Ernst & Young Limitada and as of and for the years ended December 31, 2003 and 2002 have been audited by Deloitte & Touche.

### REQUESTS FOR INFORMATION

Written requests for copies of this Annual Report should be directed to Quinenco S.A., Enrique Foster Sur 20, 15th Floor, Las Condes, Santiago, Chile, Attention: Cindi Freeman, Investor Relations Officer. Facsimile requests may be sent to (56-2) 245-6241. Telephone requests may be directed to (56-2) 750-7221 or (56-2) 750-7100. Email requests may be directed to cfreeman@lq.cl. Additional information, including this Annual Report, may be found on the Company's website at [www.quinenco.cl](http://www.quinenco.cl) or [www.quinencogroup.com](http://www.quinencogroup.com). The contents of the Company's website are not incorporated into this Annual Report.

### INCORPORATION BY REFERENCE

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The Company incorporates by reference into this Annual Report on Form 20-F (1) Banco de Chile's financial statements at December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004 which are included as Item 18 of Banco de Chile's Annual Report on Form 20-F for the year ended December 31, 2004 ("Banco de Chile's Annual Report") and (2) Banco de Chile's Guide 3 Data which is included in Item 4 of such Annual Report in the section entitled "Information on the Company - Selected Statistical Information".

The Company also incorporates by reference into this Annual Report on Form 20-F (1) CCU's Chile's financial statements at December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004 which are included as Item 18 of CCU's Annual Report on Form 20-F for the year ended December 31, 2004 ("CCU's Annual Report").

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### EXCHANGE RATES AND CURRENCY

Quinenco prepares its financial statements in Chilean pesos and in conformity with Chilean generally accepted accounting principles ("Chilean GAAP"). Chilean GAAP as applied by Quinenco differs in certain important respects from generally accepted accounting practices in the United States of America ("U.S. GAAP"). See Note 27 to the audited consolidated financial statements of the Company at December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004 (together with the notes thereto, the "Consolidated Financial Statements") contained elsewhere in this Annual Report for a description of the principal differences between Chilean GAAP and U.S. GAAP as they relate to the Company and a reconciliation to U.S. GAAP of net income and net shareholders' equity for the periods and as of the dates therein indicated.

Unless otherwise indicated, financial data for all periods included in the Consolidated Financial Statements and elsewhere throughout this Annual Report have been restated in constant Chilean pesos as of December 31, 2004. See Notes 2(b) and 3 to the Consolidated Financial Statements. Transactions which are described herein and which have taken place during 2005 are stated in Chilean pesos as of the transaction date, unless otherwise indicated.

In this Annual Report, references to "U.S. dollars", "dollars", "\$" or "US\$" are to United States dollars, references to "pesos" or "Ch\$" are to Chilean pesos, and references to "UF" are to Unidades de Fomento, which are inflation-indexed, peso-denominated monetary units. The UF rate is set daily in advance based on changes in the previous month's inflation rate in Chile. See Note 2(b) to the Consolidated Financial Statements. Percentages and certain dollar and peso amounts contained in this Annual Report have been rounded for ease of presentation. Due to the effects of rounding, certain totals may not appear to directly reflect the sums of their components. This Annual Report contains translations of certain peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the peso amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from pesos based on the Dolar Observado (the "Observed Exchange Rate") reported by the Banco Central de Chile (the "Central Bank of Chile" or "Central Bank") for December 31, 2004, which was Ch\$557.40 = US\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for pesos. The Observed Exchange Rate for June 10, 2005 was Ch\$592.37 = per US\$1.00.

### PRESENTATION OF MARKET SHARE AND OTHER INFORMATION

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The market share and other operating and statistical data contained in this Annual Report have been compiled by the Company based upon statistics and other information obtained from several third-party sources.

Market shares of bank loans, risk indexes and other operating and statistical data for the financial services industry in Chile are estimated by Banco de Chile based on information published by the Chilean Superintendency of Banks and Financial Institutions ("SBIF").

The Company's estimates of CCU's market share are based on estimates made by CCU of market share data and related sales volume information. These estimates are based on statistics published or made available by A.C. Nielsen Chile S.A., or Nielsen, in the case of beer, soft drinks, mineral water and wine sales in Chile; the Camara de la Industria Cervecera Argentina (Argentine Beer Industry Chamber, or CICA) in the case of beer sales in Argentina; the Asociacion Nacional de Bebidas Refrescantes (National Association of Soft Drinks, or ANBER) in the case of soft drinks and mineral water; the Servicio Agrícola Ganadero (Agricultural and Livestock Service, or SAG) in the case of wine sales in Chile; and the Asociacion de Vinas de Chile, A.G. (the Wineries of Chile Association) in the case of Chilean wine exports. CCU believes that, due to the methodologies used, the statistics provided by

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these sources in some cases do not accurately reflect its market share or industry sales volumes. For example, the Nielsen sampling base includes only the metropolitan areas of Chile and not the rural areas of the country, where CCU believes its beer market share is higher than in the metropolitan areas, due to its distribution system. Likewise, the sales of one of CCU's Argentine competitors are not reflected in CICA's statistics because this company is not a member of CICA. Similarly, data regarding the size of the Chilean soft drink and mineral water markets and market shares do not coincide with publicly available information of its sales volume and its competitors. As a consequence, CCU has revised the share estimates from the sources identified above for Chilean and Argentine beer sales and soft drink and mineral water sales to reflect what it believes is a more accurate measure of market shares, taking into account:

- o reports published by the Instituto Nacional de Estadisticas (the Chilean National Institute of Statistics, or the INE),
- o CCU's internal sales data,
- o sales information filed publicly by CCU's competitors,
- o equity research analyst reports, and
- o import and export reports made available by Chilean and Argentine customs authorities.

However, CCU's revised estimates have not been confirmed by independent sources. Certain amounts, including percentage amounts, which appear in this annual report have been rounded and may not sum exactly to the totals shown.

Telefonica del Sur estimates market share and other operating and statistical data with respect to its telecommunications business in Chile on the basis of information supplied by the Chilean Undersecretary of Telecommunications and on its own analysis of information provided by market participants, primarily Compania de Telecomunicaciones de Chile ("Telefonica CTC"), the leading fixed line telephony provider in Chile.

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Madeco bases its estimates of industry size, market share and other operating and statistical data with respect to its manufacturing businesses on its own analysis of available information which includes: (i) Madeco's internal production and sales data; (ii) import and export reports made available by customs' authorities in each country in which Madeco operates; (iii) copper sales reports from the Corporacion Chilena del Cobre (The Chilean Copper Corporation); (iv) import and export reports provided by Central Banks; (v) production reports from Madeco's suppliers of copper rods; (vi) sales information filed publicly by some of Madeco's competitors; and (vii) information informally obtained from market participants and Madeco's suppliers. No third parties or other independent companies have provided estimates or confirmed Madeco's market share calculations and estimates. Sources that use methodologies which are not identical to Madeco's may produce different results.

Habitaria bases its market share estimates on figures provided by the Camara Chilena de la Construccion (The Chilean Construction Association), reports published by Collect, a private market research company, and on reports and analysis generated internally.

Unless otherwise specified, per capita consumption data for countries in which the Company operates and all regions within them are based on relevant volume and consumption information provided by the sources described in this section and on data derived by the Company from public censuses of populations.

Sources other than the Company use methodologies which are not identical to the Company's and may produce results that differ from the Company's own estimates.

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### FORWARD-LOOKING STATEMENTS

This Annual Report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. They also relate to the Company's future prospects, development and business strategies.

These forward-looking statements are identified by the use of terms and phrases such as "anticipates", "believes", "could", "expects", "intends", "may", "plans", "predicts", "projects", "will" and similar terms and phrases. The Company cautions the reader that actual results could differ materially from those expected by the Company, depending on the outcome of certain factors, including, without limitation (1) adverse changes in the Chilean economy with respect to rates of inflation and economic growth, currency devaluations and other factors, (2) adverse changes in the international markets for the Company's products, including markets in other Latin American countries, such as Brazil and Argentina, as well as markets in Asia and (3) other factors discussed under "Item 4B. Business Overview", "Item 5. Operating and Financial Review and Prospects" and "Item 7A. Major Shareholders" herein. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in the Company's business strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

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## PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected consolidated financial information for the Company included in the following table should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements of the Company, including the notes thereto, appearing elsewhere in this Annual Report. The summary financial data for the Company as of and for the year ended December 31, 2000 is derived from the Consolidated Financial Statements of the Company which have been audited by PricewaterhouseCoopers, independent accountants. The summary financial data for the Company as of and for the years ended December 31, 2001, 2002, 2003 and 2004 is derived from the Consolidated Financial Statements of the Company, which have been audited by Ernst & Young Limitada, independent accountants and a member firm of Ernst & Young Global, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such reports given on the authority of said firm as experts in accounting and auditing.

The Consolidated Financial Statements of the Company have been prepared in accordance with Chilean GAAP, which differs in certain material respects from U.S. GAAP. Note 27 to the Consolidated Financial Statements provides a description of the principal differences between Chilean GAAP and U.S. GAAP as they relate to the Company and a reconciliation to U.S. GAAP of net income and shareholders' equity for the periods and as of the dates covered thereby.

In accordance with Chilean GAAP, financial data included in the Consolidated Financial Statements have been restated in constant Chilean pesos of December 31, 2004. See Notes 2 b) and 3 to the Consolidated Financial Statements.

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	At or for the Year Ended Dec			
	2000	2001	2002	2003
	(in millions of constant Ch\$ or thousands of U.S. d			
QUINENCO CONSOLIDATED				
Income Statement Data:				
Chilean GAAP:				
Net sales.....	Ch\$496,654	Ch\$505,470	Ch\$410,268	Ch\$366
Cost of sales.....	(396,504)	(401,576)	(327,078)	(292
Administrative and selling expenses.....	(82,918)	(85,217)	(72,551)	(61

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Operating income (loss).....	17,232	18,677	10,639	13
Operating income (loss) per share.....	Ch\$15.96	Ch\$17.30	Ch\$9.85	Ch\$1
Interest income.....	9,360	8,466	5,536	3
Non-operating income.....	36,570	109,762	34,725	122
Interest expense.....	(40,625)	(62,922)	(52,515)	(36)
Non-operating expense.....	(37,413)	(74,412)	(88,708)	(68)
Price-level restatement gain (loss).....	(4,923)	(4,033)	5,200	1
Net foreign exchange gain (loss).....	(1,644)	(7,304)	(14,410)	1
Non-operating results (1) (2) (3) (4) (5) (6) (7) .....	(38,675)	(30,443)	(110,172)	24
Income (loss) before taxes and minority interests.....	(21,443)	(11,767)	(99,533)	37
Income taxes.....	7,807	5,065	146	(2)
Income (loss) before minority interest...	(13,636)	(6,702)	(99,387)	34
Minority interest.....	7,427	23,239	21,246	3
Net income (loss).....	Ch\$ (6,209)	Ch\$16,538	Ch\$ (78,141)	Ch\$38
Net income (loss) per share.....	Ch\$ (5.75)	Ch\$15.32	Ch\$ (72.37)	Ch\$3
Dividends declared per share.....	Ch\$50.08	Ch\$--	Ch\$6.10	C
U.S. GAAP:				
Net sales (Non-financial services) from continuing operations.....	Ch\$390,678	Ch\$413,477	Ch\$322,849	Ch\$306
Net interest revenue and expenses (Financial services) (2) (3).....	111,815	248,670	269,375	232
Net income (loss) from continuing operations. ....	(11,686)	19,200	(49,433)	63
Loss from discontinuing operations, net of taxes and minority interest....	(9,529)	(6,271)	(35,734)	(2)
Net income (loss) .....	(21,215)	12,929	(85,167)	60
Net income (loss) on continuing operations per share.....	Ch\$ (10.82)	Ch\$17.78	Ch\$ (45.78)	Ch\$5
Net income (loss) on discontinued operations per share.....	Ch\$ (8.83)	Ch\$ (5.81)	Ch\$ (33.10)	Ch\$ (
Net income (loss) per share .....	Ch\$ (19.65)	Ch\$11.97	Ch\$ (78.88)	Ch\$5
Balance Sheet Data: (at year end)				
Chilean GAAP:				
Cash and cash equivalents.....	Ch\$144,415	Ch\$56,422	Ch\$96,368	Ch\$57
Total current assets.....	409,376	283,271	267,706	255
Property, plant and equipment.....	450,113	445,487	406,301	333
Total assets.....	1,499,730	1,664,664	1,576,932	1,426
Current liabilities.....	360,549	272,834	314,531	165
Long-term liabilities.....	326,374	573,705	527,551	511
Total liabilities.....	686,923	846,539	842,082	677
Minority interest.....	112,495	95,829	82,109	98
Shareholders' equity.....	700,312	722,296	652,741	649
Number of shares .....	1,079,740,079	1,079,740,079	1,079,740,079	1,079,740
U.S. GAAP:				
Total assets.....	Ch\$4,559,494	Ch\$11,195,257	Ch\$9,895,339	Ch\$10,316
Non-financial services long-term liabilities. ....	299,529	507,958	496,280	474
Financial services borrowings.....	2,562,215	2,176,570	2,796,092	2,891
Capital stock.....	470,774	470,774	470,774	470
Shareholders' equity.....	769,131	719,066	638,333	664

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- (1) In 2000 and 2001, non-operating results included net gains on the sales of shares of Entel of Ch\$8,110 million and Ch\$52,856 million, respectively.
- (2) In 2000 and 2001, the consolidated financial statements of the Company under Chilean GAAP did not include the financial statements of Banco Edwards because banking operations are generally not consolidated with non-financial businesses in Chile. Under U.S. GAAP, the financial statements of Banco Edwards were consolidated in 2000 and 2001. On January 1, 2002, Banco Edwards was merged with Banco de Chile.
- (3) On March 27, 2001, Quinenco's interest in Banco de Chile reached 52.7%. Under Chilean GAAP, the consolidated financial statements of the Company do not include the financial statements of Banco de Chile because banking operations are generally not consolidated with non-financial businesses in Chile. Under U.S. GAAP, the financial statements of Banco de Chile are consolidated. The income statement information under Chilean GAAP for Banco de Chile includes the operations of Banco de Chile from January 1, 2001.
- (4) For the year ended December 31, 2000, Lucchetti Argentina S.A.'s ("Lucchetti Argentina") balance sheet was deconsolidated and the investment was adjusted to net realizable value, resulting in a loss of Ch\$7,808 million.
- (5) For the year ended December 31, 2002, Lucchetti Peru S.A. ("Lucchetti Peru") made non-recurring charges related to its plant closure in January 2003 of Ch\$30,863 million.
- (6) In 2003, Quinenco received an arbitration settlement payment of Ch\$36,936 million, included with non-operating results for the year ended December 31, 2003.
- (7) On March 31, 2004, Lucchetti Chile S.A. ("Lucchetti Chile") was sold to a local food company for Ch\$11,400 million (net of financial debt). The gain on sale (net of contingency provision) of Ch\$2,946 million was included with non-operating results for the year ended December 31, 2004.

Dividends

The following table sets forth a five-year summary of dividends per share:

Period (1)	Cash Dividend Per Share (in constant Ch\$)	Cash Dividend per Share (U.S. dollars (2))
2001 .....	--	--
2002 .....	5.95	0.01
2003 .....	--	--
2004 .....	17.46	0.03
2005 (on May 11) .....	12.98	0.02 (3)

(1) Indicates year of payment. The dividend distribution corresponds to the distribution of net income of the previous year.

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- (2) Based on the exchange rate in effect on December 31 of each year.
- (3) Based on the observed exchange rate in effect on May 11, 2005.

### Exchange Rates

Prior to 1989, Chilean law permitted the purchase and sale of foreign currency only in those cases explicitly authorized by the Central Bank of Chile ("the Central Bank"). The Central Bank Act, which was enacted in 1989, liberalized the rules that govern the ability to buy and sell foreign currency. The Central Bank Act now empowers the Central Bank to determine that certain purchases and sales of foreign currency specified by law must be carried out in the Formal Exchange Market. The Formal Exchange Market is formed by banks and other entities so authorized by the Central Bank. All payments and distributions with respect to the Company's American Depositary Shares ("ADSs") referred to in this Annual Report must be transacted in the Formal Exchange Market.

For purposes of the operation of the Formal Exchange Market, the Central Bank sets a reference exchange rate (dolar acuerdo) (the "Reference Exchange Rate"). The Reference Exchange Rate is reset

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monthly by the Central Bank, taking internal and external inflation into account, and is adjusted daily to reflect variations in parities between the Chilean peso and each of the U.S. dollar, the Japanese yen and the Euro. In the past, authorized transactions by banks were generally conducted within a certain band above or below the Reference Exchange Rate. In January 1992, the Central Bank reduced the Reference Exchange Rate by 5% and widened the band for transactions in the Formal Exchange Market from 5% to 10%. In November 1994, the Central Bank reduced the Reference Exchange Rate by approximately 10%. In November 1995, the Central Bank reduced the Reference Exchange Rate by approximately 2%. In January 1997, the Central Bank widened the band for transactions in the Formal Exchange Market to 12.5%. On June 25, 1998, the Central Bank reduced the band for transactions in the Formal Exchange Market to 2% above and 3.5% below the Reference Exchange Rate. At that time, the Central Bank also announced the elimination of a fixed 2% (peso re-valuing) factor which had previously been taken into account in the annual resetting of the Reference Exchange Rate. In September 1998, the Central Bank began a gradual widening of the exchange rate band from 3.5% to 5% above and below the Reference Exchange Rate. In December 1998, the Central Bank set the exchange band at 8% above and below the Reference Exchange Rate and provided for the gradual widening of the limits of the band at a daily rate of 0.01375%. In order to keep fluctuations in the average exchange rate within certain limits, the Central Bank intervened by buying or selling foreign currency on the Formal Exchange Market. In September 1999, the Central Bank decided to suspend its formal commitment to intervene in the exchange market to maintain the limits of the band, and decided to intervene in the market only under extraordinary circumstances and with advance notification. The Central Bank also committed itself to providing periodic information about the levels of its international reserves.

The Reference Exchange Rate was maintained as a medium-term reference for the market and to be used in contracts entered into using such rate. The Observed Exchange Rate is the average exchange rate at which commercial banks conduct authorized transactions on a given date in Chile, as determined by the Central Bank. The Central Bank generally carries out its transactions at the spot market rate. Before the suspension of the band, however, when commercial banks sought to buy U.S. dollars from the Central Bank, or sought to sell U.S. dollars to the Central Bank, the Central Bank made such sales up to 2% over the Reference Exchange Rate and carried out such purchases at 3.5% under the

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Reference Exchange Rate. Authorized transactions by banks are generally conducted at the spot market rate. Historically, such rate fluctuated within the band set by the Central Bank with respect to the Reference Exchange Rate. No assurances can be given that the Central Bank will not establish band limits again.

Purchases and sales of foreign currency effected outside the Formal Exchange Market are carried out in the Mercado Cambiario Informal (the "Informal Exchange Market"). The Informal Exchange Market reflects the supply and demand for foreign currency. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the Observed Exchange Rate. On June 10, 2005, the average exchange rate in the Informal Exchange Market was Ch\$592.70 per U.S. dollar and the U.S. dollar Observed Exchange Rate was Ch\$592.37 per U.S. dollar.

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The following table sets forth the low, high, average and period-end Observed Exchange Rates for U.S. dollars for each of the indicated periods starting in 2000 as reported by the Central Bank the following day. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

Daily Observed Exchange Rate  
(Ch\$ per US\$)

Period	Low(1)	High(1)	Average (2)	Period - end
-----	-----	-----	-----	-----
2000 .....	501.04	580.37	539.49	573.65
2001 .....	557.13	716.62	634.94	654.79
2002 .....	641.75	756.56	688.94	718.61
2003 .....	593.10	758.21	691.40	593.80
2004 .....	557.40	649.45	609.34	557.40
December 2004 .....	597.27	557.40	574.91	557.40
January 2005 .....	560.30	586.18	574.12	585.40
February 2005 .....	563.22	583.84	573.58	573.55
March 2005 .....	578.60	591.69	586.48	585.93
April 2005 .....	572.75	588.95	580.46	582.73
May 2005 .....	570.83	583.59	578.31	583.00
June 2005 (through June 10) ...	586.32	592.75	589.08	592.37

Source: Central Bank of Chile

- (1) Rates shown are the low and high observed exchange rates, on a day-by-day basis, for each period.
- (2) The average of monthly average rates during the period reported.

### D. Risk Factors

#### Certain Considerations Relating to Chile and Other Countries in Latin America

The Company is predominantly engaged in business in Chile. Consequently, its results of operations and financial condition are to a large extent dependent on the overall level of economic activity in Chile. The Chilean economy has had GDP growth rates of 4.5%, 3.4%, 2.2%, 3.7% and 6.1% for the years 2000, 2001, 2002, 2003 and 2004, respectively. There can be no assurance regarding future rates of growth relating to the Chilean economy. Some of the factors that would be likely to have an adverse effect on the Company's business and results of operations include future downturns in the Chilean economy, a

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return to the high inflation experienced by Chile in the 1970s and a devaluation of the Chilean peso relative to the U.S. dollar.

In addition to their operations in Chile, some of the Company's businesses operate in and export to Argentina, Brazil, Peru and other countries in Latin America that have at various times in the past been characterized by volatile and frequently unfavorable economic, political and social conditions. The Company's business, earnings and asset values may be materially and adversely affected by developments with respect to inflation, interest rates, currency fluctuations, government policies, price and wage controls, exchange control regulations, taxation, expropriation, social instability and other political, economic or diplomatic developments in or affecting the specific countries in which the Company operates and Latin America in general.

In recent years, Argentina has suffered a prolonged economic recession which culminated in an economic crisis in late 2001. Although the Argentine economy partially stabilized in 2003 and 2004, exhibiting growth rates of 8.7% and 9.0%, respectively, as a result of measures adopted by the Argentine government, there can be no assurance regarding future rates of growth relating to the Argentine economy. The economic deterioration in Argentina materially adversely affected the operations of Quinenco's subsidiary, Madeco, in Argentina in 2001 and 2002. See "Item 4. Information on the Company - Business Overview - Manufacturing--Madeco" and "Item 5. Operating and Financial Review and Prospects - E. Trend Information".

In 2003 and 2004, the Argentine government has restricted natural gas exports to Chile due to internal supply problems. Prior to this restriction, Chile imported virtually all of its natural gas needs from

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Argentina. Chile is currently attempting to mitigate its dependence on natural gas from Argentina by using alternative fuel sources and expanding its sources for natural gas. To date, the Argentine gas supply restriction has not materially affected CCU or Madeco's production costs; however no assurances can be made as to what extent the restrictions may affect these companies' costs in the future.

Certain Considerations Relating to the Company

### Future Capital Needs

The Company's operations to date have required substantial amounts of capital, and Quinenco expects that the Company will be required to contribute substantial additional amounts of capital to support or expand existing businesses and to enter additional businesses in the future. In prior periods, Quinenco and its businesses have met capital needs through internally generated funds and issuances of debt and equity securities. There can be no assurance that capital will be available in the future as needed on reasonable terms, and the inability to obtain capital would constrain the Company's ability to support and/or expand its existing businesses and to maintain or enter new businesses. An unavailability of capital on reasonable terms could have a material adverse effect on the Company's financial condition and results of operations.

### Holding Company Structure

As a holding company, Quinenco's income and its ability to pay debt service obligations and dividends depend primarily upon receipt of dividends and distributions from its subsidiaries, equity investments and related companies. The payment of dividends by such subsidiaries, equity investments and related

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companies is, in certain instances, subject to restrictions and is contingent upon their earnings and cash flows. In addition, Quinenco's level of income has largely depended on the periodic sale of assets held for investment. There can be no assurance that Quinenco will be able to continue to rely on certain subsidiaries' dividends and distributions, or that the Company will be able to generate the level of gains on the sale of investments that it has shown in the past.

### Equity Price Risk

Many of the Company's businesses are publicly traded entities whose equity value may vary depending on market value fluctuations. The equity value of Quinenco's investments could be affected by downturns in the Chilean securities markets and other securities markets, including the New York Stock Exchange, where the equity securities of CCU, Madeco and Banco de Chile are also traded. Quinenco and its businesses may also experience low trading volumes, which could negatively affect the stocks' share price and liquidity.

In addition, the market value of securities of Chilean companies is, to varying degrees, affected by economic and market conditions in other emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Chile, investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Chilean issuers. There can be no assurance that the Chilean stock market will continue to grow or even sustain its gains and that the market value of the Company's securities would not be adversely affected by events elsewhere, especially in emerging market countries.

### The Company's Businesses

Quinenco believes that its businesses face an increasingly high level of competition in the industries in which they operate. This increased competition is in part a result of recent consolidation in some of the industries in which these businesses operate. Increased competition is manifested in prices, costs and sales volumes of the products and services produced and marketed by Quinenco's businesses. There can be no assurance that competition will not continue to increase in the future, including a possible ongoing trend of consolidation in certain industries. Increased competition could affect the profit

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margins and results of operations of Quinenco's businesses, which as a result, could materially and adversely affect the dividend cash flow Quinenco receives from its businesses.

### Banking Regulation Restrictions

Beginning in September 2004, the Office of the Comptroller of the Currency ("OCC") and the Board of Governors of the Federal Reserve System by and through the Federal Reserve Bank of Atlanta, collectively, the Federal Reserve, conducted examinations of Banco de Chile's New York and Miami branches, respectively, to evaluate, among other things, their compliance with the U.S. Bank Secrecy Act and other U.S. anti-money laundering requirements. As a result of these examinations, on February 1, 2005, Banco de Chile agreed to the issuance of a consent order with the OCC and a cease and desist order with the Federal Reserve. Pursuant to these orders, it has instituted an action plan which includes the maintenance of programs geared towards strengthening the Bank's compliance with the Bank Secrecy Act and United States anti-money laundering laws. Based on the press statement issued by the OCC at the time the

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consent order was entered into, civil money penalties and other sanctions are possible, but the likelihood, extent and amount of such actions cannot be determined at this time. Banco de Chile cannot assure that these examinations will not have an adverse effect on its financial conditions and results of operations. See "Item 8. Financial Information - Legal Proceedings - Banco de Chile".

Banco de Chile is also subject to regulation by the SBIF. In addition, it is subject to regulation by the Central Bank with regard to certain matters, including interest rates and foreign exchange. Pursuant to the Chilean General Banking Law, all Chilean banks may engage in additional businesses depending on the risk of the activity and the strength of the bank. The Banking Law also applies a modified version of the capital adequacy guidelines issued by the Basle Committee on Banking Regulation and Supervisory Practices to the Chilean banking system and limits the discretion of the SBIF to deny new banking licenses. There can be no assurance that regulators will not in the future impose more restrictive limitations on the activities of banks, including Banco de Chile, than those that are currently in effect. Any such change could have a material adverse effect on Banco de Chile's financial condition and results of operations.

### Interest Rates and Foreign Currency Positions

A portion of the Company's debt is subject to variable interest rates, which could have an impact on the Company in periods in which interest rates increase. A risk also exists with respect to exchange rate fluctuations on assets and liabilities, including debt instruments maintained in foreign currencies. See "Item 11 Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk".

### Operations are Subject to Environmental Laws and Regulations

Madeco's operations are subject to laws and regulations relating to the protection of the environment in the various jurisdictions in which Madeco operates, such as regulations regarding the release of copper, aluminum or plastics dust into the air. Stricter laws and regulations, or stricter interpretations of existing laws or regulations, may impose new liabilities on Madeco or result in the need for additional investments in pollution control equipment, either of which could result in a material adverse effect on Madeco's profitability.

### Certain Considerations Relating to the Company's Shares and ADSs

#### Majority Shareholder

As of the date of this Annual Report, the Luksic Group, which consists of Mr. Andronico Luksic Sr., his sons, Andronico Luksic Craig, Guillermo Luksic Craig and Jean Paul Luksic Fontbona, and companies they control, beneficially own approximately 82.5% of the shares of Quinenco. As long as the Luksic Group beneficially owns a majority of the outstanding shares, they will be able to elect a majority of the Directors of Quinenco and determine the outcome of the voting on substantially all actions that require shareholder approval. See "Item 6. Directors, Senior Management and Employees" and "Item 7.

Major Shareholders and Related Party Transactions". There can be no assurance that the Luksic Group's interests will not differ from the interests of other holders of the Company's shares.

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### Dividends Affected by Exchange Conditions

The Company's ADSs trade in U.S. dollars. Fluctuations in the exchange rate between certain Latin American currencies and the U.S. dollar are likely to affect the market price of the ADSs. For example, since Quinenco's financial statements are reported in Chilean pesos, a decline in the value of the Chilean peso against the dollar would reduce the Company's earnings as reported in U.S. dollars. Any dividend the Company may pay in the future would be denominated in Chilean pesos. A decline in the value of the Chilean peso against the U.S. dollar would reduce the U.S. dollar equivalent of any such dividend. A devaluation of the Brazilian, Argentine and/or Peruvian currency could also reduce the Company's earnings in Chilean pesos and therefore the earnings reported in U.S. dollars.

### Holders of ADSs

Due to the fact that holders of ADSs do not hold their shares directly, they are subject to the following additional risks:

In the event of a dividend or other distribution, if exchange rates fluctuate during any period of time when the ADS depository cannot convert a foreign currency into dollars, the ADS holders may lose some or all of the value of the distribution. There can be no assurance that the ADS depository will be able to convert any currency at a specific exchange rate or sell any property, rights, shares or other securities at a specific price, or that any of such transactions can be completed within a specific time period.

In order to vote at shareholders' meetings, ADS holders not registered on the books of the ADS depository are required to transfer their ADSs for a certain number of days before a shareholders' meeting into a blocked account established for that purpose by the ADS depository. Any ADSs transferred to this blocked account will not be available for transfer during that time. ADS holders who are registered on the books of the ADS depository must give instructions to the ADS depository not to transfer their ADSs during this period before the shareholders' meeting. ADS holders must therefore receive voting materials from the ADS depository sufficiently in advance of the shareholders' meeting in order to make these transfers or give these instructions. There can be no guarantee that ADS holders will receive voting materials in time to instruct the ADS depository how to vote. It is possible that ADS holders, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote at all.

ADS holders may not receive copies of all reports from the Company or the ADS depository. Holders may have to go to the ADS depository's offices to inspect any reports issued.

In the event the Company or its publicly traded subsidiaries fail to meet any of the continued listing requirements of the New York Stock Exchange or "NYSE", the Company's or its subsidiaries' ADSs may become subject to delisting at the option of the NYSE.

### Eligibility for Investment by Chilean Pension Funds

In 2002, Madeco was notified that the Comision Clasificadora de Riesgo (the "Risk Classification Commission"), which regulates the investment activities of pension funds in Chile, had ruled that as a result of the downgrading of the credit ratings of the Madeco's securities and the deterioration of its financial situation, Chilean pension funds were further limited in the amount of debt securities or common shares of Madeco that they could hold. Although the rating agencies have since upgraded Madeco's rating and Chilean pension funds are no longer limited in the amount of debt securities or common shares of Madeco that they can hold, there can be no assurance that

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Madeco will not be downgraded, and the holding of Madeco's securities by Chilean pension funds limited in the future. Given that Chilean pension funds together constitute the most significant investor group in Chilean securities, any such action taken by the Risk Classification Commission has in the past adversely affected and could in the future affect the price and liquidity of Madeco's common shares and bonds.

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### Item 4. Information on the Company

#### A. History and Development of the Company

##### Overview

The Company is one of the largest diversified companies engaged in the industrial and services sectors in Chile. It has invested in four main sectors of the economy: financial services; food and beverage; telecommunications and manufacturing. In addition, Quinenco holds investments in real estate development, among other sectors.

The Company, which is among the market leaders in each of its major businesses, as of December 31, 2004 provided:

- banking and other financial services through Banco de Chile;
- beer, wine, soft drinks and other beverage production, bottling and distribution through CCU;
- fixed line telephony and other telecommunications services through Telefonica del Sur;
- copper and aluminum products and flexible packaging products through Madeco.

In addition, as of December 31, 2004, the Company held a financial investment in Entel, a leading Chilean telecommunications provider and Empresas Almacenes Paris S.A. ("Almacenes Paris"), a Chilean department store retailer. Additionally, it holds investments in Habitaria, a real estate developer, Hoteles Carrera, which owns and manages a hotel in the city of Concepcion, Chile and Indalsa, which holds a 50% interest in a cookie and candy manufacturer.

Quinenco, an open stock corporation, operates under the laws of the Republic of Chile. It was founded in 1957 as Forestal Quinenco S.A., a company engaged in logging and supplying wood to the Chilean coal mining industry. In the mid-1960s, Andronico Luksic Sr. acquired a majority interest in the Company. The Company's registered office is at Enrique Foster Sur 20, 14th Floor, Las Condes, Santiago, Chile and its telephone number is (56-2)750-7221. Quinenco's authorized representative in the United States is CT Corporation System, located at 111 Eighth Avenue, 13th Floor, New York, New York 10011, U.S.A. CT Corporation System's phone number is (212)894-8500.

The Company's current structure is a result of transfers and consolidations among Luksic Group companies at various times, principally in September 1996. Prior to September 1996, the Luksic Group held interests in the Company's businesses through several entities controlled by the Luksic family. During September 1996, these interests were combined within Quinenco through a series of transactions in order to consolidate the holdings of the Luksic Group. As a result of these transactions, Quinenco became the principal company through which the Luksic family is active in the industrial and financial sectors,

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except that the Luksic Group's interests in mining, railways and water continue to be held through another company. Although Quinenco continues to be the principal company through which the Luksic Group participates in the industrial and financial sectors, individual members of the Luksic family are not restricted from carrying out investments in these sectors individually or through other Luksic family companies.

Over the years, holdings of Quinenco have included Indalsa, formerly known as Lucchetti, which was acquired in 1965, Hoteles Carrera, acquired in 1979, Madeco, acquired in 1983, and Telefonica del Sur, acquired in 1987. Quinenco's interest in CCU was acquired in a joint venture in 1986. Habitaria, a joint venture with Ferrovial Inmobiliaria Chile Ltda., was established in 1998. The Company acquired control of Banco Edwards in 1999 and control of Banco de Chile in 2001. Banco Edwards merged into Banco de Chile in January 2002.

As of the date of this Annual Report, the Luksic Group, which consists of Mr. Andronico Luksic Abaroa, his sons, Andronico Luksic Craig, Guillermo Luksic Craig and Jean Paul Luksic Fontbona, and

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companies they control, beneficially own approximately 82.5% of the shares of Quinenco. As long as the Luksic Group beneficially owns a majority of the outstanding shares, the Luksic Group will be able to elect a majority of the Directors of Quinenco and to determine the outcome of the voting on substantially all actions that require shareholder approval. See "Item 6. Directors, Senior Management and Employees" and "Item 7. Major Shareholders and Related Party Transactions".

### DEVELOPMENTS DURING 2005

#### Quinenco

On March 22, 2005, Quinenco sold 18,718,155 shares it held in Almacenes Paris for Ch\$960 per share, equivalent to 27.33% of its total 11.41% shareholding, to Cencosud S.A. as part of a tender offer launched in March by the retailer. Cash proceeds amounted to Ch\$17,969 million, resulting in a gain on sale of Ch\$8,361 million for the period ended March 31, 2005. The remaining 49,771,252 shares of Almacenes Paris held by Quinenco were exchanged for 41,926,756 shares of Cencosud, in accordance with the terms of the tender offer. The Cencosud shares were valued on the March 22, 2005 exchange date at Ch\$38,153 million. The exchange of shares generated an additional one-time gain of Ch\$12,604 million for the period ended March 31, 2005.

#### Financial Services - Banco de Chile

On March 24, 2005, Banco de Chile's Board of Directors approved the sale of 1,701,994,590 shares, equivalent to 2.5% of total issued shares, held by the bank in treasury in accordance with its share repurchase program. The sale of shares must be conducted before January 22, 2006 in order to comply with local securities laws.

Beginning in September 2004, the OCC and the Board of Governors of the Federal Reserve System by and through the Federal Reserve Bank of Atlanta, collectively, the Federal Reserve, conducted examinations of Banco de Chile's New York and Miami branches, respectively, to evaluate, among other things, their compliance with the U.S. Bank Secrecy Act and other U.S. anti-money laundering requirements. As a result of these examinations, on February 1, 2005, Banco de Chile agreed to the issuance of a consent order with the OCC and a cease and desist order with the Federal Reserve. Pursuant to these orders, it

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has instituted an action plan which includes the maintenance of programs geared towards strengthening the Bank's compliance with the Bank Secrecy Act and United States anti-money laundering laws. Based on the press statement issued by the OCC at the time the consent order was entered into, civil money penalties and other sanctions are possible, but the likelihood, extent and amount of such actions cannot be determined at this time. Banco de Chile cannot assure that these examinations will not have an adverse effect on its financial conditions and results of operations. See "Item 8. Financial Information - Legal Proceedings - Banco de Chile".

### Food and Beverage - CCU

On March 14, 2005, CCU and its subsidiary, Pisconor S.A. ("Pisconor"), formed a joint venture with Cooperativa Agrícola Control Pisquero de Elqui y Limari Ltda. ("Control") to produce and commercialize pisco and pisco-based beverages in Chile. The new joint venture, Compañía Pisquera de Chile S.A., to which the companies contributed assets, commercial brands and - in the case of Control - some financial liabilities, is 80%-owned by CCU.

### Manufacturing - Madeco

On April 4, 2005, Madeco announced that it had reached an agreement with Corning International Corporation regarding their Brazilian joint venture subsidiary, Optel Ltda. ("Optel"). Optel is an optical fiber cable producer with installations in Brazil and Argentina. Corning agreed to sell Madeco its 50% share in Optel for the nominal amount of R\$1 (one Brazilian Real). See "Item 8. Financial Information - Legal Proceedings - Madeco".

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### Food and Beverage - Indalsa

On February 7, 2005, the International Centre for Settlement of Investment Disputes (ICSID) ruled that it has no jurisdiction over arbitration proceedings between Lucchetti Peru and the Republic of Peru. Lucchetti Peru is at present analyzing its legal options in this case. See "Item 8. Financial Information - Legal Proceedings - Indalsa".

## DEVELOPMENTS DURING 2004

### Quinenco

In October 2004, Quinenco, through its wholly owned subsidiary, Inversiones Rio Azul S.A., acquired an 11.41% interest in Almacenes Paris through the purchase of 68,489,407 shares at Ch\$514 pesos per share for a total of Ch\$35,204 million (historic pesos).

### Food and Beverage - Indalsa

On March 31, 2004, 100% of the outstanding shares of Lucchetti Chile were sold to Inversiones y Servicios Tresmontes Limitada and Inversiones y Servicios Corpora S.A. Net proceeds from the sale amounted to Ch\$11,400 million. Indalsa reported a gain on sale (net of contingency provision) of Ch\$2,946 million in connection with the disposal.

The assets of Lucchetti Chile represented approximately 85% of Indalsa's total consolidated assets. The company's remaining assets were mainly composed of the remaining unsold assets of Lucchetti Peru, two commercial real estate properties, deferred tax credits and a 50% interest in Calaf S.A. ("Calaf"), a cookie and candy manufacturer acquired in January 2004. The remaining assets in

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Peru and real estate properties are currently for sale.

At a General Ordinary Shareholders' Meeting held on April 28, 2004, shareholders agreed to change Empresas Lucchetti S.A.'s name to Industria Nacional de Alimentos S.A. The name change became effective on May 14, 2004.

During January 2004, Indalsa completed the capital increase initiated in December 2003. Total funds raised in the capital increase amounted to Ch\$15,716 million (historic value), divided among 1,048,386,396 shares. Quinenco indirectly subscribed for and purchased 1,040,000,000 shares for Ch\$15,600 million (historic value), and as a result, its interest in Indalsa increased to 95.6%.

Chilean corporate law requires that a company purchases the shares of any shareholder not approving the sale of 50% or more of a company's assets if such shareholder so chooses. In an extraordinary shareholders meeting held on January 12, 2004, shareholders approved the sale of Lucchetti Chile, which composed approximately 85% of Indalsa's total assets. The withdrawal price was equivalent to the book value of the shares, adjusted for inflation, of Ch\$8.5542 pesos per share (value on transaction date). Between February 11, 2004 and March 12, 2004, shareholders representing 60,492,760 shares exercised the option to have their shares purchased by Indalsa, including Inversiones Consolidadas S.A., a company related to Quinenco's controlling shareholders, for 60,276,830 shares. All of the shares purchased from shareholders were retired and together represented 2% of the then-outstanding shares of Indalsa.

On November 16, 2004, Inversiones Rio Bravo Limitada, an indirect subsidiary of Quinenco, initiated a tender offer for 100% of Indalsa's remaining outstanding shares at Ch\$17 per share. The tender offer ended on December 30, 2004, at which time 40,683,575 were purchased for a total of Ch\$692 million. As a result, Quinenco's interest in Indalsa increased from 95.6% to 97.0%.

### Food and Beverage - Joint Venture Between Indalsa and CCU

On January 12, 2004, Indalsa and Embotelladoras Chilenas Unidas S.A. ("ECUSA"), a wholly-owned subsidiary of CCU, entered into a joint venture to acquire the assets of Calaf, a cookie and candy manufacturer, for Ch\$6,656 million (historic value). Distribution of Calaf's products is being managed by

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ECUSA, utilizing its existing distribution network for soft drinks. Both ECUSA and Indalsa account for Calaf as an equity-method investment.

### Manufacturing - Madeco

On July 1, 2004, Madeco sold 138,956,755 shares (at Ch\$41 per share) on the Santiago Stock Exchange, resulting in proceeds to Madeco of Ch\$5,697 million (historic value). The shares represented the remaining unsubscribed and unpaid shares of the capital increase approved by Madeco's Board of Directors in 2002. As a result of the share placement, Madeco's total outstanding shares increased to 4,259,045,163 shares. Quinenco did not subscribe for additional shares and as a consequence, its interest in Madeco was reduced from 55.2% to 53.4%.

During the last quarter of 2004, Madeco's key executives exercised stock options in accordance with the company's stock incentive program. Madeco's total outstanding subscribed and paid shares increased from 4,259,045,163 shares to 4,441,192,887 shares. As a result, Quinenco's interest in Madeco decreased from 53.4% to 51.2%.

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### Financial Services - Banco de Chile

On March 25, 2004, Banco de Chile initiated a tender offer to repurchase up to 1,701,994,590 shares, equivalent to 2.5% of its outstanding common stock, for Ch\$31 pesos per share (value on transaction date). The tender offer expired on April 26, 2004. Acceptance orders exceeded the share offering, and as a result, shares were purchased on a pro rata basis of 34.03%. As a result, capital and reserves were reduced by Ch\$52,762 million (historic value). Under Chilean regulations, Banco de Chile has up to two years to resell the shares. As a consequence of the share repurchase and until such time as Banco de Chile resells the shares, Quinenco's economic rights in Banco de Chile increased from 29.2% to 29.9% and its voting rights, from 52.2% to 53.5%.

### Financial Services - LQIF

On October 28, 2004, LQIF, a wholly-owned subsidiary of Quinenco, issued long-term bonds for UF7,000,000 in the Chilean market. The proceeds from the bond issue were used to refinance existing debt.

## B. Business Overview

### Financial Services - LQIF

The Company's investments in the financial services sector are held by a 99.9%-owned intermediate holding company of Quinenco, LQIF. LQIF was formed on August 15, 2000 with initial capital of Ch\$10 million (historic value). Since its creation, it has served as the vehicle for the Company's investments in the financial services sector, which, until their merger on January 1, 2002, included a 51.2% interest in Banco Edwards and a 52.7% interest in Banco de Chile. As a consequence of the merger, LQIF's interest in Banco de Chile, the surviving entity, was 52.2%. In 2004, as a result of a share repurchase carried out by Banco de Chile, Quinenco's voting rights increased from 52.2% to 53.5% and its economic rights in Banco de Chile increased from 29.2% to 29.9%.

LQIF's interest in Banco de Chile is currently being accounted for as a non-consolidated equity-method interest under Chilean GAAP, in accordance with authorization from the Superintendency of Securities and Insurance ("SVS"). For further information regarding the results of Banco de Chile, whose results are not consolidated into the Company's financial statements, reference is made to Banco de Chile's Annual Report on Form 20-F for the fiscal year ended December 31, 2004.

At December 31, 2004, as a percentage of Quinenco's total investments, the investment in Banco de Chile represented approximately 64% of total investments at the corporate level, and as a percentage of total consolidated assets, the investment represented 45% of total consolidated assets.

**LQIF Capital Increase.** On January 3, 2002, the Board of Directors of Quinenco's wholly-owned subsidiary, LQIF, approved a capital increase of Ch\$484,000 million (historic value) through the issuance

of 500,000,000 new shares. On January 22, 2002, Quinenco subscribed for 273,768,064 shares for Ch\$265,007 million (historic value). Proceeds from the capital increase were used to reduce a portion of the indebtedness incurred as part of the Banco de Chile acquisition.

**Prepayment of Obligation with Former Controlling Shareholders of Banco de Chile.** On June 3, 2002, Quinenco announced that its wholly-owned subsidiary,

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LQIF, had prepaid a two-year note that had been granted by the former controlling shareholders of Banco de Chile as part of the Banco de Chile share acquisition in March of 2001. The obligation, which was originally scheduled to become due in March of 2003, had an initial face value of UF12,437,783. The note was prepaid with long-term financing obtained from national and international banks, the proceeds from Quinenco's bond offering in 2001, dividend income received from Quinenco's main operating companies and a US\$70 million loan (historic value) granted by a company related to Quinenco's controlling shareholder, the Luksic Group.

Creation of Inversiones LQ-SM S.A. On July 18, 2002, as part of an organizational restructuring of LQIF, the Board of Directors of LQIF approved the creation of a wholly-owned intermediate subsidiary, Inversiones LQ-SM S.A. ("LQ-SM"). LQ-SM was subsequently formed on August 26, 2002. On the same date, LQIF contributed 377,528,973 SM Chile Series A shares valued at Ch\$7,721 million (historic value) to LQ-SM as an initial capital contribution.

### Financial Services - Banco de Chile

The Company had a 53.5% and a 52.2% interest in Banco de Chile's voting rights and 29.9% and 29.2% of the corresponding dividend rights as of December 31, 2004 and 2003, respectively. The Company does not consolidate Banco de Chile's results, which are accounted for on an equity-method investment basis in the consolidated financial statements of Quinenco. For further information regarding the results of Banco de Chile, reference is made to Banco de Chile's Annual Reports on Form 20-F for the fiscal year ended December 31, 2004.

Banco de Chile reported net income of Ch\$152,628 million, of which Ch\$45,612 million corresponded to Quinenco's interest in 2004.

Quinenco began acquiring shares of Banco de Chile in 1999, and as of December 31, 1999 it had an 8% interest, through shares held directly in Banco de Chile and through SM Chile, the holding company which, as of December 31, 2001, directly owned a 28% interest in Banco de Chile and indirectly owned an additional 63.6% through its subsidiary, SAOS S.A. Quinenco continued to acquire shares during 2000, and at December 31, 2000 it had a 12.3% interest.

On December 14, 2000, Quinenco announced that it had entered into an agreement with the controlling shareholder group of Banco de Chile, led by Empresas Penta, to acquire, through its wholly-owned subsidiary, LQIF, an additional 35.8% interest in Banco de Chile for UF19,766,052 (equivalent to US\$541.3 million on the announcement date). The acquisition was completed on March 27, 2001.

On February 6, 2001, the Company launched a tender offer on the Chilean Stock Exchanges to acquire 5% of the outstanding shares of SM Chile S.A. ("SM Chile"). The tender offer was successfully concluded on February 28, 2001. The shares purchased included 28.4 million shares of SM Chile's Series A shares, 550 million shares of SM Chile's Series B shares, 21.5 million shares of SM Chile's Series D shares and 29.2 million shares of SM Chile's Series E shares. The shares acquired during the tender offer represented 5% of the outstanding shares of each series of SM Chile. The cost of the share acquisition in connection with the tender offer was Ch\$36,212 million (pesos as of March 31, 2001).

On March 27, 2001, Quinenco, through its wholly-owned subsidiary, LQIF, acquired an additional 35.8% interest in Banco de Chile, pursuant to a purchase agreement signed by Quinenco and the controlling shareholder group of Banco de Chile on February 2, 2001. The interest in Banco de Chile was acquired through the purchase of shares of Banco de Chile and SM Chile S.A. The total purchase price was Ch\$304,128 million (pesos as of March 31, 2001).

The shares purchased included 1,466.8 million ordinary shares of Banco de Chile, which represented 3.3% of the outstanding shares of Banco de Chile, 79.5 million shares of SM Chile's Series A shares, which represented 14.0% of the outstanding Series A shares of SM Chile, 4,144.1 million shares of SM Chile's Series B shares, which represented 37.7% of the outstanding Series B shares of SM Chile, 90.7 million shares of SM Chile's Series D shares, which represented 21.1% of the outstanding Series D shares of SM Chile and 18.6 million shares of SM Chile's Series E shares, which represented 3.2% of the outstanding Series E shares of SM Chile.

The transaction was financed in part pursuant to a direct financing agreement with the controlling shareholder group for UF12,437,783. Quinenco obtained financing from local and international banks for the remaining amount.

Combined with prior share purchases carried out in 1999 and 2000, the Company's aggregate interest in Banco de Chile, as of March 27, 2001, reached 52.7%. As a consequence, Quinenco, through LQIF, became the bank's largest shareholder. The carrying cost of the aggregate investment in Banco de Chile was Ch\$411,398 million as of March 31, 2001 (historic value).

The dividend rights associated with Quinenco's 52.7% interest in Banco de Chile represented 17.8% of the total dividend rights between March 27, 2001, and December 31, 2001. See "- Business Overview, Banco de Chile" for a description of the rights of the Central Bank over cash dividend distributions in connection with Banco de Chile's subordinated debt obligation to the Chilean Central Bank.

Merger of Banco Edwards with Banco de Chile. Pursuant to authorizations from the SBIF and a majority of the shareholders from both banks, Banco de Chile, a 52.7%-owned subsidiary of the Company and Banco Edwards, a 51.2%-owned subsidiary of the Company, merged operations effective January 1, 2002. As a consequence of the merger, Banco Edwards was absorbed by Banco de Chile, the surviving entity and legal successor.

Under the terms of exchange, Banco Edwards constituted 34% of the equity of the surviving entity and Banco de Chile, 66% of the surviving entity. Each Banco Edwards share was exchanged for 3.135826295 shares of Banco de Chile common stock. Following the merger, Banco de Chile had 68,079,783,605 shares of common stock outstanding, all of the same series.

Following the merger, the Company, through LQIF, has a 52.2% interest in the voting rights of Banco de Chile and a 29.2% economic interest corresponding to dividend rights. Its interest includes 13,762.3 million ordinary shares of Banco de Chile, which represent 20.2% of the outstanding shares of Banco de Chile, 377.5 million shares of SM Chile's Series A shares, which represent 66.5% of the outstanding Series A shares of SM Chile, 5,811.6 million shares of SM Chile's Series B shares, which represent 52.8% of the outstanding Series B shares of SM Chile, 223.4 million shares of SM Chile's Series D shares, which represent 52.0% of the outstanding Series D shares of SM Chile and 47.9 million shares of SM Chile's Series E shares, which represent 8.2% of the outstanding Series E shares of SM Chile. As part of the merger agreement and an earlier agreement with the Central Bank, the Central Bank has the rights to 42.8% of future cash distributions in connection with the subordinated debt obligation Banco de Chile maintains with the Central Bank. See "- Subordinated debt", below, for a description of the subordinated debt obligation to the Central Bank.

Founded in 1893, Banco de Chile, for much of its history, has been one of the largest and most profitable Chilean banks in terms of return on assets and shareholders' equity. It is a full-service financial institution engaged

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principally in commercial banking in Chile, providing general banking services to a diverse customer base through a wide variety of credit and non-credit products, servicing all segments of the Chilean financial market. Its operations are organized in six principal business areas - large corporations, middle market companies, retail banking, international banking, treasury and money market operations and operations through subsidiaries. Banco de Chile offers international banking services through its branch in New York, its agency in Miami, representative offices in Buenos Aires, Sao Paulo

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and Mexico City and a worldwide network of correspondent banks. It also offers, through its subsidiaries, a variety of non-banking financial services including securities brokerage, mutual fund management, financial advisory services, factoring, insurance brokerage, securitization, collection and sales services.

According to information provided by the SBIF, Banco de Chile was the second-largest bank in Chile in terms of total lending (net of interbank loans), with an 17.8% market share as of December 31, 2004.

Share Repurchase Program. On March 20, 2003, at an extraordinary shareholders' meeting, Banco de Chile's shareholders approved the establishment of a share repurchase program to be conducted on the various Chilean stock exchanges on which Banco de Chile's shares are listed and/or through a tender offer conducted in accordance with the Chilean Corporations Law. Up to one percent of Banco de Chile's issued shares may be bought directly on the Chilean stock exchanges in a twelve-month period, without requiring a tender offer. The term of the program is two years, starting June 5, 2003.

Under the terms of the share repurchase program, the maximum percentage of shares to be repurchased cannot exceed the equivalent of three percent of the bank's paid-in capital, and the minimum price that Banco de Chile will pay for the shares must be the weighted average for the 45 business days preceding the repurchase. The maximum price that Banco de Chile may pay for the shares is 15% in excess of that average.

The Central Bank authorized the program on June 2, 2003, subject to the following conditions:

- o Banco de Chile must request prior approval of the offering price from the Central Bank when it decides to sell any shares acquired under the program; and
- o the shares may only be purchased through retained net income from prior years.

The Chilean Superintendency of Banks authorized the program on July 2, 2003,

On March 25, 2004, Banco de Chile's board of directors resolved to make a tender offer for 1,701,994,590 of its shares, representing 2.5% of total capital at a purchase price of Ch\$31 per share. The tender offer expired on April 26, 2004. Before the expiration of the tender offer, Banco de Chile received acceptance orders for a total of 5,000,844,940 shares. Given that the number of acceptance orders received exceeded the number of shares, the bank was authorized to repurchase, pursuant to the terms of the offer, shares on a pro-rata basis. As a consequence of the share repurchase and until which time Banco de Chile resells the shares, Quinenco's economic rights in Banco de Chile increased from 29.2% to 29.9%.

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Under Chilean regulations, any shares bought under the program must be sold within 24 months of their respective acquisition. Otherwise, paid-in capital must be reduced by the amount of the repurchased shares that were not so resold. Shareholders have a preferential right to acquire the repurchased shares if the bank decides to sell them. However, shareholders will not have the benefit of this preferential right if the board of directors approves the sale of up to one percent of issued shares during a twelve-month period on any stock exchange inside or outside of Chile. Repurchased shares, although registered in the bank's name, do not have voting or dividend rights.

On March 24, 2005, Banco de Chile's Board of Directors approved the sale of 1,701,994,590 shares, equivalent to 2.5% of total issued shares, held by the bank in treasury in accordance with its share repurchase program. The sale of shares must be conducted before January 22, 2006 in order to comply with local securities laws.

Targeted Investigation of U.S. Branches. Beginning in September 2004, the OCC and the Board of Governors of the Federal Reserve System by and through the Federal Reserve Bank of Atlanta, collectively, the Federal Reserve, conducted examinations of Banco de Chile's New York and Miami branches, respectively, to evaluate, among other things, their compliance with the U.S. Bank Secrecy Act and other U.S. anti-money laundering requirements. As a result of these examinations, on February 1, 2005, Banco de Chile agreed to the issuance of a consent order with the OCC and a cease and desist order

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with the Federal Reserve. Pursuant to these orders, it has instituted an action plan which includes the maintenance of programs geared towards strengthening the Bank's compliance with the Bank Secrecy Act and United States anti-money laundering laws. Based on the press statement issued by the OCC at the time the consent order was entered into, civil money penalties and other sanctions are possible, but the likelihood, extent and amount of such actions cannot be determined at this time. Banco de Chile cannot assure that these examinations will not have an adverse effect on its financial conditions and results of operations. See "Item 8. Financial Information - Legal Proceedings - Banco de Chile".

Subordinated debt. During the 1982-1983 economic crisis, the Chilean banking system experienced significant instability due to, among other things, a recession in most of the world's major economies accompanied by high international interest rates, an overvalued peso, a lack of stringent banking regulation and ineffective credit policies at most Chilean banking organizations. The financial crisis required that the Central Bank and the Chilean government provide assistance to most Chilean private-sector banks, including Banco de Chile.

During this period, Banco de Chile experienced significant financial difficulties, and as a result, the Chilean government assumed administrative control. In 1985 and 1986, Banco de Chile increased its capital and sold shares representing 88% of its capital to more than 30,000 new shareholders. In 1987, the SBIF returned control and administration of the bank to its shareholders.

Subsequent to the 1982-1983 economic crisis, Banco de Chile sold certain non-performing loans to the Central Bank at face value on terms that included a repurchase obligation. The repurchase obligation was later exchanged for subordinated debt issued in favor of the Central Bank. In November 1989, pursuant to Law No.18,818, banks were permitted to repurchase the portfolio of non-performing loans previously sold to the Central Bank for a price equal to the economic value of such loans, provided that the bank assumed a subordinated

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debt obligation equal to the difference between the face value of the loans and the economic value paid. In November 1989, Banco de Chile repurchased its portfolio of non-performing loans from the Central Bank and assumed the Central Bank subordinated debt.

The repayment terms of Banco de Chile's Central Bank subordinated debt, which at December 31, 1989 equaled approximately US\$1.75 billion, required that a certain percentage of its income before provisions for the subordinated debt be applied to repay the obligation. The Central Bank subordinated debt did not have a fixed maturity and payments were to be made only to the extent that the bank earned income before provisions for the Central Bank subordinated debt.

In November 1996, pursuant to Law 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 Central Bank subordinated debt. SM Chile then created a second wholly-owned subsidiary, Sociedad Administradora de la Obligacion Subordinada S.A., or SAOS, that, pursuant to a prior agreement with the Central Bank, assumed a new repayment obligation in favor of the Central Bank which replaced the Central Bank subordinated debt in its entirety.

This Central Bank indebtedness, for which SAOS is solely responsible and for which there is no recourse to Banco de Chile or SM Chile, was equal to the unpaid principal of the Central Bank subordinated debt that it replaced but had terms that differed in certain respects, including a rescheduling of the debt for a term of 40 years providing for equal annual installments and a pledge of Banco de Chile shares as collateral for such debt. The Central Bank indebtedness bears interest at a rate of 5.0% per year and is denominated in UF. SAOS is not required to record the entire balance of the subordinated debt obligation as a liability, but instead accrues a liability equal to its share of dividends receivable from Banco de Chile. As a result, the subordinated debt is not included in the accounts of SM Chile, which is accounted for under equity method investments in the Chilean GAAP financial statements of Quinenco. The balance of the subordinated debt as of May 2, 2005, including accrued interest, was UF50,940,375.

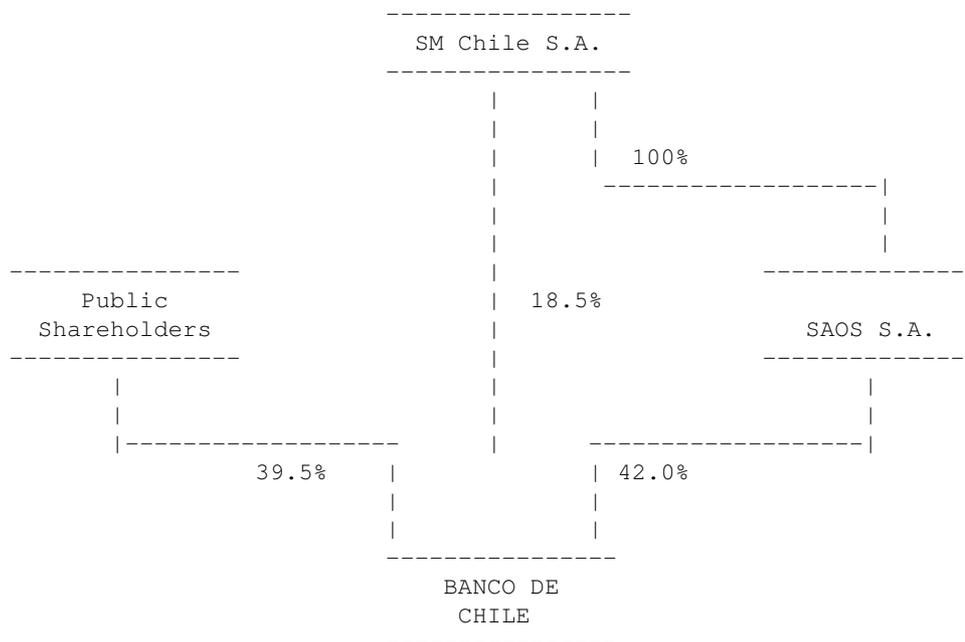
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In exchange for assuming the Central Bank indebtedness, SAOS received from SM Chile 63.6% of the shares of Banco de Chile, which serve as collateral for the Central Bank indebtedness. As a result of its merger with Banco Edwards effective on January 1, 2002, the percentage of Banco de Chile shares held by SAOS decreased to 42%. Dividends received from Banco de Chile are the sole source of SAOS's revenue, which it must apply to repay the Central Bank indebtedness. However, under SAOS's agreement with the Central Bank regarding SAOS's Central Bank indebtedness, Banco de Chile has no obligation to distribute dividends to shareholders. To the extent dividend revenues are not sufficient to pay the amount due on any installment, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. In the event the cumulative deficit balance exceeds an amount equal to 20% of Banco de Chile's capital and reserves, SAOS may be required by the Central Bank to sell a sufficient number of shares of the stock owned by SAOS to pay the entire deficit amount accumulated. In the event of any such sale of shares, the shareholders of SM Chile have the right of first refusal with respect to those shares. As of May 2, 2005, after distribution of its annual dividend, SAOS maintained a deficit balance with the Central Bank of Ch\$27,905 million, equivalent to 5.4% of Banco de Chile's capital and reserves. As of the same date, Ch\$104,155 million would have represented 20% of the bank's capital and reserves.

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In the event that Banco de Chile's shareholders decide to retain and capitalize all or part of its annual net income by distributing stock dividends among its shareholders, the Central Bank has the option to require that the part of such net income corresponding to the shares owned by SAOS be paid in cash to SAOS. If Banco de Chile distributes stock dividends and the Central Bank does not exercise the option to require cash, the resulting shares received by SAOS are required to be sold by SAOS in the following 12 months. The shareholders of SAOS have the right of first refusal with respect to such shares.

The following diagram presents in summary form the ownership structure of Banco de Chile as of December 31, 2004:



Strategy. Banco de Chile's long-term strategy is to maintain its position as a leading bank in Chile, providing a broad range of financial products and services to large corporations, small and mid-sized companies and individuals nationwide. As part of its strategy, Banco de Chile operates under a multi-brand approach in order to target its different market segments. The strategy focuses on: (i) delivering superior service that responds to the specific needs of its customers in each market segment; (ii) expanding its customer base in Chile by enlarging its distribution network and strengthening its electronic channels; (iii) enhancing profitability by increasing revenues from fee-based services through development of new services and active cross-selling of such services to customers; (iv) continuing to

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focus on measures that control costs and otherwise enhance productivity to improve its existing efficiency standards; and (v) further developing its international products and services.

The following table shows selected financial information of Banco de Chile and its subsidiaries at or for the years ended December 31, 2002, 2003 and 2004:

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Banco de Chile and subsidiaries (1)	2002	2003	2004
	(in millions of constant Ch\$, except percentages)		
Interest revenue.....	Ch\$714,018	Ch\$439,422	Ch\$543,372
Interest expense.....	(333,472)	(209,340)	(214,900)
Net interest revenue.....	380,546	230,082	328,472
Net interest margin.....	4.5%	2.8%	3.8%
Provisions for loan losses.....	(104,192)	(61,612)	(73,512)
Total fees and income from services, net.....	78,733	98,251	126,842
Total other operating income, net.....	(31,621)	98,801	14,509
Total Other income and expenses (net):			
Loan loss recoveries.....	12,334	26,026	33,736
Other income and expenses, net.....	(15,789)	(11,785)	(11,301)
Minority interest.....	(1)	(2)	(1)
Total operating expenses.....	(256,780)	(227,557)	(240,302)
Loss from price-level restatement.....	(9,934)	(4,137)	(7,466)
Income taxes.....	1,194	(14,250)	(18,349)
Net income.....	Ch\$54,490	Ch\$133,817	Ch\$152,628
Total assets.....	Ch\$8,894,882	Ch\$9,481,150	Ch\$9,649,203
Total liabilities.....	8,254,860	8,768,082	8,974,670
Shareholders' equity.....	640,022	713,068	674,533
Quinenco's interest % (2).....	52.2%	52.2%	53.5%

(1) Banco de Chile merged with Banco Edwards on January 1, 2002.

(2) Corresponds to voting rights in Banco de Chile.

The following table provides information on the composition of Banco de Chile's loan portfolio and contribution to consolidated net income before tax by segment for the year ended December 31, 2004:

	Loans		Consolidated net income before tax (1)
	(in millions of constant Ch\$, except for percentages)		
Large corporations.....	Ch\$2,684,305	39.0%	Ch\$38,794
Middle market companies.....	1,690,732	24.5	36,537
International banking.....	294,091	4.3	6,756
Retail banking.....	2,071,016	30.0	49,008
Treasury and money market operations.....	12,507	0.2	25,091
Operations through subsidiaries.....	136,260	2.0	28,181
Other (adjustments and eliminations).....	--	--	(13,390)
Total .....	Ch\$6,888,911	100.0%	Ch\$170,977

(1) Consolidated net income before tax consists of the sum of operating revenues and other income and expenses, net, and the deduction for operating expenses and provisions for loan losses.

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The following table provides consolidated operating revenues allocated among Banco de Chile's principal business areas:

Banco de Chile and subsidiaries	Operating Revenues		
	2002	2003	2004
	(in millions of constant Ch\$)		
Large corporations.....	Ch\$93,867	Ch\$90,493	Ch\$79,712
Middle market companies.....	113,797	108,647	112,267
International banking.....	2,680	16,786	12,217
Retail banking.....	147,639	140,725	166,877
Treasury and money market operations.....	26,024	23,337	29,081
Operations through subsidiaries.....	42,832	54,223	65,693
Other (adjustments and eliminations).....	819	(7,077)	3,976
Total .....	Ch\$427,658	Ch\$427,134	Ch\$469,823

The following table provides a geographical market breakdown of Banco de Chile's operating revenues:

Banco de Chile and subsidiaries	Operating Revenues		
	2002	2003	2004
	(in millions of constant Ch\$)		
Chile	Ch\$426,509	Ch\$412,104	Ch\$458,796
Banking operations.....	383,677	357,881	393,103
Operations through subsidiaries.....	42,832	54,223	65,693
Foreign branch operations.....	1,149	15,030	11,027
New York.....	(1,510)	12,130	8,673
Miami.....	2,659	2,900	2,354
Total	Ch\$427,658	Ch\$427,134	Ch\$469,823

Large Corporations

At December 31, 2004, Banco de Chile had approximately 1,918 large corporate customers. Loans to large corporations totaled Ch\$2,684,305 million at December 31, 2004, representing 39.0% of total loans at that date. The Large Corporations area accounted for Ch\$38,794 million of consolidated net income before tax for the year ended December 31, 2004.

In general, the Large Corporations area services domestic companies with annual sales in excess of Ch\$12,000 million, multinational corporations, financial institutions, governmental entities and companies affiliated with Chile's largest conglomerates (regardless of size). The Large Corporations area offers companies a broad range of products and services, including deposit-taking and lending in both pesos and foreign currency, trade and project

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financing, and various non-credit services, such as collection, supplier payments and payroll management. In addition, the Large Corporations area offers a broad range of banking products and services including working capital financing, lines of credit, commercial loans, leasing, corporate financial services, foreign trade financing, letters of credit in domestic and foreign currencies, mortgage loans, payment and asset management services, checking accounts and time deposits, and, through the bank's subsidiaries, brokerage, mutual funds and investment fund management services. All of the bank's branches except the Credichile branches provide services to the Large Corporations area customers directly and indirectly.

Large corporate customers are engaged in a wide spectrum of industry sectors, including, among others, financial services (approximately 34.7% of all loans made by the area), manufacturing (approximately 15.0% of all loans made by the area), construction (approximately 15.6% of all loans made by the area), trade (approximately 12.4% of all loans made by the area), and agriculture (approximately 7.6% of all loans made by the area).

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The following table sets forth the composition of Banco de Chile's portfolio of loans to large corporations as of December 31, 2004:

As of December 31, 2004		
-----		
(in millions of Ch\$, except for percentages)		
Commercial loans.....	Ch\$1,734,212	64.6%
Foreign trade loans.....	349,155	13.0
Contingent loans.....	310,470	11.6
Leasing contracts.....	147,509	5.5
Mortgage loans.....	42,006	1.6
Consumer loans.....	326	0.0
Other loans.....	100,627	3.7
	-----	-----
Total	Ch\$2,684,305	100.0%
	=====	=====

The Large Corporations area's loan portfolio consists principally of unsecured loans with maturities between one and six months and of medium and long-term loans to finance fixed assets, investment projects and infrastructure projects. In addition, the Large Corporations area issues contingent credit obligations in the form of letters of credit, bank guarantees and similar obligations in support of the operations of its large corporate customers.

The market for loans to large corporations in Chile in recent years has been characterized by reduced profit margins, due in part to the greater direct access of such customers to domestic and international capital markets and other sources of funds. As a result, Banco de Chile has increasingly focused on generating fee services, such as payroll processing, dividend payments and billing services as well as computer banking services.

Banco de Chile is party to approximately 3,430 payment service contracts and approximately 1,020 collection service contracts. Under these payment contracts, the bank provides large corporate clients with a system to manage their accounts and make payments to suppliers, pension funds and employees. Under collection contracts, the bank acts as a collection agent for its large corporate customers, providing centralized collection services for their accounts receivables and other similar payments.

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### Middle Market Banking

As of December 31, 2004, the Middle Market Banking area maintained outstanding loans in the amount of Ch\$1,690,732 million, which represented 24.5% of the total loans granted by the bank. The Middle Market Banking area accounted for Ch\$36,537 million of the bank's total consolidated net income before tax for the year ended December 31, 2004.

Through the Middle Market Banking area, Banco de Chile services small and medium-size Chilean companies. Medium-size companies are generally defined as those with annual sales of between Ch\$300 million and Ch\$12,000 million and small or emerging companies as those with sales between Ch\$45 million and Ch\$300 million. The Middle Market Banking area had approximately 68,346 checking account holders, of which approximately 74% are small or emerging companies. In terms of loans, however, 61.6% of the business area's total loan portfolio is comprised of medium-size companies.

Middle Market customers are engaged in a wide spectrum of industry sectors, including, among others, trade (approximately 23.5% of all loans made by the area), financial services (approximately 18.9% of all loans made by the area), agriculture (approximately 17.9% of all loans made by the area), manufacturing (approximately 15.0% of all loans made by the area), transport and storage (approximately 6.8% of all loans made by the area) and construction (6.1% of all loans made by the area).

The Middle Market Banking area offers a broad range of financial products, including project financing, working capital financing, mortgage loans and debt rescheduling, as well as other alternatives

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such as leasing operations, factoring, mutual funds, insurance and securities brokerage services and collection services (through subsidiary operations). With respect to foreign trade, the bank offers advisory services aimed at facilitating foreign trade, as well as comprehensive financing and service alternatives.

Other services, which include the payment of compensation, taxes and employee benefits, payments to suppliers, and automated bill payments, are mainly provided through remote service channels (Internet) and are made to approximately 27,452 customers. Through other subsidiaries, Banco de Chile offers customers full-range services in financial advisory, stock brokerage, mutual fund management, and general and life insurance brokerage.

The following table shows the composition of the Middle Market loan portfolio as of December 31, 2004:

As of December 31, 2004		
-----		
(in millions of Ch\$, except for percentages)		
Commercial loans.....	Ch\$900,628	53.3%
Mortgage loans.....	242,837	14.4
Leasing contracts.....	191,487	11.3
Foreign trade loans.....	134,052	7.9
Contingent loans.....	129,468	7.7
Consumer loans(1).....	31,822	1.9
Other loans.....	60,438	3.5
	-----	-----
Total.....	Ch\$1,690,732	100.0%

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(1) Certain commercial loans to individuals are classified as consumer loans.

### International Banking

As of December 31, 2004, Banco de Chile had approximately Ch\$599,051 million in foreign trade loans, representing 8.7% of its total loans as of that date and Ch\$143,182 million in letters of credit and other contingent obligations related to foreign trade operations, representing 2.1% of its loan portfolio. The International Banking area accounted for 4.0% of the bank's total consolidated net income before tax for the year ended December 31, 2004.

Banco de Chile offers all of its customers a wide range of international banking facilities, including those related to import and export financing, issuing letters of credit, guarantees and other forms of credit support, as well as currency swaps, banking and treasury services for corporate customers, both in Chile and abroad. The International Banking area has two main lines of business. The first is related to all banking products that involve foreign currency, including those related to foreign trade. The second main line of business is that of managing the Banco de Chile international network. This network is made up of a branch in New York and Miami; a trade service subsidiary in Hong Kong; three representative offices located in Mexico City, Sao Paulo and Buenos Aires; approximately 600 correspondent banks, of which 200 have established a credit relationship with Banco de Chile and 45 of which have established account relationships with the bank.

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The following table sets forth the composition of Banco de Chile's portfolio of loans originated through its New York and Miami branches, as of December 31, 2004:

	As of December 31, 2004	
	New York Branch	Miami Branch
	(in millions of Ch\$)	
Foreign trade loans.....	Ch\$37,862	Ch\$51,316
Commercial loans.....	67,311	18,844
Interbank loans.....	1,541	1,153
Contingent loans.....	4,089	6,512
	-----	-----
Total.....	Ch\$110,803	Ch\$77,825
	=====	=====

### Retail Banking

At December 31, 2004, loans made by the Retail Banking area amounted to Ch\$2,071,016 million, which represented 30.0% of the total loan portfolio of Banco de Chile. The Retail Banking area accounted for Ch\$49,008 million of consolidated net income before tax for the year ended December 31, 2004.

The following table sets forth information on the composition of the portfolio of loans of the Retail Banking area for the year ended December 31, 2004:

As of December 31, 2004

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(in millions of Ch\$, except for percentages)

Mortgage loans.....	Ch\$535,039	25.8%
Consumer loans.....	659,703	31.9
Commercial loans.....	146,293	7.1
Leasing contracts.....	4,853	0.2
Contingent loans.....	1,482	0.1
Foreign trade loans.....	82	0.0
Other loans (1).....	723,564	34.9
	-----	-----
Total.....	Ch\$2,071,016	100.0%
	=====	=====

(1) Other loans are mainly composed by mortgage loans financed by the bank's general borrowings and lines of credits.

High- and Middle-Income Individuals. High-and middle-income individuals are offered a broad range of retail banking products, including residential mortgage loans, lines of credit and other consumer loans, credit cards, checking accounts, savings accounts and time deposits. Mutual funds and brokerage services are provided to individuals through subsidiaries. At December 31, 2004, Banco de Chile had outstanding extensions of credit to approximately 269,758 high- and middle-income individuals, including approximately 35,087 residential loans, 237,630 lines of credit, 118,365 other consumer loans and 251,195 credit card accounts. At the same date, 321,714 checking accounts, 145,712 savings accounts and 65,026 time deposits corresponded to this segment (the bank defines high- and middle-income individuals as those with annual income in excess of Ch\$5.4 million (approximately US\$9,700) compared to per capita annual income in Chile of approximately US\$4,700).

Residential Mortgage Loans. Outstanding residential mortgage loans were Ch\$484,683 million as of December 31, 2004, which represented 23.4% of the retail banking business area's total loans and 7.0% of total loans.

Residential mortgage loans generally have maturities between five and 30 years and are denominated in UF. To reduce exposure to interest rate fluctuations and inflation with respect to the residential loan portfolio, a majority of the residential loans are currently funded through the issuance of mortgage finance bonds, which are recourse obligations with payment terms that are matched to the residential loans and which bear a real market interest rate plus a fixed spread over the rate of change in the UF.

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At December 31, 2004, Banco de Chile was Chile's second-largest private sector bank in terms of residential mortgage loans and, based on information prepared by the SBIF, accounted for approximately 14.8% of the residential mortgage loans in the Chilean banking system and approximately 20.1% of such loans made by Chilean private-sector banks.

Credit Cards. The product portfolio includes both personal and corporate credit cards. As of December 31, 2004, Banco de Chile had 273,256 valid accounts, with 411,260 cards in the high-and middle-income individuals sub segment. Total charges on credit cards during 2004 amounted to Ch\$405,795 million, with Ch\$351,117 million corresponding to purchases and service payments in Chile and abroad and Ch\$54,678 million corresponding to cash advances (both domestic and international). As of December 31, 2004, the bank's credit card loans in the high-and middle-income individuals sub segment amounted to Ch\$71,873 million and represented 10.9% of the retail banking area's consumer loans.

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Processing services are provided by two companies affiliated with Banco de Chile, Transbank and Nexus S.A.. As of December 31, 2004, Transbank had 18 shareholders and Nexus had 7 shareholders, all of them banks. Banco de Chile's equity ownership in Transbank and Nexus was 17.4% and 25.8%, respectively.

**Debit Cards.** Banco de Chile has different types of cards with debit options. Depending on the category, these can be used on the automated teller machines that operate on the local network (Redbanc S.A.), on the Visa International PLUS network, on the local network of merchants participating in the local Redcompra debit program and/or on international merchants associated with Electron. During 2004, more than 12 million transactions related to Banco de Chile's debit cards were performed, which represented a 30.4% market share of debit card transactions.

**Installment Loans.** Consumer installment loans to individuals are generally incurred, up to a customer's approved credit limit, to finance the cost of goods or services, such as cars, travel and household furnishings. Consumer loans are denominated in both pesos and UF, bear interest at fixed or variable rates of interest and generally are repayable in installments of up to 36 months.

At December 31, 2004, outstanding installment loans were Ch\$347,165 million, accounting for 52.6% of the retail banking business area's consumer loans. A majority of the installment loans are denominated in pesos and are payable monthly.

**Lines of Credit.** As of December 31, 2004, the bank had 237,630 approved lines of credit to customers in the high-and middle-income individuals sub segment and outstanding advances to 173,139 individuals totaling Ch\$112,593 million or 5.4% of the retail banking area's total lines. Individual lines of credit are generally available on a revolving basis up to an approved credit limit, and may be used for any purpose. Advances under lines of credit are denominated in pesos and bear interest at a rate that is set monthly. At the customer's option, such loan may be renewed and re-priced for successive monthly periods, in each case subject to minimum monthly payments.

**Deposit Products.** The bank offers a broad range of checking accounts, time deposits and savings accounts to retail customers. Checking accounts are peso-denominated and mostly non-interest bearing. Savings accounts are denominated in UF and bear interest at a fixed rate of interest. Time deposits are denominated in pesos, UF and U.S. dollars and most bear interest at a fixed rate with a term of 30 to 360 days. At December 31, 2004, 324,537 checking accounts for approximately 316,200 customers with an aggregate balance of Ch\$397,315 million were maintained with the bank. At such date, checking account balances totaled approximately Ch\$1,424,569 million and represented 15.9% of the bank's total liabilities.

**Lower Income Individuals - Banco Credichile ("Credichile").** Products and services to the lower-middle to middle income segments of the Chilean population are offered through a network of 52 Credichile branches and 9 other credit centers. Lower-middle income individuals are defined as persons

with annual income between Ch\$1.8 million and Ch\$5.4 million. Credichile offers its customers a range of products, including consumer loans, credit cards, auto loans and residential mortgage loans and a special demand deposit account targeted at low-income customers. At December 31, 2004, Credichile had 151,923 customers and total loans outstanding of Ch\$189,907 million, representing 2.8% of the total loan portfolio. Credichile provides short to medium-term consumer

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loans and credit card services. Credichile had approximately 131,767 short to medium-term consumer loans that totaled Ch\$123,951 million at December 31, 2004. Credichile customers had 40,070 valid credit card accounts, with loans of Ch\$7,448 million and total charges of Ch\$7,400 million.

The SBIF requires a greater allowance for loan losses with lower credit classifications, such as those of Credichile. Credichile has rigorous procedures for collection of past due loans. Collection services are provided by Socofin, a subsidiary of the bank specialized in account collections.

Bancuenta. The Bancuenta account is a non-interest bearing demand deposit account without checking privileges targeted at customers who want a secure and comfortable means of managing and accessing their money. The customer may use the ATM card linked to the Bancuenta account (which may include a revolving line of credit) to make deposits or automatic payments to other Credichile accounts through a network of ATMs available through the Redbanc system.

At December 31, 2004, Credichile had 454,028 Bancuenta accounts, each of which pays an annual fee, a fee each time the customer draws on the Bancuenta line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a Bancuenta account are withdrawn automatically on a monthly basis from funds available in the account. Bancuenta also offers large corporate customers the ability to pay their employees by direct deposit of funds into the individual employee's account at Credichile.

### Treasury and Money Market Operations

The bank offers currency intermediation, forwards contracts, interest rate swaps, transactions under repurchase agreements and investment products based on bonds, mortgage notes and deposits. Also available are investments in mutual funds and stock brokerage services. Other services are oriented towards managing currency, interest rate and maturity gaps and the intermediation of fixed-income instruments, currencies and derivatives.

Banco de Chile's investment portfolio as of December 31, 2004 amounted to Ch\$1,607,273 million, of which 69.1% corresponded to instruments issued by the Central Bank and the Chilean government, 10.4% to securities from foreign issuers, 13.4% from local financial institutions and 7.1% from local corporations.

### Operations Through Subsidiaries

These products and services, which may not be offered directly by banks under Chilean Law, include financial advisory services, mutual and investment funds, securities brokerage, factoring, securitization, trade services, collection and sales and insurance brokerage services. Consolidated net income from securities brokerage services was Ch\$9,803 million, which represented 6.4% of the bank's consolidated net income in 2004 and net income from mutual funds services was Ch\$9,081 million, which represented 5.9% of consolidated net income for the same period.

Distribution Channels and Electronic Banking. The bank's distribution network includes branches, ATMs, Call Centers and Internet banking. As of December 31, 2004, the bank's branch network consisted of 224 retail branches and it owned and operated 1,001 ATMs connected to Redbanc, the national ATM network, covering 3,181 ATMs. A wide array of services are also provided by Banco de Chile's Internet-based service network. As of December 31, 2004, approximately 171,084 individual customers and 29,968 corporate customers performed close to 13.1 million transactions on a monthly basis.

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Customers are provided access to a 24-hour phone banking call center, which permits a varied range of services. This service received approximately 980,000 calls per month in 2004. Together with 13 other Chilean banks, Banco de Chile is a shareholder of Redbank S.A., a corporation that executes electronic transfer services and provides support to the operations performed by banks through the installation, operation, maintenance and development of the systems and equipment involved in automated electronic fund transfers.

Competition. The Chilean market for banking and other financial services is highly competitive, and the bank faces significant competition in each of its principal areas of operation. The Chilean financial services market consists of a number of distinct sectors. The most important sector, commercial banking, includes 26 privately owned banks and one public-sector bank, Banco del Estado. The privately owned banks have traditionally been divided between those that are principally Chilean-owned, of which there are fourteen, and those that are principally foreign-owned, of which there are 12. At December 31, 2004, three banks, Banco Santander-Chile (22.7%), Banco de Chile (17.8%) and the public-sector bank, Banco del Estado (13.2%), together accounted for 53.7% of all outstanding loans by Chilean financial institutions, net of interbank loans. All of the Chilean-owned banks together accounted for 61.0% of total loans outstanding while foreign-owned banks accounted for 39.0% of total loans outstanding.

As a commercial bank offering a range of services to all types of businesses and individual customers, Banco de Chile faces a variety of competitors, ranging from other large, privately owned commercial banks to more specialized entities like "niche" banks. The principal commercial banks in Chile include Banco Santander-Chile, Banco de Credito e Inversiones and BBVA Banco BHIF, which Banco de Chile considers to be its primary competitors. Nevertheless, Banco de Chile also faces competition from Banco del Estado, which has a larger distribution network and larger customer base. Banco del Estado, which operates under the same regulatory regime as Chilean private sector banks, was the third largest bank in Chile at December 31, 2004, with outstanding loans, net of interbank loans, of Ch\$4,937,389 million, representing a 13.2% market share, according to data published by the Chilean SBIF.

In both the Large Corporations and Middle Market Banking business areas, Banco de Chile considers its strongest competitors to be Banco Santander-Chile, Banco de Credito e Inversiones and BBVA Banco BHIF.

In the retail banking business area, Banco de Chile competes with other private sector Chilean banks, as well as with Banco del Estado. Among private Chilean banks, Banco de Chile considers its strongest competitors to be Banco Santander-Chile and Banco de Credito e Inversiones, as each of these banks has developed business strategies that focus on the lower-middle to middle income sub segments of the Chilean population. In the individual banking sector, particularly with respect to high-income individuals, Banco de Chile competes with both private Chilean and foreign-owned banks and considers its strongest competitors in this market to be Banco Santander-Chile and Citibank.

The Chilean banking industry has experienced increased levels of competition in recent years, including competition from foreign banks, which has led to, among other things, consolidation in the industry. Consequently, strategies have, on an overall basis, been aimed at reducing costs and improving efficiency standards. Banco de Chile's income may decrease due to the extent and intensity of competition.

Banco de Chile expects the trend of increased competition and consolidation to continue, particularly in connection with the formation of new large financial groups and the creation of new niche banks. In this regard, in

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mid-1996 Banco Santander of Spain took control of Banco Osorno and merged it into its Chilean operations, changing its name to Banco Santander-Chile. In addition, Banco O' Higgins and Banco de Santiago merged in January 1997, forming Banco Santiago. In 1999, Banco Santander of Spain took control of Banco Santiago. In August 2002, Banco Santiago and Banco Santander-Chile, the second and fourth largest banks in Chile at that date, respectively, merged and became Chile's largest bank. In 2003, Banco del Desarrollo merged with Banco Sudameris and in 2004, Dresdner Banque

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Nationale de Paris merged with Banco Security. Although Banco de Chile believes that it is currently large enough to compete effectively in its target markets, any further consolidation in the Chilean financial system may adversely affect its competitive position in the Chilean financial services industry.

Historically, commercial banks in Chile have competed in the retail market against each other, with finance companies and with department stores, the latter two having traditionally been focused on consumer loans to middle- and low-income sub segments. However, finance companies have gradually disappeared as most of them have been merged into the largest banks.

Non-bank competition from large department stores has become increasingly significant in the consumer lending sector. Three new consumer-oriented banks affiliated with Chile's largest department stores have been established during recent years. Although these new banks had a market share of less than 1.1% as of December 31, 2004, according to the SBIF, the opening of these banks is likely to bring increased competition into the consumer banking business.

In addition, two new banks were incorporated during 2004 and some local investor groups have announced their intention to incorporate new banks in 2005. Banco de Chile expects that the addition of these new banks will lead to greater competition, particularly in banking services directed to middle-income individuals.

### Loans

The following table sets forth Banco de Chile's market share in terms of loans (excluding interbank loans), and that of its principal private-sector competitors in the Chilean financial system, in each case at December 31 in each of the last five years, according to information published by the SBIF:

	Bank Loans (1)				
	As of December 31,				
	2000	2001	2002	2003	2004
Banco Santander-Chile .....	11.5%	11.7%	24.7%	22.6%	22.7%
Banco de Chile .....	12.7	12.1	18.7	18.5	17.8
Banco de Credito e Inversiones .....	7.9	9.0	10.4	11.2	11.8
BBVA Banco BHIF .....	5.8	6.0	6.7	7.3	7.8
Banco Santiago (2) .....	15.8	16.1	--	--	--
Banco de A. Edwards (3) .....	8.3	7.4	--	--	--
Total market share for six banks ....	62.0%	62.3%	60.5%	59.6%	60.1%

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Source: SBIF

- (1) For ease of comparison, interbank loans have been eliminated.
- (2) Banco Santiago merged with Banco Santander-Chile in August, 2002.
- (3) Banco Edwards merged with Banco de Chile on January 1, 2002.

Risk Index. At October 31, 2004, Banco de Chile's unconsolidated risk index was 2.39%, compared to the financial system's risk index of 2.01%.

Credit Quality. At December 31, 2004, Banco de Chile had an unconsolidated ratio of past due loans to total loans of 1.27%.

Deposits. Banco de Chile had deposits of Ch\$5,267,066 million at December 31, 2004 on an unconsolidated basis, with a 16.5% market share, the second-largest among private sector banks, according to the SBIF.

Shareholders' Equity. Banco de Chile had Ch\$521,905 in shareholders' equity as of December 31, 2004 (not including net income), making it the second-largest private-sector commercial bank in Chile

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in terms of shareholders' equity. Return on average shareholders' equity (including net income for the year) for the year ended December 31, 2004 was 23.9%, according to information published by the SBIF.

Efficiency. For the year ended December 31, 2004, the bank's efficiency ratio was 51.2%, below the 51.7% group average of Banco de Chile, Banco Santander-Chile, Banco de Credito e Inversiones and BBVA Banco BHIF.

#### Regulation and Supervision

General. In Chile, only banks may maintain checking accounts for their customers, conduct foreign trade operations and, together with financial companies, accept time deposits. The principal authorities that regulate financial institutions in Chile are the Chilean Superintendency of Banks and the Central Bank. Chilean banks are primarily subject to the General Banking Law and secondarily, to the extent not inconsistent with that law, the provisions of the Chilean Corporations Law governing public corporations, except for certain provisions that are expressly excluded.

The Central Bank. The Central Bank is an autonomous legal entity created by the Chilean Constitution. It is subject to the Chilean Constitution and its organic constitutional law, the "ley organica constitucional". To the extent not inconsistent with the Chilean Constitution or the Central Bank's organic constitutional law, the Central Bank is also subject to private sector laws, but is not subject to the laws applicable to the public sector. It is directed and administered by a board of directors composed of five members designated by the President of Chile, subject to Senate approval.

The legal purpose of the Central Bank is to maintain the stability of the Chilean peso and the orderly functioning of Chile's internal and external payment system. The Central Bank's powers include setting reserve requirements, regulating the amount of money and credit in circulation, and establishing regulations and guidelines regarding finance companies, foreign exchange (including the Formal Exchange Market) and banks' deposit-taking activities.

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The Chilean Superintendency of Banks. Banks are supervised and controlled by the Chilean Superintendency of Banks, an independent Chilean governmental agency. The Chilean Superintendency of Banks authorizes the creation of new banks and has broad powers to interpret and enforce legal and regulatory requirements applicable to banks and financial companies. Furthermore, in case of noncompliance with its legal and regulatory requirements, the Chilean Superintendency of Banks has the ability to impose sanctions. In extreme cases, it can appoint, with the prior approval of the board of directors of the Central Bank, a provisional administrator to manage a bank. It must also approve any amendment to a bank's bylaws or any increase in its capital.

Limitations on Types of Activities. Chilean banks can only conduct those activities allowed by the General Banking Law, including: making loans, factoring and leasing activities, accepting deposits and, subject to limitations, making investments and performing financial services. Investments are restricted to real estate for the bank's own use, gold, foreign exchange and debt securities. Through subsidiaries, banks may also engage in other specific financial service activities such as securities brokerage services, mutual fund management, investment fund management, financial advisory, securitization and leasing activities. Subject to specific limitations and the prior approval of the Chilean Superintendency of Banks and the Central Bank, Chilean banks may own majority or minority interests in foreign banks.

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### Food and Beverage - CCU

The Company does not consolidate CCU's results, which are accounted for on an equity-method investment basis. In 2004, CCU's net income was Ch\$45,394 million, of which 30.8% corresponded to Quinenco's proportional share, included in other non-operating income in its consolidated income statement. Quinenco's economic interest in CCU as of December 31, 2004, 2003 and 2002 was 30.8%. The Company's interest in CCU is held through a holding company, Inversiones y Rentas S.A. ("IRSA"), in which the Company holds a 50% interest. IRSA is a joint venture between Quinenco and Heineken Americas B.V. ("Heineken"), which holds a 61.6% controlling interest in CCU.

CCU, a diversified beverage company, was founded in 1902 and is now the largest Chilean brewer, the second largest brewer in Argentina, the third largest Chilean soft drink producer, the largest Chilean mineral water and bottled nectar producer, the second largest Chilean wine producer and since March 2005, the largest pisco producer in Chile. In addition, CCU participates in the confectionary industry in Chile. CCU had a domestic beer market share of approximately 90% in 2004, 89% in 2003 and 88% in 2002, and a market share in Argentina of approximately 15% in 2004, 14% in 2003 and 13% in 2002.

In Chile, CCU's beer division produces, markets, sells and distributes seven proprietary brands, including Cristal, the country's best-selling beer in 2004 which accounted for 57% of all beer sales by volume. CCU is the exclusive producer in Chile of Heineken brand beer, the exclusive distributor in Chile of the imported Budweiser brand beer and the exclusive local producer of Paulaner brand beers. CCU also produces under license the Austral beer brand and distributes the Kunstmann beer brand. In Argentina, CCU produces, markets, sells and distributes Budweiser and Heineken brand beers as well as proprietary brands.

Through its wholly-owned subsidiary ECUSA, CCU produces, markets, sells and distributes proprietary brands, PepsiCo and Schweppes Holdings Ltd. soft drink brands and Watt's nectars. In addition, CCU has proprietary brands of

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mineral water which it bottles and distributes in Chile. CCU also owns a majority interest in Vina San Pedro, Chile's second-largest winery. CCU also produces plastic bottles for use in its businesses.

**Association with Pisco Control.** On March 14, 2005, CCU and its subsidiary, Pisonor S.A., formed a joint venture with Cooperativa Agricola Control Pisquero de Elqui y Limari Ltda. ("Control") to produce and commercialize pisco and pisco-based beverages in Chile. The new joint venture, Compania Pisquera de Chile S.A., to which the companies contributed assets, commercial brands and - in the case of Control - some financial liabilities, is 80%-owned by CCU.

**Acquisition of 50% of Calaf.** On January 12, 2004, Indalsa and ECUSA entered into a joint venture to acquire the assets of Calaf, a cookie and candy manufacturer, for Ch\$6,656 million (historic value). Distribution of Calaf's products is being managed by ECUSA, utilizing its existing distribution network for soft drinks. Both ECUSA and Indalsa account for Calaf as an equity-method investment.

**Settlement of Dispute and Change of Partners in IRSA.** During 2001 and 2002, Quinenco was involved in arbitration proceedings under the rules of the International Chamber of Commerce in connection with its 50% interest in IRSA, a joint venture formed in 1986 between Quinenco and the Schorghuber Group of Germany. IRSA is the controlling entity of CCU with a 61.6% interest. In early 2001, the Schorghuber Group announced that it had sold 49.9% of its interest in IRSA to the Dutch brewer, Heineken. Although the exact terms of the Schorghuber Group's agreement with Heineken were not known, Quinenco believed the sales represented a violation of the existing shareholders' agreement with the Schorghuber Group.

On January 14, 2003, Quinenco S.A. announced that Quinenco and the Schorghuber Group had come to an agreement and that the arbitration proceedings had been terminated. As part of the agreement, the Schorghuber Group made a US\$50 million payment to Quinenco on January 28, 2003.

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The existing shareholders' agreement between the parties was modified on January 13, 2003 to allow the Schorghuber Group to sell its interest in IRSA to Heineken within a three-year period provided that certain conditions were met. Subsequently on April 17, 2003, the Schorghuber Group gave Quinenco formal notice of the sale of its interest in IRSA to Heineken Americas B.V., a subsidiary of Heineken International B.V., in accordance with the terms and conditions of the amended shareholders' agreement with Quinenco. As a consequence, Heineken is currently a 50% partner in IRSA.

Terms of the agreement also specified that IRSA would propose to the Board of Directors of CCU that it submit for consideration to its shareholders a dividend distribution equivalent to 100% of its 2002 earnings and an additional dividend distribution against CCU's retained earnings amounting to Ch\$168,700 million (historic value), to be paid within 180 days in single or multiple distributions.

Finally, as part of the agreement reached to put an end to the conflict, Southern Breweries Establishment ("SBE"), a 50%-owned indirect subsidiary of CCU, agreed in principle to sell its interest in the Croatian brewery, Karlovacka Pivovara d.d. ("Karlovacka"), to Heineken at a sales price equivalent to ten times its annual earnings from operations. The sale of Karlovacka received regulatory approval and approval by the Boards of Directors of Heineken, SBE, and its controlling entities, Lanzville Investments Establishment and CCU.

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Extraordinary Dividend Payment. On February 27, 2003, CCU announced that pursuant to an extraordinary shareholders meeting held on February 26, 2003, it would pay from retained earnings an extraordinary dividend amounting to Ch\$168,700 million (historic value). The extraordinary dividend was paid in three distributions between March 14, 2003 and October 10, 2003.

Sale of Interest in the Karlovacka Pivovara Brewer in Croatia. On April 1, 2003, CCU announced that its 50%-owned indirect subsidiary, SBE, had sold the 68.8% interest it held in a Croatian brewery, Karlovacka, to Heineken. As a result of the divestiture, CCU reported an extraordinary gain of Ch\$20,617 million.

Dividend Distribution Corresponding to 2002 Net Income. At CCU's General Ordinary Shareholders' Meeting held on April 24, 2003, pursuant to the agreement reached between Quinenco and the Schorghuber Group on January 13, 2003, CCU's Board of Directors proposed a dividend distribution equivalent to 100% of CCU's 2002 net distributable income. The dividend was approved by shareholders, and the definitive distribution was paid on May 9, 2003.

Purchase of Kunstmann Microbrewery. On May 10, 2002, CCU announced that it had acquired a 50% interest in Kunstmann, a small premium brand brewer in the south of Chile.

Strategy. CCU's strategic plan for 2005-2007 is built on three fundamental pillars: (i) profitability, through the optimization of expenses, margins and capital employed; (ii) growth in the company's current businesses and expansion into new businesses and product categories and; (iii) sustainability, both internal, in the management of the company's current brands, human resources and corporate image, and external, in relationships with the company's customers, consumers, suppliers and society as a whole. From these pillars, the company focuses on six strategic objectives: (1) to grow, strengthen and make the current beer businesses in Chile and Argentina more profitable; (2) make the wine business more profitable; (3) to achieve operational excellence in the sales and distribution processes; (4) seek leadership through all occasions of consumption within the Chilean beverage industry, through growth, consolidation initiatives and the strengthening of the company's key brands; (5) to acquire knowledge and develop capabilities associated with the snack foods segment in order to develop a platform for future growth in this area; and (6) strengthen CCU's role internally as a promoter of excellence and externally as a producer of high quality brands.

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The following table shows selected financial information of CCU and its subsidiaries at or for the years ended December 31, 2002, 2003 and 2004:

CCU and subsidiaries	2002	2003	2004
	-----	-----	-----
	(in millions of constant Ch\$, except percentages)		
Net Sales:			
Beer (1)			
Chile .....	Ch\$139,215	Ch\$153,414	Ch\$163,280
Argentina .....	25,758	32,365	40,139
	-----	-----	-----

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Total Beer.....	164,973	185,779	203,419
Soft drinks and mineral water (2).....	114,699	118,179	120,375
Wine (3)	77,815	84,632	81,990
Other (4)	596	5,076	14,854
	-----	-----	-----
Total net sales.....	Ch\$358,083	Ch\$393,666	Ch\$420,638
	=====	=====	=====
Operating Income:			
Beer (1)			
Chile .....	Ch\$30,348	Ch\$39,771	Ch\$44,993
Argentina .....	(11,444)	(3,573)	(148)
Soft drinks and mineral water (2).....	8,097	7,131	8,506
Wine (3) .....	9,052	3,532	4,755
Other (4) .....	3,042	148	601
	-----	-----	-----
Total operating income.....	Ch\$39,095	Ch\$47,009	Ch\$58,707
	-----	-----	-----
Non-operating results .....	(7,257)	13,982	(6,139)
Minority interest .....	(1,296)	(450)	(1,275)
Income taxes .....	(7,699)	(5,101)	(5,899)
	-----	-----	-----
Net income .....	Ch\$22,843	Ch\$55,440	Ch\$45,394
	=====	=====	=====
Total assets .....	Ch\$675,113	Ch\$591,664	Ch\$592,241
Bank debt and bond obligations.....	73,578	143,474	135,651
Other liabilities.....	152,770	162,449	154,486
Shareholders' equity.....	448,765	285,741	302,104
Quinenco's effective economic interest.....	30.8%	30.8%	30.8%

- (1) Includes sales of beer, beer by-products and other products such as malt, spent grain and yeast.
- (2) Includes sales of carbonated and non-carbonated soft drinks, nectars, mineral water and related merchandise.
- (3) Includes sales of wine, wine by-products and other products such as labels and corks.
- (4) Includes sales of pisco, confectionary products, crates and other packaging.

The following table shows certain operating and statistical data regarding CCU's beer segment at or for the years ended December 31, 2002, 2003 and 2004:

CCU - Beer Segment	2002	2003	2004
	-----	-----	-----
	(in millions of liters, except per capita information and percentages)		
Chile			
Total Market Volume Sold.....	398	418	425
CCU Volume Sold.....	350	372	381
CCU Market Share.....	88%	89%	90%
Beer Consumption per Capita (liters)....	26	27	28
CCU Average Beer Production			
Capacity Utilization.....	54%	58%	58%

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Argentina			
Total Market Volume Sold.....	1,221	1,292	1,333
CCU Volume Sold excluding exports.....	157	185	205
CCU Market Share .....	13%	14%	15%
Beer Consumption per Capita (liters)....	33	34	35
CCU Average Beer Production Capacity			
Utilization.....	54%	66%	64%

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Beer Business in Chile. CCU is the largest producer, bottler and distributor of beer in Chile, accounting for approximately 90% of all beer sales by volume in Chile during 2004. The production and marketing of beer in Chile is CCU's principal activity, generating net sales of Ch\$163,280 million, or 38.8% of CCU's total net sales in 2004.

CCU produces and markets super-premium, premium, medium-priced, and popular-priced beers. CCU's premium brand, Cristal, a premium-priced beer, is Chile's best selling brand, accounting for approximately 57% of all 2004 beer sales by volume in Chile. Royal Guard is CCU's proprietary super-premium brand. Royal Light is a light beer extension of the Royal Guard line, and contains a lower alcohol content. Escudo, a premium-priced beer, is the second best selling beer in Chile. Morenita, a dark beer, is a medium-priced beer, and Dorada and Aysen are popular-priced beers. Lemon Stones is a special lemon sweetened low-alcohol content beer. In addition, CCU owns a 50% interest in the Austral and Kunstmann breweries and produces Austral beer and distributes Kunstmann beer under license with these breweries.

CCU also produces and markets Paulaner brand beer under an exclusive five-year license from Paulaner Brauerei AG ("Paulaner"), renewable in 2005. CCU also has long-standing exclusive rights to distribute Budweiser in Chile. During 2004, CCU and Anheuser-Busch entered into a new distribution agreement, with a 12-year term, ending December 2015.

On April 28, 2003, CCU and Heineken International signed licensing and technical assistance agreements which provide CCU with the exclusive rights to produce, sell and distribute Heineken beer in Chile commencing June 18, 2003. These agreements have an initial term of 10 years beginning in June 2003 and are renewable for subsequent periods of five years. Heineken is the leading brand in the super-premium segment, the beer segment with the highest growth in Chile in the last years.

Distribution. CCU distributes beer directly throughout Chile to (i) retailers (representing 58% of total volume sold by CCU in Chile in 2004), (ii) wholesalers (representing 22% of total volume sold by CCU in Chile in 2004) and (iii) supermarket chains (representing 20% of total volume sold by CCU in Chile in 2004). CCU had more than 38,000 customers for its beer products in 2004, none of which accounted for more than 2% of its total beer sales by volume with the exception of two large supermarket chains that represented 9% of sales. CCU does not maintain any long-term contractual arrangements for the sale of beer with any of its customers.

Production Facilities. CCU centralizes its beer production in two plants. CCU also has a bottling facility in Antofagasta. The Santiago production facility, located on the outskirts of Santiago, has a production capacity of 43 million liters per month. The Temuco production facility in Temuco, Chile was completed during 1999, with a production capacity of 12 million liters per month. The Antofagasta plant bottles approximately 4 million liters per month.

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Beer Business in Argentina. CCU is the second largest beer producer in Argentina, with a 2004 market share of approximately 15%. In 2004, CCU's beer operations in Argentina generated net sales of Ch\$40,139 million, which represented 9.5% of CCU's consolidated net sales for the year.

CCU established CCU Argentina at the end of 1994, and in 1995, CCU Argentina acquired a 62.7% interest in Compania Industrial Cervecera S.A. ("CICSA"), a brewer located in the city of Salta, and a 98.8% interest in Cerveceria Santa Fe S.A. ("CSF"), located in the city of Santa Fe. In January 1998, CCU Argentina merged CICSA and CSF, and CCU Argentina currently holds a 99.2% interest in the combined entity.

In December 1995, CCU Argentina and Anheuser-Busch entered into a 20-year license agreement which provides for CCU Argentina's exclusive right to produce, market, sell and distribute Budweiser brand beer in Argentina. In connection with the license agreement, Anheuser-Busch acquired approximately 4.4% of CCU Argentina, with an option until 2005 to increase its aggregate ownership interest to 20%. In November 1999, Anheuser-Busch increased its ownership interest to 10.8% through a

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capital increase, and CCU reduced its participation to 89.2%. In June 2005, after the last capital expansion, Anheuser-Busch reduced its interest in CCU Argentina to 7.9% and CCU increased its participation to 92.1%.

In Argentina, CCU produces and markets super premium-priced, medium-priced and popular-priced beers. The super premium-priced beers are Heineken, which has been produced in Argentina under license since 2003, Corona and Guinness, both of which are imported and distributed by CCU Argentina. The premium-priced beers are Budweiser, Salta and Santa Fe brands. The medium-priced beer brands in Argentina are Schneider and Cordoba and the popular-priced beer brands are Rio Segundo and Rosario brands. Schneider is CCU's principal beer brand in Argentina, comprising 43% of total sales volume by CCU's Argentine subsidiary in 2004.

CCU began local production of Budweiser brand beer in December 1996, and sales of Budweiser brand beer have since grown to represent 23% of CCU's Argentine sales volume in 2004. On April 28, 2003, CCU and Heineken International signed licensing and technical assistance agreements, which provide the Company with the exclusive rights to produce, sell and distribute Heineken beer in Argentina commencing June 18, 2003. These agreements have an initial term of 10 years beginning in June 2003 and are renewable for subsequent periods of five years. Export sales represented 2.5% of CCU Argentina's beer sales volume in 2004.

Distribution. During 2004, approximately 79% of CCU's beer volume in Argentina was sold through wholesalers, with supermarkets and retailers accounting for approximately 10% and 12%, respectively. In 2004, CCU sold its products to approximately 15,800 customers in Argentina, none of which individually accounted for more than 3% of its total beer sales by volume with the exception of one large distributor which represented 7% of sales.

CCU estimates that total beer consumption in Argentina increased at a four-year compounded annual growth rate of 2.0% between 2000 and 2004. Beer consumption rose by 3.1% in 2004, mostly explained by a recovery in consumption levels and increase in consumer confidence.

Beer Business in Croatia. Until March 31, 2003 CCU had an indirect 34.4% economic interest in a Croatian brewery, Karlovacka, through SBE, a joint

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venture with another Luksic Group company. On March 31, 2003, SBE sold its interest in Karlovacka to the Dutch brewer, Heineken. CCU reported an extraordinary gain on sale of its interest in SBE of Ch\$20,617 million.

Soft Drinks. CCU is the third largest soft drink producer in Chile. CCU's line of soft drink and mineral water products includes its own proprietary brands of soft drinks in addition to brands produced under license from other beverage manufacturers. Under a licensing agreement with Watt's, a local fruit related products company, CCU has bottled and distributed Watt's nectar products in Chile since 1987. In 2004, CCU's soft drink, nectar and mineral water products business in Chile generated net sales of Ch\$120,375 million, representing 28.6% of CCU's total consolidated net sales.

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The following table shows certain operating and statistical data regarding CCU's soft drink and mineral water segment at and for the years ended December 31, 2002, 2003 and 2004.

### CCU - Soft Drinks and Mineral Water Segment

	2002 ----	2003 ----	2004 ----
	(in millions of liters, except per capita information and percentages)		
Soft Drinks(1)			
Total market volume sold (2).....	1,535	1,606	1,667
CCU volume sold .....	311	319	323
CCU market share (2).....	20%	20%	19%
Chilean consumption per capita (liters).....	102	105	108
CCU average production capacity utilization.....	34%	35%	36%
Mineral Water			
Total market volume sold (2).....	130	135	137
CCU volume sold.....	74	76	79
CCU market share (2).....	57%	56%	57%
Chilean consumption per capita (liters).....	9	9	9
CCU average production capacity utilization.....	31%	29%	32%

(1) Only considers carbonated soft drinks

(2) CCU company estimates.

ECUSA, CCU's wholly-owned subsidiary, is the exclusive producer, bottler and distributor in Chile of CCU's proprietary soft drink and mineral water brands, soft drink brands produced under license from PepsiCo and Schweppes Holdings Ltd. and bottled fruit juice nectars produced under license from Watt's. ECUSA has two soft drink production facilities located in Chile and operates two mineral water bottling plants in the central region of Chile. The two water sources for these products are owned by CCU. In addition, CCU bottles soft drinks at one of its facilities in the northern city of Antofagasta.

Distribution. Since 2004, ECUSA operates its own sales force in all the major cities of Chile. In rural areas, ECUSA has contracted the sales services of CCU's beer division. CCU distributes its soft drink and mineral water products throughout Chile to (i) small and medium-sized retail establishments, that in turn sell the beverages to consumers for take-out consumption (49% of 2004 segment volume), (ii) restaurants, hotels, kiosks, and bars for on-premises consumption (8% of 2004 segment volume), (iii) wholesalers (10% of segment

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volume) and (iv) supermarkets (33% of segment volume).

Wine. CCU's total wine segment sales amounted to Ch\$81,990 million in 2004, which represented 19.5% of CCU's consolidated sales. CCU is owner of 60.3% of Vina San Pedro ("VSP"), the third-largest winery in Chile in terms of domestic sales and the second-largest in terms of export sales.

CCU first invested in Vina San Pedro in 1994 with the purchase of 48.4% of Vina San Pedro's equity for approximately US\$17.1 million (historic value). Through subsequent capital increases and purchases of shares on the Santiago stock market, CCU's share in Vina San Pedro is 60.3% at December 31, 2004. Vina San Pedro is a publicly traded company, listed on Chile's principal stock exchanges.

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The following table shows certain operating and statistical data regarding CCU's wine segment at and for the years ended December 31, 2002, 2003 and 2004.

CCU - Wine Segment	2002 ----	2003 ----	2004 --
	(in millions of liters, except per information and percentages)		
Total domestic market volume sold .....	51	53	5
Total export market volume sold .....	45	68	5
Vina San Pedro's domestic market share (1) .....	19%	19%	1
Vina San Pedro's share of total Chilean wine exports (2) ..	17%	18%	1
Chilean consumption per capita (liters) .....	17	18	1

(1) CCU company estimate.

(2) Does not include bulk wine.

Vina San Pedro is one of Chile's largest producers and distributors of wine in terms of volume and revenues. Vina San Pedro produces and markets a full range of wine products for both the domestic and export markets. Vina San Pedro's business includes operation of its own vineyards as well as mixing, packaging and reselling wines produced by independent Chilean vineyards. Vina San Pedro exports wine products to a total of 69 countries worldwide. Vina San Pedro's total export sales in 2004 were Ch\$53,710 million. Its primary export markets included the United Kingdom, Sweden, the United States, Finland, Brazil and Demark. Exports to Europe accounted for 67% of total exports in 2004, followed by Latin America (17%), United States and Canada (9%) and others (7%). According to industry sources, exports of Chilean wine increased from approximately 43 million liters in 1990 to 467 million liters in 2004, a compounded annual growth rate of 18.6%. Vina San Pedro believes that wine exports from Chile have grown steadily due to their comparatively low price and good international image.

VSP's wines are segmented by product type. VSP produces and sells premium wines, varietals and popular-priced wines within the domestic market and export market. In addition, VSP sells bulk wine in the export market. Premium wines and many of the varietal wines are produced from high quality grapes, aged and then packaged in glass bottles. Popular-priced wines are usually produced using non-varietal grapes and are not aged. These products are generally sold in either cartons or jug packaging.

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Distribution. Vina San Pedro sells its wines directly in the major cities of Chile and through CCU's sales system in the rest of the country. In the domestic Chilean market in 2004, Vina San Pedro sold its wines through the following channels: retailers (19% of all domestic sales); wholesalers (33% of all domestic sales); supermarkets (40% of all domestic sales); and bars and restaurants (8% of all domestic sales). San Pedro had approximately 13,000 customers in the domestic market, none of which accounted for more than 3% of total wine sales by volume, with the exception of two supermarket chains that represented 18% of total wine sales by volume.

Vina San Pedro has arrangements with 165 international agents, who facilitate the export of its wine to 69 countries. CCU has signed distribution agreements with Schenk, one of the largest distributors in Europe, Asian Breweries, one of the largest beverage companies in Asia, and Shaw Ross International, a subsidiary of Southern Wines and Spirits, the main liquor wholesale distributor for the United States, as well as other distributors. VSP also has a distribution agreement with Vin & Sprit AB, a Swedish company, to distribute VSP's wines in Sweden, Finland, Norway and Estonia.

Raw Materials. The principal raw materials used in CCU's production of beer are malt, rice, water and hops. CCU obtains its supply of malt from local growers and in the international market. In 2004, CCU signed long-term contracts with local malt producers for 50% of its requirements. Rice is obtained from local and international suppliers in spot transactions and/or annual contract agreements. CCU imports hops mainly pursuant to contracts with international suppliers, primarily in the United States and Europe, which permits CCU to secure supplies for periods of up to four years. Water used in the production of beer is obtained from CCU's wells at its plant facilities and/or from public utilities.

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The principal raw materials in the production of soft drinks and nectars are water, sugar, flavoring concentrates, and carbon dioxide gas. Water is obtained from wells located at CCU's plants and/or public utilities in Chile. CCU generally purchases all of its sugar requirements from Empresas Iansa S.A., the sole producer of sugar in Chile. CCU purchases flavoring concentrates for the soft drink brands it produces under license from the respective licensing companies. The flavoring concentrates for CCU's proprietary brands are purchased from third party suppliers in Chile and Germany, which manufacture the concentrates under contract with CCU. CCU obtains carbon dioxide gas for the production of both its soft drinks and its mineral water from local suppliers in Chile. CCU owns two mineral water sources in Chile from which its branded mineral water products are obtained.

The principal raw materials that Vina San Pedro uses in its production process are grapes, wine and packaging. Vina San Pedro obtains 49% of the grapes used for export wines from its own vineyards. The majority of the wine sold in the domestic market is purchased from third parties.

Historically, CCU has not experienced difficulty in obtaining adequate supplies of raw materials at satisfactory prices and does not expect to in the near term.

Competition. Although there are currently no significant legal or regulatory barriers to entering the Chilean beer market, substantial investment would be required to establish or acquire production and distribution facilities and bottles for use in Chile's proprietary returnable bottling system, and to establish a critical mass in sales volumes. CCU believes that these factors,

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together with import tariffs, provide significant barriers to large-scale entry of new competitors and large-scale expansion by existing competitors. However, it is conceivable that other competitors may enter the beer market.

CCU's principal competitor in the Chilean beer business is Cerveceria Chile, a subsidiary of Quilmes Industrial S.A. ("Quilmes"), the largest beer production company in Argentina. Due to the high cost of shipping beer to Chile and the competitive advantage inherent to domestic producers in Chile's proprietary returnable glass bottle system, imported beer does not represent significant competition in the Chilean market. Cerveceria Chile is estimated to have an approximately 9% share of the Chilean beer market. CCU's beer brands also compete directly against soft drinks, wine and other beverages and alcoholic drinks.

Quilmes is the market leader in beer in Argentina and CCU's Argentina's principal competitor. It had an estimated 78% market share during 2004 (including the Brahma brand). CCU Argentina estimates that its own market share is approximately 15%. CCU also competes with Warsteiner (7%) and Estrella Galicia (less than 1%). Due to the high cost of shipping beer to Argentina and the competitive advantage inherent to domestic producers as a result of Argentina's returnable glass bottle system, imported beer does not represent significant competition in the Argentine market.

In recent years, the beer industry in Latin America has experienced greater consolidation and is expected to continue to experience further consolidation in the future. In May 2002, AmBev and Quilmes announced a merger, which was conditionally approved by regulatory authorities in January 2003. In March 2004, Ambev and Interbrew announced an agreement to merge both companies. In August 2004, this merger was completed. Further consolidation in the beer industry could change the current market conditions under which CCU operates.

CCU's principal competitors in the soft-drink business are companies which produce, bottle and distribute soft drinks in Chile under licenses from The Coca-Cola Company and its affiliates. The Coca-Cola Company's products are produced, bottled and distributed in Chile through three separate licensees who market soft drinks under the Coca-Cola, Coca-Cola Light, Quatro, Fanta, Fanta Light, Sprite, Sprite Zero, Nordic Mist, Tai, Andina nectars and juices, and Kapo juices brand names. According to store audits conducted by Nielsen Chile, Coca-Cola and related brands accounted for 66% of total carbonated soft drink sales in Chile in 2004. However, figures calculated by CCU are higher than Nielsen Chile estimates. CCU expects that soft drinks marketed under private labels could experience further growth from the approximately 12% market share (according to Nielsen estimates) they have obtained as of 2004.

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CCU is the largest producer of mineral water in Chile and the market leader. CCU's main competitor in the mineral water business is Vital S.A. (a subsidiary of one of The Coca-Cola Company licensees). According to Nielsen estimates, CCU's mineral water products in 2004 accounted for approximately 64% of mineral water sales by volume. CCU's estimates are lower. CCU estimates that its market share by volume accounted for 57%, while Vital accounted for approximately 38%.

The wine industry is very competitive in both the domestic and the export markets. In the domestic market, Vina San Pedro competes directly against all other major Chilean wineries, including Concha y Toro and Santa Rita, the market leaders both with a 24% estimated market share. CCU estimates that VSP's market share in the Chilean market was approximately 18% in 2004 making it the third largest domestic producer. In the export wine market, Concha y Toro is the

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market leader with an estimated 30% market share (without considering sales of bulk wine). According to industry sources, in 2004, Vina San Pedro was the second-largest exporter of Chilean wines by volume with an estimated market share of 15%. Santa Rita has an estimated 6% market share in the export wine market. Vina San Pedro also competes internationally against other Chilean producers, as well as with wine producers from other parts of the world.

Pisco. In February 2003, CCU entered the pisco business under the brand Ruta Norte. Pisco is a very popular grape-based liquor in Chile. During 2004, CCU sold 7.0 million liters of pisco. According to Nielsen, Ruta Norte's market share reached 18% by the end of 2004.

Seasonality. CCU's beer, soft drink and mineral water business is seasonal, with lower sales and earnings during the Southern hemisphere winter season of June through August.

Government regulation in Chile. CCU is subject to the full range of governmental regulation and supervision generally applicable to companies engaged in business in Chile. These regulations include labor laws, social security laws, public health, consumer protection and environmental laws, securities laws, and anti-trust laws. In addition, regulations exist to ensure healthy and safe conditions in facilities for the production, bottling, and distribution of beverages.

Additional regulations specifically concerning the production and distribution of "alcoholic beverages" are contained in Chilean Law N(degree) 18.455 and its Ordinance, which set the standards for human consumption of such beverages, by minutely describing the different types of alcohol; the minimum requirements that must be met by each class of beverage; raw materials and additives that may be used in their manufacture; their packaging and the information that must be provided by their labels; the procedure for their importation, among others.

The large-scale production of alcoholic beverages does not need any licenses or permits other than those required for the general run of commercial and industrial enterprises engaged in the manufacture of consumer commodities.

Government regulation in Argentina. CCU is subject to the full range of governmental regulation and supervision generally applicable to companies engaged in business in Argentina, including social security laws, public health, consumer protection and environmental laws, securities laws, and anti-trust laws.

National Law 18,284 (the Argentine Food Code, or the "Code") regulates the manufacturing and packaging of food and beverages. The Code provides specific standards with which manufacturing plants must comply and regulates the production of food and beverages mentioned in the Code. The Code also specifies the different methods in which beer may be bottled as well as the information to be provided on labels. The health authorities of each province undertake the enforcement of the Code, and also establish the minimum age requirements for the purchase of alcoholic beverages.

### Telecommunications - Telefonica del Sur

At December 31, 2004, Telefonica del Sur was a 73.7%-owned consolidated subsidiary of the Company. The Company's interest in Telefonica del Sur is held through a wholly-owned subsidiary, VTR. Telefonica del Sur is the principal provider of local telephone service in Regions X and XI and the second-largest provider of telephone services in the ninth region which includes the city of

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Temuco. It is the third-largest provider in the eighth region of the country. In addition to local telephone services, Telefonica del Sur is also a provider of nationwide domestic and international long distance telephone services, Internet services and other non-regulated telecommunications services. Quinenco's economic interest in Telefonica del Sur was 73.7% at December 31, 2004, and 73.6% at December 31, 2003 and 2002, respectively. Telefonica del Sur's net sales as a percentage of Quinenco's total consolidated net sales was 13.8% in 2004, 14.4% in 2003 and 12.3% in 2002.

2002 Reorganization. With the objective of fortifying its base for future growth, Telefonica del Sur restructured its operations in 2002. The reorganization involved a change in the company's management structure and a 12% cut in personnel, which were designed to reduce costs and raise efficiency levels. The restructuring process resulted in a cash outlay of US\$2.1 million (historic value) in 2002. The plan was oriented towards centralizing functions, optimizing resources, modernizing processes, outsourcing services and redesigning information technology.

Strategy. Due to the dynamic nature of the telecommunications business in Chile, which in recent years has been subject to high levels of competition in all business areas. Telefonica del Sur's current strategic plan is: 1) to strengthen the bases for growth of non-traditional services, particularly wideband and wireless communications, 2) to develop synergies across business units 3) to focus on improving the operating efficiency of its business units and 4) to improve the profitability on invested capital.

Local Exchange Telephony. Telefonica del Sur is the leading provider of local telephone service in the X and XI Regions in the south of Chile, which include the cities of Puerto Montt, Valdivia, Osorno and Coyhaique. Telefonica del Sur began providing telephone service in the IX Region, which includes the city of Temuco, during the first quarter of 1997 and currently has an estimated 50% market share in that city. In addition, Telefonica del Sur expanded to the VIII Region, which includes Concepcion, in late 2000, where it currently has a 13% market share. Telefonica del Sur is a facility carrier in Regions IX, X and XI (where it operates over its own network); in the rest of Chile it is a non-facility carrier, renting capacity from other networks.

The following table shows selected financial information of Telefonica del Sur and its subsidiaries at or for the years ended December 31, 2002, 2003 and 2004:

Telefonica del Sur and subsidiaries	2002	2003	2004
	-----	-----	-----
	(in millions of constant Ch\$)		
Net Revenues.....	Ch\$50,501	Ch\$52,756	Ch\$52,940
Gross margin.....	28,100	26,860	26,676
Operating income.....	13,561	12,625	12,561
Non-operating results.....	(3,760)	(2,759)	(3,484)
Minority interest.....	(139)	(158)	(135)
Income taxes.....	(1,843)	(2,092)	(2,081)
Extraordinary items	(1,579)	--	--
	-----	-----	-----
Net income.....	Ch\$6,240	Ch\$7,616	Ch\$6,861
	=====	=====	=====
Total assets.....	Ch\$143,248	Ch\$135,091	Ch\$137,831
Bank debt & bond obligations.....	69,489	59,742	59,142

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Other liabilities.....	14,429	12,909	14,694
Shareholders' equity.....	59,330	62,440	63,995
Quinenco's effective economic interest ..	73.6%	73.6%	73.7%

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Tariff Structure. On December 20, 2004 and January 17, 2005, the Ministry of Transportation and Telecommunications proposed rates and tariff structures for the regulated services of Telefonica del Sur and Telcoy, respectively for the five year period 2005-2009. Telefonica del Sur is currently waiting for the decree to be adopted and published in the Official Gazette. Where tariffs were previously 100% variable, consisting of a monthly fixed rate plus variable charges per minute, the new tariff structure will also incorporate tariffs for fixed rate monthly plans with prepayment or post payment options.

The effect of the prior rate schedule for regulated services for the period 1999 to 2004 was to reduce access charges and alter the structure of per minute charges to per second charges for basic telephony usage.

Revenue from Telefonica del Sur's local exchange telephony business, which for the year ended December 31, 2004 accounted for 51% of total revenues, is generated principally by fixed monthly fees and per minute charges, the price of which depends on the time of the day in which calls are made (utilizing peak and off-peak rates). In addition, Telefonica del Sur offers prepaid fixed cost telephone services (included with basic telephony revenues). Access charges from other carriers in 2003 accounted for 9% of total revenues.

Telefonica del Sur's concession requires it to provide telephone service to any requesting party within areas designated as "mandatory service areas" in the Technical Plan prepared by the Chilean Undersecretary of Telecommunications every five years. Outside of these "mandatory service areas", parties requesting new telephone line installation must pay for the cost of extending the network to the point of connection to their premises.

The following table shows certain statistical data for Telefonica del Sur's local exchange telephone operations at or for the years ended December 31, 2002, 2003 and 2004:

### Telefonica del Sur and subsidiaries

	2002 ----	2003 ----	2004 ----
Lines in Service.....	172,093	178,168	185,970
% Growth from prior period.....	-3%	4%	4%
Lines installed.....	200,470	198,600	196,085
% Growth from prior period.....	3%	-1%	-1%
Utilization Ratio(1).....	0.86	0.90	0.95
Digitalization (2).....	100%	100%	100%
Automation (3).....	100%	100%	100%

(1) Ratio of lines in service at the end of the period to lines installed at the end of the period.

(2) Percentage of lines in service connected to digital exchanges at the end of the period.

(3) Percentage of lines installed connected to automatic exchanges at the end of the period.

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Telefonica del Sur owns approximately 83% of the telephone lines in service in the X and XI Regions, 50% of the telephone lines in service in Temuco and 13% of the telephone lines in service in Concepcion, with a total of 185,970 lines in service as of December 31, 2004. 77.4% of its lines are residential, 20.0% are commercial, 1.3% are public telephones and 1.3% are used in Telefonica del Sur's businesses. During 2004, 22,635 new lines were placed in service and 14,833 existing lines were retired, representing an increase in the total number of lines in services of 4% from the prior year. Telefonica del Sur's local telephone system penetration in recent years has increased to an estimated 14 lines per 100 inhabitants at December 31, 2004, from 5.1 lines per 100 inhabitants at December 31, 1994. These penetration levels are lower than those for Chile as a whole (20.6 lines per 100 inhabitants at June 30, 2004), reflecting the rural character of Telefonica del Sur's concession area.

As a result of its extensive addition of digital exchange technology in the last decade, Telefonica del Sur achieved full digitalization of its network, with all of its lines connected to digital exchanges. The digitalization of its network has allowed Telefonica del Sur to provide additional non-regulated services, including ISP, web hosting, call waiting, voice mail, call transfer, conference calling and call blocking.

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Digitalization also allows for more efficient utilization and maintenance of the network through automatic testing and traffic control. Other unregulated services include public telephony services, domestic and international long distance services. Non-regulated services accounted for 39.5% of Telefonica del Sur's revenues as of December 31, 2004.

Telefonica del Sur's internet service subsidiary has implemented a broadband network, which offers high speed access to the Internet, network connections and video conferencing services, among others. As of December 31, 2004, Telefonica del Sur had 7,412 Internet subscribers and 25,401 subscribers to high-speed wide band services with revenues of Ch\$6,113 million in 2004, equivalent to 12% of total consolidated revenues.

Telefonica del Sur's security related services subsidiary offers alarm and telemonitoring services and access control services, oriented to individual consumers and businesses. As of December 31, 2004, the subsidiary had 11,875 clients, equivalent to a 58% market share between Concepcion and Coyhaique with revenues of Ch\$1,838 million in 2004.

Subsidiary in Start-Up Phase. In October 2002, Telefonica del Sur formed a new subsidiary, Blue Two Chile S.A. in order to develop the first public network in Chile of wireless wide band for Internet utilizing Bluetooth and wireless LAN technology. This subsidiary is currently in the development stage. The start-up loss associated with Blue Two's activities in 2003 was Ch\$299 million in 2003 and Ch\$917 million in 2004. The loss was recorded as a charge to Telefonica del Sur's net worth in 2003 and 2004 and did not affect Telefonica del Sur's results from operations.

Long Distance Telephony. Through Telefonica del Sur Carrier S.A., a wholly-owned subsidiary of Telefonica del Sur, Telefonica del Sur provides domestic long distance and international long distance services. In 2004, this subsidiary reported net revenues of Ch\$4,461 million (approximately 8% of total consolidated revenues).

On March 10, 1994, an amendment to Chile's Telecommunications Law was enacted, establishing a multiple long distance carrier system in Chile, thereby

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permitting customers in Chile to select long distance carriers for provision of both international long distance and domestic long distance telephone services. The multi-carrier system (i) requires local telephone companies to install switches and equipment and to provide any licensed long distance carrier equal access to the local telephone system; (ii) requires local telephone companies that provide long distance services to do so only through subsidiaries constituted as open stock (publicly traded) corporations, in order to prevent cross-subsidies; and (iii) imposes temporary market limitations for the first few years of the system's operation to prevent any single carrier from establishing immediate dominance in the market.

Competition. Telefonica del Sur has faced and continues to face intense competition in every aspect of its business activities. In local telephony, Telefonica del Sur faces competition from Telefonica CTC, which entered Telefonica del Sur's concession area in Regions X and XI in 1996 and is the incumbent competitor in the VIII and IX Regions. Telefonica CTC, which operates approximately 80% of installed local service telephone lines in Chile, is expected to continue as a strong competitor. In long distance telephony, Telefonica del Sur competes with other national carriers, including Entel, Telefonica CTC Mundo and Telmex (formerly Chilesat), among others. In Internet services, Telefonica del Sur competes with Entel, Terra, a subsidiary of Telefonica of Spain, VTR Globalcom and Telefonica CTC. This intense competition has led to recent consolidation in the Chilean telecommunications industry. Telefonica del Sur expects that consolidation in the industry will continue as operators are likely to form alliances to offer bundled telecommunications services.

Mobile telephony has experienced dramatic growth rates in Chile in recent years, and its subscriber base now exceeds that of fixed line telephony. However, traffic in minutes is inferior to that of fixed line telephony mainly due to the high per minute cost associated with mobile telephony. Telefonica del Sur believes that in the past the growth of mobile telephony has been stimulated by artificially high access charges placed on fixed line telephony users when they make calls to mobile phones. Starting in

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2004, access charges paid to mobile telephony operators were reduced by approximately 28% in accordance with new tariff structures, which will be in place until 2009. The lower access charges could, in Telefonica del Sur's opinion, result in higher prices to consumers as mobile operators seek ways to compensate for lower revenues from access charges. Telefonica del Sur believes that lower access charges will allow fixed line telephony operators to better compete against mobile telephony operators on a price basis and could revert the declining growth tendencies seen in fixed line telephony in recent years.

Regulatory Factors. Substantially all of Telefonica del Sur's telecommunications business is conducted pursuant to non-exclusive concessions granted by the Chilean government or its instrumentalities. Obtaining the requisite government concessions and licenses is not considered a significant barrier to entry under Chile's current telecommunications regulatory regime.

The telecommunications industry as a whole has traditionally been, and is likely to continue to be, subject to rapid and significant changes in technology. Although Telefonica del Sur does not generally view the requirement to obtain necessary concessions and licenses as presenting significant risks, and does not believe that the current regulatory environment poses significant restrictions on its prospects, there can be no assurance that it will be able to obtain or maintain all required concessions and licenses, or that amendments to the applicable laws or regulations will not occur that could adversely affect

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its business, results of operations, financial conditions or prospects.

### Telecommunications - Entel

As of December 31, 2004, Quinenco owns a 5.7% interest in Entel, a leading telecommunications provider in Chile. The interest in Entel, held through wholly-owned intermediate holding companies, VTR S.A. and Comatel S.A., is accounted for using the equity investment method. In 2004, the Company's equity participation in Entel's net income was Ch\$2,695 million.

During 1999, through privately negotiated transactions and purchases on the open market, Quinenco acquired a 14.3% interest in Entel. During the first half of 2000, additional purchases were carried out on the open market and the Company's interest in Entel reached 14.5%. In August 2000, the Company sold a 0.8% interest in Entel. During 2001, the Company sold an additional 8% interest in Entel and has since held a 5.7% interest. Quinenco does not consolidate Entel's results, which are accounted for as an equity-method investment. Entel is traded on the Chilean stock exchanges.

Founded in 1964, Entel is currently the second-largest provider of cellular telephony services in Chile with approximately 3.3 million clients. In addition, Entel's digital network allows it to offer integrated telecommunications services which include national and international long distance multi-carrier services, Internet services, voice, data and video communication services. Entel also operates public telephones and call centers throughout the country. Entel's subsidiary in the United States, Americatel, offers specialized long distance services oriented to Spanish speaking customers in that country.

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The following table contains selected financial information derived from Entel's 2003 and 2004 Annual Report relating to Entel and its subsidiaries at or for the years ended December 2002, 2003 and 2004:

#### Entel and subsidiaries

	2002	2003
	-----	-----
	(in millions of constant Ch\$, except where noted)	
Net Sales.....	Ch\$833,129	Ch\$747,483
Gross margin.....	341,532	326,019
Operating income.....	101,000	110,917
Non-operating results.....	(52,673)	(41,080)
Minority interests.....	(1,335)	(87)
Income taxes.....	(4,447)	(8,273)
Net income.....	----- Ch\$42,545	----- Ch\$61,477
	=====	=====
Total assets.....	Ch\$1,336,055	Ch\$1,262,735
Bank debt & bond obligations.....	458,331	376,835
Other liabilities.....	313,619	287,489
Shareholders' equity.....	564,105	598,411
Quinenco's effective economic interest.....	5.7%	5.7%

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The following table shows the composition of Entel's consolidated sales and certain statistical data pertaining to Entel's telecommunications operations at or for the year ended December 31, 2002, 2003 and 2004:

Entel and subsidiaries	2002	2003	2004
	-----	-----	-----
	(in millions of constant Ch\$)		
<b>Net Sales:</b>			
Telephony services (including long distance & Internet) ....	Ch\$187,515	Ch\$158,879	Ch\$138,579
Private business network services.....	65,104	61,568	57,104
Wireless telephony services.....	333,026	351,160	359,026
Local telephony services.....	27,682	27,751	27,682
International subsidiaries.....	219,802	148,125	108,125
	-----	-----	-----
Total net sales.....	Ch\$833,129	Ch\$747,483	Ch\$692,129
	=====	=====	=====
National multi-carrier traffic (millions of minutes).....	699	614	614
International multi-carrier traffic (millions of minutes)...	98	90	90
Americatel multi-carrier national & international traffic (millions of minutes) .....	937	614	614
Number of cellular telephone subscribers.....	2,292,536	2,684,214	3,264,214

### Manufacturing - Madeco

Madeco was a 51.2%-owned consolidated subsidiary of the Company as of December 31, 2004 and a 55.2%-owned and 53.4%-owned subsidiary as of December 31, 2003 and 2002. Madeco's net consolidated sales as a percentage of the Company's consolidated net sales was 84.7% in 2004, 66.5% in 2003 and 64.7% in 2002.

Madeco is a leading diversified manufacturer of finished and semi-finished non-ferrous products based on copper, copper alloys and aluminum. Additionally, Madeco is also a leading producer of flexible packaging products for large consumer industries. Madeco has a significant presence throughout Chile, Brazil, Argentina and Peru with production and sales activities in these countries.

Historically, the prices for copper and aluminum, the principal raw materials used by Madeco, have fluctuated greatly. Madeco's price policy is to sell based on the quantity of metal contained in a product, valued at the London Metals Exchange, or "LME", prices. Madeco generally has been able to increase its selling prices in response to increases in costs of copper and/or aluminum. There can be no assurance, however, that Madeco will be able to recover increases in the cost of copper and/or aluminum

in the future. Further, while Madeco has not experienced significant difficulty in obtaining raw materials in the past, there can be no assurance that the materials it uses will remain available in the future. For further information, see "Item 11. - Quantitative and Qualitative Disclosures About Market Risk - Commodity Price Risk".

Madeco's business and results of operations in all of its lines of

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businesses are also to a large extent dependent on the overall level of economic activity and growth in Chile, Brazil, Peru and Argentina, and specifically on the level of growth in the telecommunications, electricity, mining and general construction sectors, as well as levels of economic activity in its principal export markets. Because Madeco's businesses, in large part, depend on capital planning and capital expenditures, its sales and financial results are sensitive to economic cycles, particularly downturns in economic activity.

Madeco's businesses in Argentina were deeply affected by the economic deterioration in Argentina in 2001. At the beginning of the year 2002, as a consequence of Argentina's tumultuous economic environment and political instability, Madeco suspended its Argentine wire and cable and brass mills operations. Since then, it has engaged in limited production activities, however the plants in Argentina remain largely under-utilized. Madeco expects to increase its production activities in Argentina when levels of demand have the scale to operate efficiently and when it believes such levels are sustainable. Sales in Argentina of wire and cable and brass mills products represented 2.6% and 3.3% of Madeco's 2003 and 2004 consolidated sales, respectively.

Madeco's principal activity, which accounted for 51.2%, 46.5% and 51.3% of Madeco's consolidated sales in 2002, 2003 and 2004, respectively, is the wire and cable business. Since 1997, Madeco has participated in the wire and cable business in Brazil through its subsidiary, Ficap S.A., ("Ficap"). For the year 2004, sales in Brazil generated 46.7% of the total revenues of the wire and cable business segment and 24.0% of Madeco's total consolidated revenue. Demand for metallic and fiber optic cables by telecom customers, which until 2001 represented an important part of the unit's sales, only accounted for 3%, 1% and 5% of sales in 2002, 2003 and 2004, respectively, and is not expected to recover in the foreseeable future due to, among other things, a lack of investment by telecom operators and a growing use of wireless telephone communications. Madeco has compensated for the low level of sales to the telecom sector by increased sales to durable goods manufacturers, distributors and the energy transmission and distribution sector. It is also attempting to developing a market in Brazil for specialty cables used in the construction of ships and oil drilling platforms.

Changes in Capital Structure in 2004. On July 1, 2004, Madeco sold 138,956,755 shares (at Ch\$41 per share) on the Santiago Stock Exchange, resulting in proceeds to Madeco of Ch\$5,697 million (historic value). The shares represented the remaining unsubscribed and unpaid shares of the capital increase approved by Madeco's Board of Directors in 2002. As a result of the share placement, Madeco's total outstanding shares increased to 4,259,045,163 shares. Quinenco did not subscribe for additional shares and as a consequence, its interest in Madeco was reduced from 55.2% to 53.4%.

During the last quarter of 2004, Madeco's key executives exercised certain of their stock options in accordance with the company's stock incentive program. Madeco's total outstanding subscribed and paid shares increased from 4,259,045,163 shares to 4,441,192,887 shares. As a result, Quinenco's interest in Madeco decreased from 53.4% to 51.2%.

2002-2003 Capital Increase and Debt Restructuring. As a result of the material adverse effect on Madeco of the deep economic recession in Argentina and other adverse economic developments in the markets in which it operates, Madeco developed and implemented in 2002 and 2003 a refinancing plan to fortify its capital structure and improve its debt repayment capacity.

On December 18, 2002, Madeco reached agreements with fourteen of its bank lenders to amend certain of its credit facilities. The terms of the agreements provided for a US\$120 million debt (historic value) restructuring over seven years, conditioned upon a repayment of 30% of the loan balances at the time of signing amended and modified loan agreements. The agreements were also

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conditioned upon a minimum capital increase of Ch\$49,400 million (historic value) on or before March 31, 2003.

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On February 18, 2003, Madeco initiated a Ch\$101,380 million (historic value) capital increase. On March 4, 2003, Quinenco directly and indirectly subscribed and paid for 2,058,353,792 shares for Ch\$49,400 million (historic value). The voluntary offering period concluded on March 22, 2003. Subscribed and paid capital amounted to Ch\$51,314 million (historic value), divided in 2,138,097,727 shares. Following the close of the pre-emptive rights offering period, Madeco initiated an exchange offer of its bonds for shares of its stock that concluded on March 31, 2003. Series A and Series C bondholders exchanged bonds for an amount equivalent to Ch\$3,717 million (historic value), equivalent to 154,876,051 shares valued at Ch\$24 per share.

As a result of the capital increase, Madeco issued a total of 2,292,973,778 shares. Total subscribed and paid capital as of April 1, 2003 amounted to 2,698,484,806 shares. As a result of the capital increase, Quinenco's interest in Madeco increased from 53.4% to 84.3%.

With the proceeds of the capital increase, Madeco paid 14 of its bank lenders Ch\$28,847 million (historic value), equivalent to 30% of the outstanding debt with those lenders. The remaining 70% of outstanding debt, which amounted to Ch\$63,403 million (historic value), was refinanced over seven years with a three year grace period.

An additional 264,800,000 shares were sold in a public auction on the Santiago Stock Exchange on June 6, 2003 for Ch\$7,679 million (historic value). As a result of the sale, Madeco's total outstanding shares increased to 2,963,284,806 shares. Quinenco did not subscribe for any of these additional shares. As a consequence, its interest in Madeco decreased from 84.3% to 76.8% as of the same date.

On August 20, 2003, in a public auction on the Santiago Stock Exchange, an additional 1,156,803,602 shares were sold for Ch\$32,403 million (historic value), increasing total outstanding shares to 4,120,088,408. Quinenco did not subscribe to additional shares, and as a consequence, its interest in Madeco decreased to 55.2%. Total funds raised in the 2003 capital increase amounted to Ch\$95,114 million (historic value). Proceeds were used to reduce liabilities and provide additional working capital for the company.

Optical Fiber Joint Venture with Corning Inc. In June 2002, Madeco announced that it had been notified by Corning Inc., Madeco's joint venture partner in Optel, an optical fiber cable producer in Brazil and Argentina, of Corning Inc.'s desire to liquidate the joint venture. Madeco believed that Corning was attempting to unjustifiably terminate its agreements with Madeco and filed an arbitration suit against its partner to resolve the dispute.

In November 2003, Madeco was notified that the arbitrators had resolved the dispute in favor of Corning. The arbitral decision provided for the termination of the investment agreement governing the joint venture, and as a result, Madeco did not consolidate Optel in its December 31, 2003 financial statements. In addition, Madeco recognized an impairment of Ch\$4,917 million (historic value) in the fourth quarter of 2003 in order to reflect the decline in the value of its 50% equity share in Optel and costs associated with the ruling.

On April 4, 2005, Madeco announced that it had reached an agreement with Corning International Corporation regarding their Brazilian joint venture

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subsidiary, Optel. Corning agreed to sell Madeco its 50% share in Optel for the nominal amount of R\$1 (one Brazilian Real). See "Item 8. Financial Information - Legal Proceedings - Madeco". On the same date, Madeco announced that two of Optel's creditors in Brazil had agreed to accept US\$2 million as full consideration for Optel's approximately US\$7.3 million indebtedness with those creditors.

Strategy. Madeco's current business plan is based on improvements in the marketing, production, and administrative areas of the company, with particular emphasis on the wire and cable business unit and its largest operation, Ficap in Brazil. Madeco's management is focused on the following areas:

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- increasing revenues through a reorganization of commercial activities in order to recover market share, development of export markets and coordination of commercial activities among subsidiaries;
- development of a specialty cable niche market in Brazil;
- improvement in operating efficiencies in Madeco's production facilities by means of: efficient use of assets in each country, reductions in personnel and in overtime hours and reductions in manufacturing costs and scrap rates;
- optimization of the level of selling, general and administrative expenses through austerity measures and synergies; and
- Maximization of existing capacity utilization of existing assets, minimization of capital expenditures and disposal of assets.

In 2004, Madeco's consolidated net sales were Ch\$324,035 million, of which 51.3% corresponded to sales of wire and cable products, 25.9% to brass mills products, 8.9% to aluminum profile products, and 13.9% to flexible packaging products. Export sales amounted to Ch\$76,646 million, accounting for 23.7% of consolidated sales in 2004. Export sales volume amounted to 35,097 equivalent tons, which represented 28.5% of the total 123,199 equivalent tons sold in 2004.

The following table shows selected financial information of Madeco and its subsidiaries at or for the years ended December 31, 2002, 2003 and 2004:

### Madeco and subsidiaries

	2002	2003	2004
	-----	-----	-----
	(in millions of constant Ch\$, except percentages)		
<b>Net sales:</b>			
Wire and Cable.....	Ch\$135,712	Ch\$113,289	Ch\$166,289
Brass Mills.....	58,555	57,581	84,000
Aluminum Profiles.....	29,087	29,957	28,600
Flexible Packaging .....	41,963	42,780	45,100
	-----	-----	-----
Total net sales.....	Ch\$265,317	Ch\$243,607	Ch\$324,035
	=====	=====	=====
<b>Operating income (loss):</b>			
Wire and Cable .....	Ch\$ (3,033)	Ch\$ (1,046)	Ch\$10,400

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Brass Mills.....	1,101	1,484	8,1
Aluminum Profiles.....	3,747	3,867	3,3
Flexible Packaging.....	2,330	3,338	3,1
	-----	-----	-----
Total operating income (loss) ...	Ch\$4,145	Ch\$7,643	Ch\$25,1
	=====	=====	=====
Non-operating results.....	(49,247)	(22,571)	(14,3
Income taxes	1,452	(1,632)	(1,5
Minority interest.....	2,068	(593)	(8
	-----	-----	-----
Net income (loss) .....	Ch\$ (41,582)	Ch\$ (17,153)	Ch\$8,5
	=====	=====	=====
Total assets	Ch\$391,482	Ch\$362,518	Ch\$342,9
Bank debt & bond obligations.....	223,342	150,188	119,2
Other liabilities.....	65,410	61,072	65,1
Shareholders' equity.....	102,730	151,258	158,5
Quinenco's effective economic interest .....	53.4%	55.2%	51

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The following table shows selected information regarding Madeco's plant facilities, installed capacity, and average utilization in 2004:

	Principal Use/Products	Plant size (in square meters)	Installed Production Capacity (in tons per year)	Avg. C Utili in 2
	-----	-----	-----	-----
Production facility				
-----				
Wire and Cable (2):				
San Miguel, Chile.....	Copper cable	27,650	15,100	
Rio de Janeiro, Brazil.....	Copper cable	58,000	20,760	
Sao Paulo, Brazil.....	Copper cable	28,300	29,100	
Lima, Peru.....	Copper/aluminum cable	49,150	13,560	
Lima, Peru .....	Copper sulphates	770	6,600	
Llavallol, Argentina (3) .....	Copper/aluminum cable	18,162	2,400	
Quilmes, Argentina (3) .....	Copper/aluminum cable	39,850	4,800	
Brass Mills:				
San Miguel, Chile.....	Pipes, bars & sheets	32,400	36,900	
Lo Espejo, Chile.....	Foundry	21,500	78,200	
Quilpue, Chile.....	Coin blanks & sheets	12,100	9,000	
Llavallol, Argentina (4).....	Copper sheets	30,112	10,120	
Llavallol, Argentina (4) (5)...	Foundry	1,775	22,000	
Barracas, Argentina (4).....	Copper pipes	15,800	7,200	
San Luis, Argentina .....	Foundry, brass products	3,450	3,700	
Flexible Packaging:				
Santiago, Chile.....	Flexible packaging	16,600	15,200	
San Luis, Argentina.....	Flexible packaging	7,500	5,900	
Aluminum Profiles:				
Santiago, Chile.....	Aluminum profiles	33,200	16,800	

(1) Average Capacity Utilization: total real production output as a percentage of installed annual production capacity.

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- (2) Production and installed optical fiber production capacity of 1,000,000 kms and 300,000 kms in Brazil and Argentina, respectively, is not included in the above table.
- (3) The Llavallol and Quilmes plants reinitiated wire and cable production on a limited, non-continuous basis in November 2004.
- (4) The brass mills facility, in Barracas Argentina was partially reopened in September 2003 and the Llavallol foundry activities in November 2003.
- (5) There is a significant increase in stalled production capacity in 2004 compared to 2003, due to the reopening of the plant at the end of 2003.

The following table shows Madeco's sales volumes, in metric tons, by business segment, in 2002, 2003 and 2004:

Sales Volume (in metric tons):	2002	2003	2004
	-----	-----	-----
Wire & Cable (1).....	60,415	53,923	62,866
Brass Mills.....	29,353	30,360	33,319
Flexible Packaging .....	13,912	14,821	16,361
Aluminum Profiles.....	9,978	10,211	10,653
	-----	-----	-----
Total .....	113,658	109,315	123,199
	=====	=====	=====
 Optical Fiber cables (in kms) (2) ..	 65,452	 --	 --
	=====	=====	=====
 Total equivalent tons.....	 115,146	 109,315	 123,199
	=====	=====	=====

- (1) Volume sales of the wire and cable unit in 2002, 2003 and 2004 include metal only. Figures presented above differ from those presented in Madeco's Annual Report on Form 20-F in 2002 due to a change in measurement standards. While volume sales calculations previously included metal and insulating material, Madeco is now including only metal used in the production of its wire and cable products.
- (2) Total sales volume represented in tons include the conversion of optical fiber volume sales using the conversion rate of 1 ton=44 kilometers. Madeco did not consolidate Optel in 2003 and 2004.

### Wire and Cable Business Unit

Madeco's principal activity is its wire and cable business, which accounted for 51.3% of consolidated sales in 2004. Madeco's wire and cable business expanded from Chile to Argentina in 1990, to Peru in 1994, and to Brazil in 1997. The Brazilian wire and cable operation, which in 2004 included the production and sale of copper and aluminum wire and cables, is Madeco's largest operation in this business segment with sales in 2004 of Ch\$77,614 million, representing 46.7% of the total wire and cable segment sales of Ch\$166,271 million in 2004. Madeco, through an investment in Optel, also has production facilities in Brazil and Argentina for the production of optical fiber cables.

Madeco produces a wide variety of wire and cable products for the

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telecommunications, energy, mining, industry and construction sectors, the most generalized characteristics being: singular strand (wire) versus multiple, twisted strands (cable), bare or insulated and non-magnetic or magnetic strands. In addition to production facilities for the manufacturing of copper and/or aluminum wire and cable products in Chile, Brazil, Peru and Argentina, Madeco supplies the telecommunications, energy transmission and distribution, mining, general industry and construction sectors.

Sales of the wire and cable business unit increased by 46.8% in 2004, mainly as a result of 25.9% higher average prices and a 16.6% increase in sales volumes. Average prices benefited from the rise in copper prices during the year, although the revaluation of the Chilean peso vis-a-vis the U.S. dollar partially offset sales of foreign subsidiaries. In general terms, sales were stimulated by the favorable economic conditions which prevailed in Madeco's main markets, particularly Brazil, Chile and Peru. Export sales accounted for 14.0% of the wire and cable unit's revenue in 2004.

Madeco and subsidiaries	Wire and Cable Unit		
	2002	2003	2004
	-----	-----	-----
Revenues (in millions of constant Ch\$) (1):			
Chile.....	Ch\$21,122	Ch\$19,548	Ch\$31,222
Brazil.....	73,230	56,039	77,614
Argentina (4).....	2,177	2,201	4,646
Peru.....	18,817	20,929	29,454
Exports (2).....	20,366	14,572	23,335
	-----	-----	-----
Total.....	Ch\$135,712	Ch\$113,289	Ch\$166,271
	=====	=====	=====
Sales Volume of Copper & Aluminum Cable (in metric tons) (3)			
Chile.....	7,269	6,253	8,993
Brazil.....	32,722	28,135	31,394
Argentina.....	1,325	1,138	2,011
Peru.....	6,123	7,799	8,663
Exports (2).....	12,976	10,598	11,805
	-----	-----	-----
Total.....	60,415	53,923	62,866
	=====	=====	=====
Sales Volume of Optical Fiber Cable (in kms) (1)			
Chile.....	3,174	--	--
Brazil.....	2,128	--	--
Argentina.....	3,525	--	--
Peru.....	72	--	--
Exports (2).....	56,553	--	--
	-----	-----	-----
Total.....	65,452	--	--
	=====	=====	=====

(1) Optical fiber cable sales are not included in 2003 and 2004 as Madeco did not consolidate Optel in its financial results.

(2) Exports for the wire and cable unit are considered to be all sales to customers in any country other than Chile, Brazil, Argentina and Peru.

- (3) Volume sales of the wire and cable unit in 2002, 2003 and 2004 include metal only. Figures presented above differ from those presented in Madeco's Annual Report on Form 20-F in 2002 due to a change in measurement standards. Prior to 2003, calculations of sales included metal and insulating materials.
- (4) Madeco's revenues in Argentina in 2002 and 2003 are the result of the marketing and selling of imported products from Brazil. In 2004, Madeco's revenues in Argentina are the result of the marketing and selling of both imported products from Ficap in Brazil and manufactured products from its Argentine subsidiary, Decker-Indelqui.

#### Wire and Cable - Chile

Madeco produces copper wires and cables in Chile. The Chilean operations accounted for 18.8% of the total wire and cable segment sales and 9.6% of total consolidated sales in 2004.

Customers. Madeco has approximately 385 clients in Chile. In 2004, products were sold to durable goods manufacturers (50%), distributors (16%), energy transmission and distribution companies (14%), mining businesses (11%), telecom operators (8%) and others (1%). There was no significant concentration of sales made to any one client in 2004.

Competition. The total market size of the wire and cable industry, (metal estimates only; does not include insulating materials) in Chile is estimated to be 25,801 metric tons as of December 31, 2004. Madeco estimates that its market share in Chile was 37% in 2004. Madeco has two main competitors in the Chilean wire and cable industry, Cocesa, a subsidiary of Phelps Dodge Corporation with an estimated market share of 27%, and Covisa, a local producer with an estimated market share of 16%. In addition, there are other domestic and international competitors in the Chilean market with market shares of 8% and 12%, respectively.

Manufacturing facilities. Production is carried out in Madeco's plant facilities located in Santiago. Manufacturing activities are dedicated to the production of copper wire and cable products.

Raw materials. Madeco purchases copper supplies for its wire and cable operations in Chile from two large Chilean mining companies, Codelco and Enami. Madeco purchases PVC from Petroquimica Colombiana and polyethylene from Borealis Compounds, LLC of the United States. Madeco has many suppliers for both plastic and rubber materials, and believes it is not dependent on any one supplier.

#### Wire and Cable - Argentina

Madeco's Argentine wire and cable operation are operated through its wholly-owned subsidiary Decker-Indelqui. Until early 2002, Madeco manufactured a wide variety of copper, aluminum and optical fiber wire and cable products in Argentina. At the beginning of the year 2002, as a consequence of Argentina's economic environment and political instability, the company suspended its Argentine wire and cable production operations. In late 2004, it reinitiated limited wire and cable production in Argentina on a sporadic basis. When levels of demand have the scale to operate efficiently and Madeco believes such levels are sustainable, it will increase its production. The Argentine operations accounted for 2.8% of wire and cable segment sales in 2004 and 1.4% of Madeco's consolidated sales.

Customers. In 2004, Madeco's copper and aluminum wire and cable operation

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had approximately 234 clients in Argentina. Products were sold to distributors (50%), energy transmission and distribution companies (36%), durable goods manufacturers (9%) and exports and others (5%). There was no significant concentration of sales made to any one client in 2004.

Competition. The total market size of the wire and cable industry in Argentina (metal estimates only; does not include insulating materials) is estimated to be 37,409 metric tons as of December 31, 2004. Madeco estimates that its market share in Argentina was 5% in 2004. Madeco's main competitors in the Argentine wire and cable industry are Pirelli (26%), Imsa (19%) and Cimet (12%). In addition, there are other domestic and international competitors in Argentina which have estimated market shares of 35% and 3%, respectively.

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Manufacturing facilities. Production facilities for copper and aluminum cables are located in Quilmes and Llavallol, on the outskirts of Buenos Aires. Due to the economic crisis in Argentina, production for cable and aluminum wire and cables was halted in 2002. Limited production was reinitiated in 2004 on a sporadic basis. Optel has production capacity of 300,000 kms. in Argentina, although its plant has only operated on a limited basis since 2002. Commercial activities are also conducted through imports from Madeco's Chilean and Brazilian operations.

Raw materials. In the past, Madeco's copper has been supplied for the Argentine operations from two large Chilean mining companies, Codelco and Enami. Aluminum is purchased from Aluar. Madeco purchases polyethylene from Borealis Compounds LLC of the United States. Madeco had many suppliers for both plastic and rubber materials.

### Wire and Cable - Brazil

In Brazil, Madeco has operated in the copper and aluminum wire and cable segment through its wholly-owned subsidiary, Ficap, since 1997. The Brazilian operations accounted for 46.7% of wire and cable segment sales in 2004 and 24.0% of Madeco's consolidated sales.

Customers. Madeco's copper and aluminum wire and cable operation had approximately 2,758 clients in Brazil in 2004. Products are sold to durable goods manufacturers (40%), distributors (24%), energy transmission and distribution companies (13%), telecom operators (5%) and others (18%). The largest customer, a Brazilian manufacturer, accounted for 8.9% of total wire and cable segment sales in 2004.

Competition. The total market size of the wire and cable industry in Brazil (metal estimates only; does not include insulating materials) is estimated to be 192,000 metric tons as of December 31, 2004. Madeco estimates that its market share in Brazil was 16% in 2004. Madeco's main competitors in the Brazilian wire and cable industry are Pirelli (18%) and Phelps Dodge (11%). In addition, there are many other domestic and international competitors in Brazil, which have estimated market shares of 54% and 1%, respectively.

Manufacturing facilities. Madeco has three plant facilities in Brazil, a copper cable and an optical fiber cable plant in Rio de Janeiro, a copper cable plant in Sao Paulo and an aluminum plant in Bahia. For efficiency reasons, production of aluminum cables is currently only being carried out at the Sao Paulo and Rio de Janeiro plants. Optel has production capacity of 1,000,000 kms. in Brazil, although its plant did not engage in production activities in 2004.

Raw materials. Most of the Brazilian operations' copper requirements are

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purchased from Caraiba Metais, the main local supplier, and the remainder is supplied by Madeco's Chilean and Peruvian operations. Aluminum is purchased from Companhia Brasileira de Alumínio, a large local supplier in Brazil. PVC is acquired from Karina Ind. Com. Plasticos and Dacarto Benvic S/A. Polyethylene is purchased from Borealis Compounds LLC of the United States. Madeco has many suppliers for both plastic and rubber materials, and believes it is not dependent on any one supplier.

### Wire and Cable - Peru

In Peru, Madeco produces a variety of copper and aluminum wire and cable products, excluding plastic insulated aluminum products. The Peruvian operations of the wire and cable segment accounted for 17.7% of wire and cable segment sales and 9.1% of consolidated sales in 2004. In Peru, Madeco operates in the copper and aluminum wire and cable segment through its subsidiary, Indeco.

Customers. Madeco's copper and aluminum wire and cable operation had approximately 1,124 clients in Peru in 2004. Products are sold to distributors (21%), energy transmission and distribution companies (9%), telecom operators (10%), retailers (5%), durable goods manufacturers (6%), mining

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(4%) and exports and others (45%). There was no significant concentration of sales made to any one client in Peru in 2004.

Competition. The total market size of the wire and cable industry in Peru (metal estimates only; does not include insulating materials) is estimated to be 13,386 metric tons as of December 31, 2004. Madeco estimates that its market share in Peru was 65% in 2004. Madeco's main competitors in the Peruvian wire and cable industry are Ceper (7%) and Celsa (9%). In addition, there are other domestic and international competitors with estimated market shares of 7% and 12%, respectively.

Manufacturing facilities. Manufacturing activities of copper and aluminum wire and cable products are carried out in Indeco's plant, located in Lima.

Raw materials. The main raw material, copper, is purchased from three main suppliers, Southern Peru Copper Corporation, BHP Billiton Tintaya S.A. and Sociedad Minera Cerro Verde. Aluminum is purchased from Aluar and Siderugica del Norte. PVC is purchased from Petroquímica Colombiana S.A. Polyethylene is purchased from Borealis Compounds LLC of the United States. Madeco has many suppliers for both plastic and rubber materials, and believes it is not dependent on any one supplier.

### Brass Mills Business Unit

Sales of the brass mills segment amounted to Ch\$84,026 million, accounting for 25.9% of Madeco's consolidated sales in 2004. Madeco has been operating in the brass mills business in Chile since 1944. Business expanded from Chile to Argentina in 1994 and brass mill operations in Argentina have been conducted through Madeco's subsidiary, Decker-Indelqui. As a consequence of Argentina's unstable economic and political environment, Madeco halted its brass mills production in Argentina in early 2002. As a result of a gradual recovery of the Argentine market, in 2003, Madeco partially reopened certain of its brass mills production operations at the Barracas plant and smelting production at the Llavallol facility and is also currently supplying the Argentine market through imports from subsidiaries in Chile and Brazil. Madeco currently intends to expand its brass mills operations in Argentina when levels of demand have the scale to operate efficiently and when Madeco believes such levels are

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sustainable.

Madeco's brass mills business unit is composed of: (1) pipes, bars and sheets and (2) coin blanks and minted coins. Pipes, bars and sheets are manufactured in Chile and in Argentina from copper, copper alloys, brass and aluminum and are used by other industrial firms and in the construction sector. Madeco, through its Chilean subsidiary, Armat, also produces coin blanks and minted coins in Chile. Madeco's brass mills products are sold in 27 countries with exports accounting for 55.9% of total sales revenue and 62.9% of total sales volume of the brass mills business unit in 2004.

Sales of the brass mills business unit increased by 45.9% in 2004, mainly attributable to a 51.1% increase in the sales of the pipes, bars and sheets unit as a result of 33.0% higher average prices and a 12.8% increase in volume sold in Chile and Argentina. Prices benefited from the rise in copper prices which were transferred to customers. Additionally, coin blank sales increased, further contributing to the growth in this business. Higher average prices of coin blanks more than offset the decline in sales volume experienced during the year as a result of excess supply on a worldwide basis following the debut of the euro in 2002. The increase in revenues in 2004 was partially offset by the effect of the appreciation of the Chilean peso against the U.S. dollar on revenues from foreign subsidiaries and exports.

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Madeco and subsidiaries	Brass Mills Unit		
	2002	2003	2004
	-----	-----	-----
Revenues (in millions of constant Ch\$):			
Pipes, Bars and Sheets			
Chile.....	Ch\$18,799	Ch\$19,918	Ch\$30,373
Argentina.....	2,750	4,195	5,930
Exports (1).....	26,612	26,498	40,153
	-----	-----	-----
Total Pipes, Bars and Sheets.....	Ch\$48,161	Ch\$50,611	Ch\$76,456
Coins			
Chile.....	Ch\$1,285	Ch\$645	Ch\$729
Exports (2).....	9,109	6,325	6,841
	-----	-----	-----
Total Coins.....	Ch\$10,394	Ch\$6,970	Ch\$7,570
	-----	-----	-----
Total Brass Mills Unit	Ch\$58,555	Ch\$57,581	Ch\$84,026
	=====	=====	=====
Sales Volume of Pipes, Bars and Sheets (in metric tons)			
Chile.....	8,494	9,134	9,622
Argentina.....	1,113	2,318	2,631
Exports (1).....	16,164	15,923	18,618
	-----	-----	-----
Total.....	25,771	27,375	30,871
	=====	=====	=====
Sales Volume of Coins (in metric tons)			
Chile.....	92	71	97
Exports (2).....	3,490	2,914	2,351
	-----	-----	-----

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Total.....	3,582	2,985	2,448
	=====	=====	=====

- 
- (1) Exports for the pipes, bars and sheets sub-unit are considered to be all sales to customers in any country other than Chile and Argentina.
  
  - (2) Exports for the coins sub-unit are considered to be all sales to customers in any country other than Chile.

### Brass Mills - Pipes, Bars and Sheets

Sales of the pipes, bars and sheets sub-unit, which includes the manufacturing of pipes, bars, bus bars and sheets in copper, copper alloy, brass, aluminum and aluminum alloy amounted to Ch\$76,456 million in 2004, accounting for 91.0% of the total brass mills business unit's sales and 23.6% of consolidated sales in 2004. Sales in Chile accounted for 39.7% of pipes, bars and sheets revenue in 2004, sales in Argentina accounted for 7.8%, and exports accounted for 52.5%.

Customers. In 2004, Madeco had 370 customers in Chile, 535 in Argentina and 149 customers in its export markets. The largest customer, a brass mills products distributor in Austria, accounted for 29.2% of the total pipes, bars and sheets sales in 2004. In Chile, pipes, bars and sheets are sold to retailers and distributors (68%), durable goods manufacturers (12%), mining (8%), electric appliance manufacturers (4%), aluminum manufacturers (2%), and others (6%). In Argentina, pipes, bars and sheets are sold to retailers and distributors (48%), durable goods manufacturers (23%), construction companies (17%) and exporters and others (12%).

Competition. Madeco estimates that the total market size for pipes, bars and sheets was approximately 17,407 metric tons in Chile and 17,773 metric tons in Argentina, as of December 31, 2004. Madeco estimates that it has a 61% market share in Chile and a 14% market share in Argentina. There are three main competitors in the Chilean pipes, bars and sheets market, including Cembrass (4%), Conmetal (9%) and Offermanns (2%). In addition, there are international competitors in the Chilean pipes, bars and sheets market, which have estimated market shares of 24%. There are four main competitors in the Argentine pipes, bars and sheets market, including Pajarbol-Cembrass (15%), Sotyl (13%), Vaspia (7%) and Quimetal (7%). In addition, there are other domestic and international competitors in the Argentine pipes, bars and sheets market, which have estimated market shares of 33% and 11%, respectively.

Manufacturing facilities. Manufacturing activities of pipes, bars and sheets are carried out in Chile at Madeco's plant located in San Miguel, near Santiago. In addition, Madeco has a smelting facility

in Lo Espejo, near Santiago. Manufacturing in Argentina, which was halted in early 2002, was carried out in three brass mills facilities in Argentina, in San Luis, Llavallol and Barracas. The manufacturing plant at Barracas was partially reopened in September 2003 and the smelting facility at Llavallol in November 2003.

Raw materials. The primary raw materials used in the production of pipes, bars and sheets are copper, aluminum, zinc, nickel and tin. Copper supplies are purchased for both Argentina and Chile from two large Chilean mining companies, Codelco and Enami. In 2004, Madeco obtained most of its aluminum requirements from Aluar in Argentina. Zinc is purchased from two Peruvian suppliers, Doe Run

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Peru and Cajamarquilla.

### Brass Mills - Coin Blanks and Minted Coins

Sales of the coins sub-unit, which includes the manufacture of coin blanks and minted coins, amounted to Ch\$7,570 million in 2004, accounting for 9.0% of the total brass mills business unit's sales and 2.3% of consolidated sales in 2004. Sales in Chile accounted for 9.6% of coins revenue in 2004 and exports accounted for 90.4% of coins revenue. In spite of a reduction of 18% in the volume sold associated with a world glut following the launching of the euro in 2002, sales of coins and coin blanks increased by 8.6% in 2004, mainly attributable to higher average prices. The rise in coin blank prices was due to the increase in metal prices during the year.

Coin blanks and minted coins are produced by Madeco's wholly-owned Chilean subsidiary, Armat. Production involves the use of four copper-based alloys. The exact alloy mix is determined according to customer specifications.

Customers. The company's largest customers in 2004 were the Treasury Department of Thailand, which accounted for 34% of total coin sales, the National Bank of Denmark, which accounted for 20% and the Argentine Mint, which accounted for 15%.

Raw materials. Madeco purchases its copper supplies from Codelco and Enami, and most of its aluminum requirements from Aluminios Argentinos (Aluar) in Argentina. Zinc is principally purchased from two Peruvian suppliers, Roe Run Peru and Cajamarquilla.

### Flexible Packaging Business Unit

Sales of the flexible packaging business unit amounted to Ch\$45,117 million in 2004, accounting for 13.9% of Madeco's 2004 consolidated sales. Madeco is a manufacturer of printed flexible packaging for use in the packaging of consumer products. It also produces aluminum foil and plastic wrap for both commercial and home use. Madeco participates in the flexible packaging industry in Chile through its subsidiaries, Alusa and Alufoil. In Argentina, Madeco has operated since 1993 through its subsidiary, Aluflex. Additionally, Madeco owns a 19% stake in two manufacturers in Peru, Peruplast and Tech Pack, respectively, which together comprise the largest flexible packaging operation in that country. Export sales of the flexible packaging business unit amounted to Ch\$6,317 million, accounting for 14.0% of total unit sales.

In 2004, sales of the flexible packaging segment increased by 5.5% compared to 2003, mainly due to an increase of 5.1% , 13.2% and 34.3% in the volume sold in Chile, Argentina and to export markets, respectively. The increase in revenues was partially offset by the effect of the appreciation of the Chilean peso vis-a-vis the U.S. dollar and lower average selling prices in U.S. dollars.

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Madeco and subsidiaries	Flexible Packaging Unit		Unit
	2002	2003	---
Revenues (in millions of constant Ch\$):			
Chile .....	Ch\$27,272	Ch\$28,191	Ch\$
Argentina .....	10,161	9,401	

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Exports (1) .....	4,530	5,188	
	-----	-----	---
Total .....	Ch\$41,963	Ch\$42,780	Ch\$
	=====	=====	===
Sales Volume (in metric tons)			
Chile .....	9,319	9,674	
Argentina .....	3,222	3,417	
Exports (1) .....	1,371	1,730	
	-----	-----	---
Total .....	13,912	14,821	Ch\$
	=====	=====	===

- (1) Exports for the flexible packaging unit are considered to be all sales to customers in any country other than Chile and Argentina.

### Flexible Packaging - Chile

Sales of the Chilean flexible packaging operations amounted to Ch\$28,786 million, accounting for 63.8% of total flexible packaging segment sales and 8.9% of Madeco's consolidated sales in 2004.

Customers. The Chilean flexible packaging operations have 95 customers, including national and international consumer product manufacturers. Exports from Chile and Argentina are made to approximately 45 customers.

Competition. Madeco estimates that the total market in Chile for flexible packaging products was 39,931 metric tons in 2004. Madeco estimates that it has a market share in Chile of approximately 26%. The main competitor in the Chilean flexible packaging market is Edelpa, which had an estimated market share of 31% in 2004. In addition, other competitors in the Chilean market have an estimated 43% market share.

Manufacturing facilities. Manufacturing in Chile is carried out in two plant facilities located near Santiago.

Raw materials. Madeco's plastics suppliers include Vitopel, Terphane, Dow Chemical and Sigdopack. Madeco currently purchases approximately 39% of its plastic raw material requirements from these suppliers. Madeco obtains most of its aluminum requirements from Aluar and Hydro Aluminum Deutschland GMBH. Ink is purchased from Sun Chemical and Flint Ink. Paper is purchased from suppliers in Chile, Brazil, Italy, Finland and Sweden. Madeco purchases its various adhesives from Henkel and Rhom & Hass.

### Flexible Packaging - Argentina

Sales of the Argentine flexible packaging operations amounted to Ch\$10,014 million, accounting for 22.2% of total flexible packaging segment sales in 2004.

Customers. The Argentine flexible packaging operations have approximately 30 customers. Exports from Chile and Argentina are made to approximately 45 customers.

Competition. Madeco estimates that the total market in Argentina for flexible packaging products was approximately 56,813 metric tons in 2004. Madeco believes that the Argentine market for flexible packaging products is highly fragmented. Based on its own internal analysis, Madeco estimates that its market share is probably around 8% and that its four main competitors in Argentina have a combined 40% market share as of December 31, 2004.

Manufacturing facilities. Manufacturing activities are carried out in

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Argentina at a plant facility located in San Luis.

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Raw materials. Madeco's plastics suppliers include Vitopel, Terphane, Dow Chemical and Sigdopack. Madeco currently purchases approximately 39% of its plastic raw material requirements from these suppliers. Madeco obtains most of its aluminum requirements from Aluar and Hydro Aluminum Deutschland GMBH. Ink is purchased from Sun Chemical and Flint Ink. Paper is purchased from suppliers in Chile, Brazil, Italy, Finland and Sweden. Madeco purchases its various adhesives from Henkel and Rhom & Hass.

### Aluminum Profiles Business Unit

Sales of the aluminum profiles segment amounted to Ch\$28,621 million in 2004, accounting for 8.9% of Madeco's 2004 consolidated sales. Madeco is the sole Chilean manufacturer of aluminum profiles, the foundation of window frames and doorframes. In addition, it produces profiles which are used in the manufacture of industrial durable goods such as refrigerators and ovens. Between 1991 and early 2002, Madeco also operated in the curtain wall installation business, which involved the engineering and installation of curtain walls in large commercial real estate projects. In early 2002, as part of a strategic decision, Madeco exited from this business.

Madeco operates in the aluminum profiles segment through its subsidiary, Indalum. Through Indalum, Madeco also owns Alumco, the largest Chilean aluminum profiles distributor. Madeco also distributes aluminum profiles in Bolivia through its proprietary company, Distribuidora Boliviana.

Sales of the aluminum profiles segment decreased by 4.5% in 2004. In general terms, imported products put downward pressure on prices, which led to the decline in sales, in spite of a 4.3% increase in volumes sold during the year.

Madeco and subsidiaries	Aluminum Profiles		
	2002	2003	2004
	-----	-----	-----
Revenues (in millions of constant Ch\$):			
Aluminum profiles .....	Ch\$27,652	Ch\$28,811	Ch\$28,621
Exports .....	1,435	1,146	-
	-----	-----	-----
Total .....	Ch\$29,087	Ch\$29,957	Ch\$28,621
	=====	=====	=====
Sales Volume (in metric tons)			
Aluminum profiles .....	9,978	10,211	10,650
Exports .....	74	--	-
	-----	-----	-----
Total .....	9,978	10,211	10,650
	=====	=====	=====

Customers. In 2004, the aluminum profiles operation had approximately 50 active customers, of which 12 were distributors for Madeco. In 2004, Madeco's main customers in the aluminum profiles segment were retailers (19%), independent distributors (54%), construction companies and durable goods

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manufacturers (24%), distribution offices in Bolivia (2%) and exporters and others (1%).

**Competition.** The size of the aluminum profiles market in Chile was estimated to be 14,441 metric tons per year as of December 31, 2004. Madeco estimates that it had a 71% market share in the aluminum profiles segment in Chile, and that its main competitor, Alcoa, had a 15% market share in 2004. International aluminum profiles manufacturers also compete in Chile through imported products with an estimated market share of 14%.

**Manufacturing facilities.** Manufacturing activities are carried out in Chile at a plant facility located in San Bernardo, on the outskirts of Santiago.

**Raw Materials.** Aluminum, which represents approximately 70% of the cost of raw materials used in the production of aluminum profiles, is purchased from Aluar.

**Government Regulations.** Madeco is subject to the full range of government regulations and supervision generally applicable to companies engaged in business in Chile, including labor laws, social

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security laws, public health laws, consumer protection laws, environmental laws, securities laws and anti-trust laws. These include regulations to ensure sanitary and safe conditions in manufacturing plants.

Madeco's operations are subject to both national and local regulations relating to the protection of the environment. The fundamental environmental law in Chile is the Health Code, which establishes minimum health standards and provides for regulation of air and water quality and sanitary landfills. Since 1982, the Ministerio de Salud ("Chilean Health Ministry") and the Ministerio Secretaria General de la Presidencia ("Ministry of the General Secretary of the Presidency of Chile") have issued regulations applicable to the control of pollution in the Santiago Metropolitan Region, which provide that, in cases of emergency due to high levels of air pollution, the Secretaria Regional Ministerial de Salud ("Regional Health Ministry") has the authority to order the temporary reduction of the activities of companies in the region that produce particles and gas emissions. According to Decree No.16 (issued in 1998), which establishes a contamination prevention and atmospheric decontamination plan for the Santiago metropolitan region, in emergency situations, the Regional Health Ministry can order the reduction or even the suspension of activities of those companies classified as producing the highest level of particles and gas emissions. Since Decree No.16 was issued, emissions from Madeco's plants have remained below those that require the Regional Health Ministry to suspend production activity. Consequently, since Decree No.16 was issued, Madeco has not been required to reduce or halt its normal production activity.

The regulation of matters relating to the protection of the environment is not as well developed in Chile, Argentina, Brazil and Peru as in the United States and certain other countries. Accordingly, Madeco anticipates that additional laws and regulations will be enacted over time with respect to environmental matters. While Madeco believes that it will continue to be in compliance with all applicable environmental regulations of which it is now aware, there can be no assurance that future legislative or regulatory developments will not impose restrictions on the company that would be material or that would have a material adverse effect on Madeco's financial position and results of operations.

Real Estate Development - Habitaria

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Since 1998, Quinenco has owned a 50% equity interest in Habitaria, a developer of residential real estate for Chilean families in the middle-income and upper middle-income segments. Habitaria was formed in June 1998 through a joint venture between the Company and Ferrovial Inmobiliaria Chile Ltda. ("Ferrovial"), an indirect subsidiary of Ferrovial S.A. (listed on the Madrid Stock Exchange), which is among the three largest construction firms in Spain. Quinenco and Ferrovial jointly control Habitaria through a shareholders' agreement. The Company does not consolidate Habitaria's results, which are accounted for as an equity-method investment. In 2004, Habitaria reported a net loss of Ch\$8,609 million, of which Ch\$4,305 million corresponded to Quinenco's proportional share.

Habitaria was initially capitalized in 1998 with an amount equivalent to US\$20 million (historic value), of which Quinenco and Ferrovial each contributed US\$10 million (historic value). In order to continue acquiring properties for future development, there was an additional capital increase of UF300,000 in 2000 and UF120,000 in 2001. In 2001, Quinenco subscribed to 50% of the 4,180,600 shares issued for UF60,000. In the past, Habitaria has financed purchases of land, as well as expenditures on professional services (such as architects and licenses) from equity capital, and construction costs have been financed with bank debt. Based on the current level of sales and projections for the real estate market for the types of projects that Habitaria specializes in, the company has not purchased additional land for future development. At this time, there are no further plans to contribute additional capital.

Habitaria was originally formed with the objective of becoming a leading residential real estate developer, capitalizing on the experience that Ferrovial has gained in Spain as a developer of residential real estate with a brand-oriented, customer-focused strategy. Although the shareholders' agreement between Quinenco and Ferrovial allows for the possibility of expansion to other countries in South America, it is expected that Habitaria will confine its activities to developing and selling the remaining phases of existing projects in the Chilean market.

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As a real estate developer, Habitaria purchases land, supervises the design and construction of residential projects, secures financing for the projects, and markets and sells the projects to consumers. Before financing costs, projects cost between US\$14.7 million and US\$35.2 million, on average, to develop and construct. Habitaria's middle-class apartment units are priced between UF960 (approximately US\$29,700) and UF2,610 (approximately US\$80,600) depending on the number of bedrooms, the quality of finishings, and the location. Units targeted towards the upper-middle-class segment are priced between UF2,690 (approximately US\$83,100) and UF9,800 (approximately US\$302,800) depending on the number of bedrooms and the location. Habitaria's middle-class houses are priced between UF1,790 (approximately US\$55,300) and UF5,100 (approximately US\$157,600) and upper-middle-class houses between UF3,290 (approximately US\$101,700) and UF5,870 (approximately US\$181,400).

As of December 2004, Habitaria has seven projects under development, of which six are located in the greater Santiago metropolitan region and one is located in Valparaiso, the most important port city in Chile.

In 2004, 187 units were delivered to their owners and an additional 45 units were pre-sold for future delivery. Stock as of December 31, 2004 included 135 finished units. Sales revenue or revenue from deposits is only recognized as income for a given period when a legally binding sales agreement has been executed.

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The following table contains selected financial information of Habitaria at or for the years ended December 2002, 2003 and 2004:

Habitaria	2002 ----- (in millions of constant Ch\$, except per	2003 ----- (in millions of constant Ch\$, except per	2004 ----- (in millions of constant Ch\$, except per
Net revenues.....	Ch\$23,817	Ch\$18,518	Ch\$23,817
Gross margin.....	3,838	2,185	3,838
Operating income.....	1,444	51	1,444
Non-operating results.....	(477)	(761)	(477)
Income taxes.....	(37)	21	(37)
Net income (loss).....	Ch\$930 =====	Ch\$(689) =====	Ch\$930 =====
Total assets.....	48,593	36,351	48,593
Bank debt.....	27,283	16,756	27,283
Other liabilities.....	3,306	2,280	3,306
Shareholders' equity.....	18,004	17,315	18,004
Quinenco's effective economic interest.....	50%	50%	50%

Competition. The Chilean real estate development industry is fragmented, with no developer controlling a significant share of the residential market. Therefore, Habitaria competes with a variety of real estate developers, the largest of which include Socovesa, ENACO, Almagro, Penta, Inmobiliaria Manquehue and Geosal, among others. According to information provided by the private market research firm, Collect, Habitaria estimates that in 2004 it had an approximate 1.6% share of unit sales of homes and a 0.4% share of unit sales of apartments of the real estate development industry in the greater Santiago metropolitan area.

According to information provided by the Camara Chilena de la Construccion (the Chilean Construction Association), Habitaria estimates that in 2004 it had an approximate 6.9% share of unit sales of homes and a 1.4% share of unit sales of apartments of the real estate development industry in those communities where it has projects. For the effect of calculating market share, a unit is considered sold once the buyer has signed a preliminary sales agreement.

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Sensitivity to Economic Activity. Habitaria expects that its operations will continue to be sensitive to Chile's economic cycles. The real estate industry recovered significantly during 2004, registering the highest level of sales since 1981 in terms of revenue, and the highest level in volume terms since 1996. According to projections of the Chilean Construction Association, sales of the real estate industry in Chile should continue strong in 2005, although inferior to those registered in 2004.

Sensitivity to Interest Rates and Credit Availability. As a developer of real estate, Habitaria is highly dependent on its ability to procure financing for its projects. In the past, Habitaria has financed its projects with a mix of 30% equity and 70% debt, typically in the form of bank loans. Bank financing has historically been available to Habitaria, however, there can be no assurance that Habitaria will be able to obtain the necessary financing to complete the

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remaining phases of its projects. Of equal importance are the terms and availability of mortgage financing for home-buyers. Habitaria expects that its sales will be sensitive to fluctuations in interest rates and mortgage availability and cannot guarantee that mortgages will be available on terms acceptable to home-buyers.

### C. Organizational Structure

The following table shows the percentage interests directly and indirectly owned by Quinenco in each of its main businesses as of December 31, 2004:

	Percentage of Economic Interest Owned by Quinenco		
	At December 31, 2004		
	Country of Incorporation	Economic Ownership	Contro Voting
Financial			
Banco de Chile (1).....	Chile	29.9%	
Food and Beverage			
Indalsa .....	Chile	97.0%	
CCU .....	Chile	30.8%	
Telecommunications			
Telefonica del Sur.....	Chile	73.7%	
Entel.....	Chile	5.7%	
Manufacturing			
Madeco .....	Chile	51.2%	
Real Estate/Hotel Administration			
Hoteles Carrera.....	Chile	90.0%	
Habitaria.....	Chile	50.0%	

(1) Economic ownership information corresponds to dividend rights.

### D. Property, Plant and Equipment

Quinenco's principal executive offices are located in Santiago at Enrique Foster Sur 20, Floor 14, Las Condes, and occupy approximately 2,400 square meters of office space owned by Quinenco.

Madeco's headquarters are located in Santiago, in a building containing approximately 3,524 square meters of office space. In addition, Madeco owns plants, warehouses and office space occupying a total of approximately 423,219 square meters in various locations in Chile, Argentina, Peru and Brazil. In Chile, Madeco owns plants, warehouses and office space in and around Santiago. In Argentina, Madeco owns plants in the Greater Buenos Aires area, San Luis and Llavallol. In Peru, Madeco owns plants and offices in Lima. In Brazil, Madeco owns production plants in Sao Paulo and Rio de Janeiro and Bahia.

Telefonica del Sur has its own headquarters in the city of Valdivia (approximately 520 miles south of Santiago). In addition, Telefonica del Sur owns office space, switch sites and customer service facilities in most of the cities in Regions VIII, IX, X and XI, particularly in major cities such as Puerto Montt, Coyhaique, Osorno, Temuco and Concepcion.

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Indalsa's main operations were sold on March 31, 2004. Following the sale, Indalsa's remaining assets include assets in liquidation in Peru and Chile.

CCU's headquarters are located in Santiago. In addition, CCU owns and leases manufacturing plants and warehouses in various locations in the Santiago Metropolitan Region and throughout Chile. In Argentina, CCU owns and leases manufacturing plants, warehouses, commercial offices and vineyards in various locations, including the Greater Buenos Aires areas.

Banco de Chile owns an approximately 65,000 square meter building and the underlying land located in Santiago that serves as executive offices for the bank and most of its subsidiaries. In addition, it owns a 15,000 square meter building in Santiago where the remainder of its executive offices are located. As of December 31, 2004, Banco de Chile owned the properties of 129 full service branches (approximately 103,400 square meters of office space). It leases office space for the remaining 95 full service branches and for the New York branch and Miami agency, as well as representative offices. The bank also owns properties throughout Chile for back office and administrative operations including document storage facilities as well as a 140,000 square meter recreational facility for employee use.

Habitaria's headquarters are currently located in Santiago, in 270 square meters of leased office space. The lease expires in May 2006.

For further information on future investments in property, plant and equipment, see Note 10 to the Consolidated Financial Statements and "Item 5. Operating and Financial Review and Prospects - Liquidity and Capital Resources".

### Item 5. Operating and Financial Review and Prospects

#### Executive Overview

The Company is one of the largest diversified companies engaged in the industrial and services sectors in Chile. It has invested in four main sectors of the economy: financial services; food and beverage; telecommunications and manufacturing. In addition, Quinenco holds investments in real estate development, among other sectors.

The Company conducts its operations through various consolidated subsidiaries (in which, in certain cases, minority shareholders hold significant interests), and through significant equity investments in certain other companies. The Consolidated Financial Statements as of December 31, 2004 consolidate the results of Madeco, Telefonica del Sur, Indalsa and Carrera, although following the sale of Lucchetti Chile in 2004 and the Santiago Hotel Carrera in 2003, the results of Indalsa and Carrera are no longer relevant to the consolidated results of the Company. The Company's majority-owned investment in Banco de Chile, and its equity investments in CCU, Entel and Habitaria are accounted for under the equity method, and the Company's share of the net income (or loss) thereof is included under the caption "Non-operating results" in the Company's income statement.

The Company's consolidated net income for any period depends on: (i) the income (or loss) generated by Quinenco and its consolidated subsidiaries, (ii) the income (or loss) generated by the companies accounted for under the equity method and Quinenco's economic interest in each such company, (iii) dividends from other investments accounted for by the cost method and (iv) the income (or loss) generated by Quinenco on the sale of investments.

As a holding company, Quinenco's income and cash flow and its ability to pay debt obligations and dividends depends primarily upon the receipt of

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dividends and other capital distributions from its subsidiaries, equity investments, other investments accounted for under the cost method and related companies and, to a certain extent, on the periodic sale of investments. The payment of dividends by such subsidiaries, equity investments and related companies is in certain instances subject to restrictions and is contingent upon their earnings and cash flows.

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As of December 31, 2004, investments in the financial services sector, represented by Quinenco's controlling interest in Banco de Chile, made up approximately 64% of Quinenco's total investments and 60% of total assets at the corporate level. Due to the importance of Quinenco's investments in the financial services sector, Quinenco's level of income from dividends and participation in net income will depend, to a large extent, on results from this investment. In addition, the food and beverage sector investment, CCU, also contributes significantly to Quinenco's level of income from dividends and participation in net income. For further information regarding these entities, whose results are not consolidated in the Company's financial statements under Chilean GAAP, see Banco de Chile's and CCU's respective Annual Reports on Form 20-F for the fiscal year ended December 31, 2004.

The Banco de Chile acquisition in 2001 involved significant cash outlays, which were financed with debt. Although the initial debt incurred in connection with the acquisition has been partially reduced through sales of non-strategic assets, dividend income and other resources, the Company will continue to incur interest expense associated with the remaining debt until its level is reduced, either by payments at scheduled amortization dates or through the sale of non-strategic assets. In addition, in connection with the acquisition of Banco de Chile, the Company recognized goodwill in the amount of Ch\$247,779 million (historic value). The goodwill is being amortized over a period of 20 years, in accordance with Chilean GAAP and the related expense will represent a charge to income in future periods.

The Company's lines of business and results of operations are, to a large extent, dependent on the overall level of economic activity and growth in Chile. Of the total aggregate revenues of the Company's main operating companies (excluding Banco de Chile), which amounted to Ch\$803,149 million in 2004, approximately 78% were from operations in Chile. In addition, Banco de Chile mainly operates in Chile, deriving approximately 98% of its net income from domestic operations. In addition to Chile, Madeco is dependent on the overall level of economic activity and growth in Brazil, Argentina and Peru, and CCU is dependent on the overall level of economic activity in Argentina.

Until March 2004, the Company provided food production and distribution through the interest it held in Indalsa. Indalsa's main operations have been discontinued following the sale of its Argentine operations in 2001, the forced closure of its Peruvian plant in early 2003 and the sale of its Chilean operation in the first quarter of 2004. Indalsa's 2003 consolidated sales amounted to Ch\$60,593 million and corresponded almost entirely to sales of Lucchetti Chile. Lucchetti Chile, which produced pastas, creams and soups and represented approximately 85% of Indalsa's consolidated assets, was sold on March 31, 2004 to a local food company for Ch\$11,400 million (net of financial debt). Indalsa reported a gain on sale (net of contingency provision) of Ch\$2,946 million in connection with the disposal in 2004. Following the sale, Indalsa's remaining assets include assets in liquidation in Peru and Chile and a 50% interest in a small cookie and candy producer acquired in 2004. As a result of the discontinuation of its main activities, Indalsa's result of operations are no longer significant to the Company.

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Quinenco has no further plans to develop its interest in the hotel administration business, following the sale of the Hotel Carrera to the Chilean government in 2003 and the non-renewal of the leases on the three hotels it operated in the north of Chile in 2004. Although it has one remaining hotel, a small four-star hotel in the city of Concepcion, it is not expected to be used as a platform for further investment.

The competitive environment in Chile has increased significantly in recent years. As a result, the Company's main operating companies face high levels of competition in their lines of business. In particular, Banco de Chile and CCU, the most significant contributors to the Company's dividend cash flow and results of operations, are subject to intense competition from domestic and multinational competitors, which has led to consolidation in their respective industries. Quinenco expects the trend of consolidation to continue, which could affect profit margins.

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See "- D. Trend Information" for further information regarding economic and industry-wide-factors relevant to the Company and its subsidiaries.

### OVERVIEW OF 2004 RESULTS OF OPERATIONS

Consolidated revenues grew by Ch\$16,197 million or 4.4% to Ch\$382,511 million in 2004 compared to Ch\$366,314 million in 2003, mainly due to a Ch\$80,428 million increase in sales corresponding to Madeco's operations, related to the recovery of its main markets and strong demand for cable and brass mill products. The increase in consolidated revenues was partially offset by the divestment of Lucchetti Chile in early 2004, which resulted in a reduction of Ch\$59,503 million in revenues when compared to 2003.

Operating income reached Ch\$27,197 million in 2004, an increase of 108.2%, entirely attributable to Madeco's operations, which benefited from increased sales, better production efficiency and stable SG&A expenses. The increase in operating income was partially offset by the divestment of Lucchetti Chile in early 2004, which represented a decline of Ch\$3,295 million compared to 2003.

Quinenco reported net non-operating income of Ch\$4,836 million, compared to net non-operating income of Ch\$24,293 million in 2003. The variation between the two years is largely explained by a one-time arbitration settlement payment received from Quinenco's former partners in IRSA, the company which controls 61.6% of CCU, which increased non-operating results by an additional Ch\$36,936 million in 2003.

2004 non-operating results benefited from a 20.4% reduction in interest expense, following the sale of Lucchetti Chile at the beginning of the year as well as lower interest expense at Madeco, Telefonica del Sur and the holding level, due to reduced debt levels and lower prevailing interest rates. In addition, a reduction in other non-operating expenses also contributed to 2004 non-operating performance.

Income from equity investments (net) totaled Ch\$58,469 million, mainly due to the results obtained from Quinenco's investment in Banco de Chile and CCU, which grew by 6%, the effect of which was partially offset by Quinenco's proportional share of a net loss from Habitaria amounting to Ch\$4,305 million, which resulted from the write-down of several real estate development projects to their net realizable value.

Net income reached Ch\$23,353 million compared to Ch\$38,637 million reported in 2003, a reduction of 39.6%. The reduction in net profit was mainly

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attributable to the aforementioned absence of non-recurring gains in 2004, the effect of which was partially offset by the increase in operating income and lower non-operating expenses and interest expense reported during the period.

Cash flow from dividends amounted to Ch\$49,052 million in 2004, which is lower than the Ch\$76,417 million received in 2003. Although this represents a decline of 36% compared to 2003, it is worth mentioning that dividends received in 2003 included an extraordinary dividend from CCU of Ch\$53,106 million. After adjusting for the effect of the 2003 extraordinary dividend, on a comparative basis dividend cash flow in 2004 increased by 110%, mainly attributable to the 147% increase in dividends received from Banco de Chile as well as increased dividends from CCU and Entel. In addition, Telefonica del Sur distributed dividends of Ch\$3,240 million to Quinenco, up from Ch\$3,097 million in 2003.

The following discussion analyzes the consolidated results of the Company for the years ended December 31, 2002, 2003 and 2004. See "Item 4. Information on the Company" for certain data regarding revenues and operating income of major product segments of the Company's principal businesses

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In the following discussion the term "holding company" refers to Quinenco S.A. and the intermediate level holding companies through which, in certain cases, Quinenco holds its interest in the Company's consolidated operating companies and certain equity investments.

The following table shows the percentage interests directly and indirectly owned by Quinenco in each of the main sectors in which it participated at December 31, 2002, 2003 and 2004:

	Percentage of Economic Interest Owned Quinenco as of December 31,		
	2002	2003	2004
Financial Services			
Banco de Chile (1) .....	52.2%	52.2%	
Food and Beverage			
Indalsa (2) .....	93.7%	95.9%	
CCU .....	30.8%	30.8%	
Telecommunications			
Telefonica del Sur .....	73.6%	73.6%	
Entel.....	5.7%	5.7%	
Manufacturing			
Madeco (3).....	53.4%	55.2%	
Real Estate/Hotel Administration			
Hoteles Carrera.....	89.9%	90.0%	
Habitaria.....	50.0%	50.0%	

(1) In April 2004, Banco de Chile repurchased 2.5% of its own outstanding shares. As a result, the Company's effective voting interest in Banco de Chile increased from 52.2% to 53.5%.

(2) In December 2003, the Company subscribed to a capital increase at Indalsa.

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As a consequence, Quinenco's effective economic interest increased to 95.9%. In 2004, the Company subscribed to and purchased additional shares. As a result, Quinenco's effective interest increased to 97.0%.

- (3) As a result of Madeco's 2003 capital increase, the Company's ownership interest in Madeco increased from 53.4% to 55.2%. In 2004, Madeco's key executives exercised stock options of shares of Madeco in accordance with the company's stock incentive program. Madeco's total outstanding subscribed and paid shares increased from 4,259,045,163 shares to 4,441,192,887 shares. As a result, Quinenco's interest in Madeco decreased from 55.2% to 51.2%.

### RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere herein. The Consolidated Financial Statements have been prepared in accordance with Chilean GAAP, which differs in significant respects from U.S. GAAP. Note 27 to the Consolidated Financial Statements provides a description of the principal differences between Chilean GAAP and U.S. GAAP as they relate to the Company, and a reconciliation to U.S. GAAP of shareholders' equity as of December 31, 2003 and 2004 and net income (loss) for the years ended December 31, 2002, 2003 and 2004.

In accordance with Chilean GAAP, financial data included in the Consolidated Financial Statements have been restated in constant Chilean pesos of December 31, 2004. See Notes 2(b) and 3 to the Consolidated Financial Statements.

### NET SALES

	2002	Variation	% change	2003	Variation	%
	-----	-----	-----	-----	-----	-----
(in millions of constant Ch\$, except percentages)						
Madeco.....	265,317	(21,710)	(8.2)	243,607	80,428	
Indalsa.....	86,752	(26,159)	(30.2)	60,593	(59,503)	
Telefonica del Sur.....	50,501	2,255	4.5	52,756	184	
Hoteles Carrera.....	7,263	(425)	(5.9)	6,838	(4,616)	
Holding Co. & eliminations....	435	2,085	479.3	2,520	(296)	
	-----	-----	-----	-----	-----	-----
Total net sales.....	410,268	(43,954)	(10.7)	366,314	16,197	
	=====	=====	=====	=====	=====	=====

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### 2004 Compared to 2003

In 2004, the Company reported net consolidated sales of Ch\$382,511 million, a 4.4% increase from the net sales of Ch\$366,314 million in 2003. The increase was mainly attributable to higher sales at Madeco, partially offset by lower sales at Indalsa following the divestment of its Chilean operations in early 2004.

Madeco's sales, which accounted for 84.7% of Quinenco's consolidated sales in 2004, increased by 33.0% to Ch\$324,035 million. The growth in sales was primarily attributable to (i) higher average prices of cables and brass mill products, mainly related to the increase in copper, aluminum and zinc prices,

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which were passed on to customers and (ii) a 12.7% increase in volumes sold on a consolidated basis. The higher average prices and volumes were partially offset by a 6.1% revaluation of the Chilean peso against the U.S. dollar during the year, which adversely affected cable revenues from foreign operations and brass mill exports.

Sales corresponding to Madeco's wire and cable business unit rose by Ch\$52,983 million or 46.8% to Ch\$166,271 million as a consequence of strong demand for copper rod and copper and aluminum cables in Chile, Brazil and Peru. Brass mill sales increased by 45.9% to Ch\$84,026 million due to large volume increases in Chile and Argentina, the effect of which was partially offset by lower coin blank sales. Sales growth experienced by the flexible packaging unit also contributed to the increase in consolidated sales, having grown by 5.5% to Ch\$45,117 million, mainly as a result of higher exports and sales volume in Chile. Sales of the aluminum profiles unit fell by 4.5% due to lower average prices, the effect of which was not offset by the higher volume sold during the year.

Indalsa's sales decreased by Ch\$59,503 million to Ch\$1,090 million, accounting for less than 1% of consolidated sales following the divestiture of Lucchetti Chile in the first quarter of 2004.

### 2003 Compared to 2002

In 2003, the Company reported net consolidated sales of Ch\$366,314 million, a 10.7% decrease from the net sales of Ch\$410,268 million in 2002. The decrease was mainly attributable to lower sales at Indalsa and Madeco.

Madeco's sales, which accounted for 66.5% of Quinenco's consolidated sales in 2003, decreased by 8.2%. The deterioration in sales in 2003 was mainly attributable to lower sales of the wire and cable business unit, particularly in Brazil. Sales of the wire and cable business unit, which amounted to Ch\$113,289 million, represent Madeco's main business, accounting for 46.5% of Madeco's consolidated sales in 2003. Sales of this business unit experienced a decline of 16.5%, mainly as a result of weak demand for metal cables in Brazil, which reduced sales volumes of the unit by approximately 12.9%. Additionally, the 17.4% appreciation of the Chilean peso against the U.S. dollar also adversely affected revenues reported from Madeco's foreign wire & cable operations. These effects were partially offset by a 14.2% increase in the wire and cable business unit's average U.S. dollar price of metallic cables. To a lesser extent, the deconsolidation of Optel, a optical fiber cable producer in Brazil also contributed to Madeco's decline in sales in 2003, further reducing sales by Ch\$2,257 million. In addition, sales of the brass mills unit declined by 1.7%, mainly due to the effect of the appreciation of the Chilean peso on the sales of its foreign subsidiaries and a 13.0% reduction in the sales volume of coin blanks. An increase in the sales of the flexible packaging and aluminum profiles business units of 1.9% and 3.0% respectively, only partially compensated for the reduction in consolidated sales.

Indalsa's sales, which accounted for 16.5% of Quinenco's consolidated sales in 2003, decreased by 30.2%, mainly as a result of the discontinuation of its activities in Peru following the forced closure of its plant facilities in January 2003 by Peruvian authorities for alleged environmental violations. The reduction in sales of the Peruvian operation accounted for Ch\$19,456 million of the total Ch\$26,160 million reduction in sales. In addition, the decrease in sales included a 10.0% decline in sales of the Chilean operations. Indalsa's sales in Chile decreased as a result of a 43.4% reduction in the sales volumes of edible oils, explained by an oversupply of imports from Argentina. The decline in edible oil sales was partially offset by higher sales of pastas and soups, which rose 5.2% and 22.1%, respectively.

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COST OF SALES

	2002	Variation	% change	2003	Variation	%
	-----	-----	-----	-----	-----	-----
	(in millions of constant Ch\$, except percentages)					
Madeco.....	(232,504)	(18,856)	(8.1)	(213,648)	62,973	
Indalsa.....	(63,547)	(21,722)	(34.2)	(41,825)	(41,825)	
Telefonica del Sur.....	(22,401)	3,495	15.6	(25,896)	368	
Hoteles Carrera.....	(6,210)	(433)	(7.0)	(5,777)	(3,697)	
Holding Co. & eliminations....	(2,416)	2,591	107.2	(5,007)	114	
	-----	-----	-----	-----	-----	-----
Total cost of sales.....	(327,078)	(34,925)	(10.7)	(292,153)	17,933	
	=====	=====	=====	=====	=====	=====

2004 Compared to 2003

In 2004, the Company's cost of sales was Ch\$310,086 million, compared to cost of sales of Ch\$292,153 million in 2003, an increase of 6.1%. The increase in consolidated cost of sales was in line with the increase of 4.4% in consolidated sales and was mainly attributable to an increase in cost of sales at Madeco, partially offset by lower cost of sales at Indalsa following the divestiture of its Chilean operations in the first quarter of 2004.

At Madeco, the increase in cost of sales of 29.5% was in line with its sales revenue increase of 33.0% in 2004 as well as an increase in Madeco's principal raw material costs. As a percentage of sales, cost of sales declined from 87.7% in 2003 to 85.4% in 2004.

At Indalsa, the decrease in cost of sales was attributable to the divestiture of the Chilean operations in early 2004.

2003 Compared to 2002

In 2003, the Company's cost of sales was Ch\$292,153 million, compared to cost of sales of Ch\$327,078 million in 2002, a decrease of 10.7%. The decrease in consolidated cost of sales was in line with the decrease of 10.7% in consolidated sales and was mainly attributable to a decrease in cost of sales at Indalsa and Madeco.

At Madeco, the decrease in cost of sales of 8.1% was in line with its sales revenue decrease of 8.2% in 2003. As a percentage of sales, cost of sales in 2003 remained practically unchanged at 87.7%.

At Indalsa, the decrease in cost of sales of 34.2% was almost entirely related to the discontinuation of its activities in Peru in January 2003.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2002	Variation	% change	2003	Variation	%
	-----	-----	-----	-----	-----	-----
	(in millions of constant Ch\$, except percentages)					
Madeco.....	(28,668)	(6,352)	(22.2)	(22,316)	(78)	

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Indalsa.....	(20,432)	(4,630)	(22.7)	(15,802)	(14,383)
Telefonica del Sur.....	(14,539)	(304)	(2.1)	(14,235)	(120)
Hoteles Carrera.....	(1,445)	(169)	(11.7)	(1,276)	(699)
Holding Co. & eliminations....	(7,467)	(1)	--	(7,466)	(587)
	-----	-----		-----	-----
Total SG&A expenses.....	(72,551)	(11,456)	(15.8)	(61,095)	(15,867)
	=====	=====	=====	=====	=====

### 2004 Compared to 2003

In 2004, the Company's SG&A expenses were Ch\$45,228 million, compared to Ch\$61,095 million in 2003, a decrease of 26.0%. The decrease was almost entirely attributable to lower selling, general and administrative expenses at Indalsa following the sale of its Chilean operations in the first quarter of 2004.

Madeco's SG&A expenses declined by 0.3% despite the 33.0% increase in sales experienced during 2004. SG&A expenses as a percentage of sales fell to 6.9% compared to 9.2% in 2003, mainly due to SG&A expense reductions associated with the brass mills business unit in Chile as a result of lower accounts receivable write-offs and lower expenses of the coin blanks unit following a business

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restructuring. In addition, SG&A expenses associated with Madeco's aluminum profiles business unit fell as a consequence of cost saving measures aimed at lowering salaries and personnel expenses, outsourcing, marketing and advertising costs. These reductions were partially offset by higher SG&A expenses related to the wire and cable business unit, which increased as a result of the higher sales level experienced during the year.

### 2003 Compared to 2002

In 2003, the Company's selling, general and administrative expenses or SG&A expenses were Ch\$61,095 million, compared to Ch\$72,551 million in 2002, a decrease of 15.8%. The decrease was mainly due to lower selling, general and administrative expenses at Madeco and Indalsa.

The decrease in Madeco's SG&A expenses of Ch\$6,352 million was related to a company-wide reduction in SG&A expenses. In addition, Madeco's SG&A expenses decreased by Ch\$1,486 million due to the effect on non-Chilean subsidiaries of the appreciation of the Chilean peso relative to the U.S. dollar.

The reduction of Ch\$4,630 million in Indalsa's selling, general and administrative expenses in 2003 was attributable to the discontinuation of Indalsa's activities in Peru in January 2003.

### OPERATING INCOME (LOSS)

	2002	Variation	% change	2003	Variation	%
	-----	-----	-----	-----	-----	-----
	(in millions of constant Ch\$, except percentage)					
Madeco.....	4,145	3,498	84.4	7,643	17,533	
Indalsa.....	2,773	193	7.0	2,966	(3,295)	
Telefonica del Sur.....	13,561	(936)	(6.9)	12,625	(64)	
Hoteles Carrera.....	(392)	177	(45.2)	(215)	(220)	

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Holding Co. & eliminations....	(9,448)	(505)	5.3	(9,953)	177
	-----	-----	-----	-----	-----
Total operating income (loss).	10,639	2,427	22.8	13,066	14,131
	=====	=====	=====	=====	=====

### 2004 Compared to 2003

In 2004, the Company reported operating income of Ch\$27,197 million, compared to operating income of Ch\$13,066 million in 2003. The increase of 108.2% in 2004 was primarily due to an improvement in the operating performance of Madeco, the effect of which was partially offset by a reduction in Indalsa's operating income as a result of the divestiture of its main business in early 2004.

Madeco's operating income increased by 229.4% to Ch\$25,176 million. The increase in Madeco's operating results was mainly attributable to the higher sales level achieved during the year and a reduction in SG&A expenses as a percentage of sales. In particular, the wire and cable and brass mills business units led the company's strong recovery in 2004, accounting for 41.7% and 32.4% of consolidated operating income, respectively. The improvement in the operating performance of these business units was a result of strong demand from the construction, energy, mining and telecom sectors (which allowed the company to pass on price increases to customers), efficiency gains and SG&A expenses that increased at a lesser rate than the increase in sales.

Telefonica del Sur's operating profits remained stable at Ch\$12,561 million, varying by less than 1% from 2003. Sales, cost of sales and SG&A expense as a percentage of sales did not vary significantly from those reported in 2003, although the sales mix favored non-regulated services, particularly internet services. The increase in revenues from non-regulated services more than offset the reduction in revenues related to fixed line traffic and access charges, which continued to decline as consumers increasingly substitute mobile and other telecommunication alternatives for traditional fixed line telephony.

### 2003 Compared to 2002

In 2003, the Company reported operating income of Ch\$13,066 million, compared to operating income of Ch\$10,639 million in 2002. The increase of 22.8% in 2003 was primarily due to an

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improvement in the operating performance of Madeco, the effect of which was partially offset by a reduction in Telefonica del Sur's operating income.

Madeco's operating income increased by 84.4% to Ch\$7,643 million. The increase in Madeco's operating results was mainly attributable to the 22.2% reduction in selling, general and administrative expenses which led to an improvement in the operating results of all of Madeco's business units, the effect of which more than offset the decline in gross profit associated with the company's lower sales level. To a lesser extent, the exclusion of Optel's operating results also contributed to the increase in operating income as the subsidiary produced an operating loss in 2002 amounting to Ch\$1,365 million.

Telefonica del Sur reported a 6.9% decrease in operating profit in 2003. In spite of an increase in sales of 4.5% and a 2.1% reduction in SG&A expenses, Telefonica del Sur's operating profit was affected by the sales mix which favored newly consolidated internet, security and other non-regulated services, the associated margins of which do not yet compensate for the reduction the

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company has experienced in sales of its higher margin fixed line telephony products. Fixed line telephony traffic has declined as a consequence of consumer substitution of mobile and other telecommunications alternatives for fixed line telephony.

### NON - OPERATING RESULTS

#### INTEREST INCOME

##### 2004 Compared to 2003

In 2004, interest income amounted to Ch\$1,962 million, compared to Ch\$3,002 million in 2003, a reduction of 34.6%. The decrease in interest income was primarily attributable to a lower average level of interest-bearing cash and cash equivalents, as well as low prevailing interest rates on cash deposits.

##### 2003 Compared to 2002

In 2003, interest income amounted to Ch\$3,002 million, compared to Ch\$5,536 million in 2002, a reduction of 45.8%. The decrease in interest income was primarily attributable to a lower average level of interest-bearing cash and cash equivalents, as well as lower prevailing interest rates on cash deposits.

### NON - OPERATING INCOME

	2002	2003
	-----	-----
	(in millions of constant)	
Gain on sale of investments:		
Gain on sale of subsidiary Lucchetti Chile.....	--	--
Gain on sale of other investments.....	446	18
	-----	-----
Total gain on sale of investments.....	446	18
Proportional share of net income of equity method investments:		
Banco de Chile .....	15,967	38,998
CCU.....	7,034	17,073
Entel.....	2,420	3,499
Habitaria (1).....	464	--
Others.....	696	(125)
	-----	-----
Total proportional share of net income of equity method investments....	26,581	59,445
	-----	-----
Other non-operating income.....	7,698	63,052
	-----	-----
Total non-operating income.....	34,725	122,515
	=====	=====

(1) Quinenco's proportional share of the net loss corresponding to its interest in Habitaria amounted to Ch\$345 million in 2003 and Ch\$4.305 in 2004. For a discussion of Habitaria's results in 2004 compared to 2003 and results in 2003 compared to 2002, see "- Non-operating expenses - Proportional share of net income - main equity investments" in this section.

##### 2004 Compared to 2003

In 2004, non-operating income was Ch\$72,776 million compared to Ch\$122,515 million reported in 2003, a decrease of 40.6%. The decrease in non-operating

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income in 2003 was primarily due to a reduction in other non-operating income, which in 2003 included a non-recurring arbitration settlement

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payment of Ch\$36,936 million received from Quinenco's former partners in IRSA, the controlling entity of CCU. In addition, in 2003 other non-operating income included a one-time negative goodwill amortization credit of Ch\$21,658 million associated with the fact that Quinenco did not subscribe to Madeco's 2003 capital increase, although this credit was entirely offset by a charge of Ch\$21,658 million to other non-operating expenses in connection with the failure to subscribe.

The reduction in other non-operating income was partially offset by a 6.0% or Ch\$3,567 million increase in Quinenco's proportionate share of net income from equity method investments and a gain on the sale of Lucchetti Chile of Ch\$4,070 million.

### 2003 Compared to 2002

In 2003, non-operating income was Ch\$122,515 million compared to Ch\$34,725 million reported in 2002, an increase of 252.8%. The increase in non-operating income in 2003 was due to various factors, which included significantly higher results from equity investments and a non-recurring arbitration settlement payment of Ch\$36,936 million received from Quinenco's former partners in IRSA, the controlling entity of CCU. In addition, negative goodwill amortization of Ch\$21,658 million associated with the fact that Quinenco did not subscribe to Madeco's capital increase in 2003 also contributed to the increase in non-operating income for the year, although this credit was entirely offset by a charge of Ch\$21,658 million to other non-operating expenses in connection with the failure to subscribe.

### GAIN ON SALE OF INVESTMENTS

#### 2004 Compared to 2003

In 2004, gains on the sale of investments amounted to Ch\$4,070 million. The gain was in connection with the sale of Indalsa's subsidiary, Lucchetti Chile, to Corpora Tres Montes for Ch\$11,400 million (net of debt). In 2003, the Company did not report any material gains on the sales of investments.

#### 2003 Compared to 2002

In 2002 and 2003, gains on the sale of investments were not significant to the Company's results.

### PROPORTIONAL SHARE OF NET INCOME OF EQUITY METHOD INVESTMENTS

#### 2004 compared to 2003

The proportional share of net income of equity method investments was Ch\$63,012 million in 2004, compared to Ch\$59,445 million in 2003, an increase of 6.0%. The increase can mainly be explained by a higher proportional share of net income from Quinenco's investments in Banco de Chile, partially offset by a reduction in the proportional share of net income from CCU, and to a lesser extent, from Entel.

#### 2003 compared to 2002

The proportional share of net income of equity method investments was

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Ch\$59,445 million in 2003, compared to Ch\$26,581 million in 2002, an increase of 123.6%. The increase can mainly be explained by a higher proportional share of net income from Quinenco's investments in Banco de Chile, CCU, and to a lesser extent, Entel.

### Quinenco's Proportional Share of Net Income of Equity Method Investments

#### Banco de Chile - 2004 compared to 2003

Quinenco's investment in Banco de Chile is currently being accounted for as a non-consolidated equity-method interest, in accordance with an express authorization from the SVS.

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Quinenco's proportional share of net income from its investments in the financial services sector was Ch\$45,612 million in 2004 and Ch\$38,998 million in 2003, which represented 29.9% and 29.2% of the net income of Banco de Chile in 2004 and 2003, respectively.

Banco de Chile's net income was Ch\$152,628 million in 2004, an increase of 14.1% from the net income of Ch\$133,817 million reported in 2003. The increase in net income was mainly attributable to growth in fee income, net interest revenue and loan loss recoveries of 29.1%, 42.8% and 29.6%, respectively. The increase in net income was partially offset by lower other operating income, net, higher provisions for loan losses and an increase in operating expenses.

The growth in fee income, which increased by Ch\$28,591 million to Ch\$126,842 million in 2004, was attributable to traditional banking services as well as asset management, stock brokerage, insurance brokerage and financial advisory services. Operating revenues further benefited from an increase in net interest revenue, which rose by Ch\$98,390 million to Ch\$328,472 million as a result of an increase in the level of average interest earning assets, higher loan spreads, an increase in the inflation rate and a better funding mix. The increase in operating revenues was partially offset by a reduction in other operating income, net, which fell by Ch\$84,292 million to Ch\$14,509 million. The decline in other operating income, net, was attributable to lower foreign exchange transactions, net, and losses on financial instruments, net.

Loan loss recoveries increased in 2004 by Ch\$7,710 million to Ch\$33,736 million, mainly due to improved economic conditions in Chile and an increase in the bank's collection efforts.

Loan loss provisions increased from Ch\$61,612 million in 2003 to Ch\$73,512 million in 2004, mainly attributable to a 7.4% growth in the loan portfolio and to the downgrading of the risk classifications of certain corporate clients, primarily concentrated in the construction sector.

Operating expenses increased by 5.6% to Ch\$240,302 million in 2004, primarily due to higher personnel and administrative expenses.

Income taxes increased from Ch\$14,250 million in 2003 to Ch\$18,349 million in 2004, due to a higher income tax base in 2004 and an increase in the statutory tax rate of 0.5%, which was implemented in 2004.

#### Banco de Chile - 2003 compared to 2002

Quinenco's proportional share of net income from its investments in the financial services sector was Ch\$38,998 million and Ch\$15,967 million in 2003 and 2002, respectively, which represented 29.2% of the net income of Banco de

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Chile in both years.

Banco de Chile's net income was Ch\$133,817 million in 2003, an increase of 145.6% from the net income of Ch\$54,490 million reported in 2002. The increase in net income was attributable to various factors, including a growth in fee income of 24.8%, an increase in other operating income, net, lower provisions for loan losses, higher loan recoveries and a decrease in the bank's operating expenses. These increases more than offset the effect on net income of the reduction in the bank's net interest revenue and higher income taxes incurred during the year.

Fee income increased by Ch\$19,518 million to Ch\$98,251 million, mainly due to growth in fee income attributable to traditional banking services as well as stock brokerage, financial advisory and insurance services. Other operating income, net, increased from a loss of Ch\$31,621 million in 2002 to income of Ch\$98,801 million in 2003. The increase in other operating income, net was primarily attributable to an increase in income from foreign exchange transactions, and to a lesser extent, gains on trading activities.

Loan loss provisions decreased from Ch\$104,192 million in 2002 to Ch\$61,612 million in 2003, a reduction of 40.9%. The level of loan loss provisions in 2003 reflected the improvement in economic indicators and overall performance of the Chilean economy, as well as a lower level of loan loss

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provisions on foreign denominated loans in general as a consequence of the appreciation of the Chilean peso.

Operating expenses declined by 11.4% to Ch\$227,557 million, mainly in connection with synergies and cost savings which resulted from the bank's merger.

The aforementioned improvements more than offset the decline of 39.5% in net interest revenue, which fell to Ch\$230,082 million in 2003. Net interest revenue decreased primarily due to the impact of the appreciation of the Chilean peso against the US dollar, a reduction in the inflation rate, the absence of repricing benefits in 2003 and to a lesser extent, a decrease in the bank's average interest earning assets.

Income tax expense rose sharply in 2003 to Ch\$14,250 million from a tax credit of Ch\$1,194 million in 2002, as a result of the higher income level reported, an increase in the statutory tax rate of 0.5% from 16.5% to 17% and lower tax credits.

CCU - 2004 compared to 2003

Quinenco's proportional share of CCU's income was Ch\$13,985 million in 2004 and Ch\$17,073 million in 2003, which represented its 30.8% economic interest in CCU's net income in both years.

CCU's consolidated sales increased by 6.9% to Ch\$420,638 million in 2004, compared to Ch\$393,666 million in 2003. The increase in CCU's consolidated sales was mainly due to a 4.2% increase in volumes sold and higher average prices. With the exception of wines, all of CCU's beverage segments experienced volume increases in 2004, most notably beer in Chile and Argentina. In general terms, volumes were favorably influenced by the economic reactivation underway in Chile, and to a certain extent, in Argentina, as well as the addition of new products to the company's beverage portfolio. Sales by segment were as follows in 2004: beer Chile (38.8%), beer Argentina (9.5%), soft drinks/mineral waters

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(28.6%), wine (19.5%) and others (3.6%).

Operating income increased by 24.9% to Ch\$58,707 million in 2004, as a result of improvements in the operating performance of all of CCU's business units. The increase in operating results associated with the beer segments in Chile and Argentina accounted for 73.9% of the total Ch\$11,698 million increase. Both of these segments benefited from volume and price increases as well as lower cost of sales related to the decline in the value of the U.S. dollar during the year. In addition, a 19.3% and a 34.6% rise in operating income from the soft drinks and wine segments (respectively) also contributed to the higher profit level and was mainly the result of a reduction in cost of sales in U.S. dollars and SG&A expenses as a percentage of sales.

Non-operating losses amounted to Ch\$6,178 million in 2004, compared to non-operating income of Ch\$13,941 million in 2003. The variation in non-operating results can mostly be explained by the non-recurring gain of Ch\$20,617 million on the sale of CCU's interest in Karlovacka, a Croatian brewery in 2003. Net income in 2004 amounted to Ch\$45,394 million, a decrease of 18.1% from the net income of Ch\$55,440 million reported in 2003, due to the aforementioned decline in non-operating results.

### CCU - 2003 compared to 2002

Quinenco's proportional share of CCU's income was Ch\$17,073 million in 2003 and Ch\$7,034 million in 2002, which represented its 30.8% economic interest in CCU's net income in both years.

CCU's consolidated sales increased by 9.9% to Ch\$393,666 million in 2003, compared to Ch\$358,084 million in 2002. The increase in CCU's consolidated sales was mainly due to a 9.0% increase in volumes sold. With the exception of domestic wines, all of CCU's beverage segments experienced volume increases in 2003, most notably beer in Chile and Argentina. In general terms, volumes were favorably influenced by the economic reactivation underway in Chile, and to a certain extent, in Argentina, as well as the addition of new products to the company's beverage portfolio. Higher average beer prices in Chile and Argentina more than compensated for the sharp reduction in export wine

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prices. Sales by segment were as follows in 2003: beer Chile (39.0%), beer Argentina (8.2%), soft drinks/mineral waters (30.0%), wine (21.5%) and others (1.3%).

Operating income increased by 20.2% to Ch\$47,010 million in 2003, mainly due to the strong growth in revenues associated with the beer segment in Chile, both in terms of volume and average prices, as well as lower cost of sales and selling, general and administrative expenses. Likewise, the Argentine beer segment benefited from a somewhat improved economic scenario, reducing its operating losses by 68.8% to Ch\$3,573 million. These improvements were partially offset by a decline in the operating income associated with the wine segment, which decreased by 61.0% to Ch\$3,532 million as a result of lower average wine prices, as well as the soft drinks segment, which was affected by higher cost of sales. As a percentage of sales, the operating margin increased from 10.9% in 2002 to 11.9% in 2003.

Non-operating income amounted to Ch\$13,941 million in 2003, compared to non-operating losses of Ch\$7,309 million in 2002. The variation in non-operating results can mostly be explained by the non-recurring gain of Ch\$20,617 million on the sale of CCU's interest in Karlovacka, a Croatian brewery. Net income in 2003 amounted to Ch\$55,440 million, an increase of 142.7% from the net income of

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Ch\$22,843 million reported in 2002, as a result of the aforementioned increases in operating and non-operating results.

### Entel - 2004 compared to 2003

Quinenco's proportional share of Entel's net income was Ch\$2,695 million in 2004 and Ch\$3,499 million in 2003. Its economic interest in Entel was 5.7% as of December 31, 2003 and 2004.

Entel's consolidated revenues decreased by 7.4% in 2004 to Ch\$692,485 million, mostly explained by a decline of 26.8% in revenues related to Entel's international operations, which were affected by changes in the regulatory environment in the United States and the appreciation of the Chilean peso during the year. The mobile telephony segment, which is Entel's most important business segment and which accounted for 52.0% of total revenues in 2004, grew by 2.5%, partially offsetting the reduction in revenues from international subsidiaries.

Operating income amounted to Ch\$88,255 million in 2004, compared to Ch\$110,917 million in 2003, a decrease of 20.4%. The reduction in operating income was the result of the lower sales level and higher selling, general and administrative expenses as a percentage of sales, mostly related to write-offs of accounts receivable and impairment of assets of the company's U.S.-based subsidiary. The operating margin decreased from 14.8% in 2003 to 12.7% in 2004.

Non-operating losses amounted to Ch\$32,020 million in 2004, compared to non-operating losses of Ch\$41,116 million in 2003. Non-operating losses decreased mainly due to a reduction in interest expense and price restatement charges.

Entel reported net income of Ch\$47,364 million in 2004, compared to Ch\$61,477 million in 2003, a decline of 23.0%, attributable to the aforementioned deterioration in the company's operating results, the effect of which was partially offset by the lower non-operating losses reported during the year.

### Entel - 2003 compared to 2002

Quinenco's proportional share of Entel's net income was Ch\$3,499 million in 2003 and Ch\$2,420 million in 2002. Its economic interest in Entel was 5.7% as of December 31, 2002 and 2003.

Entel's consolidated revenues decreased by 10.3% in 2003 to Ch\$747,483 million, mostly explained by a 32.6% decrease in revenues related to Entel's international operations, which were affected by the appreciation of the Chilean peso, as well as changes in the regulatory environment in the United States. The mobile telephony segment, which is Entel's most important business segment and

which accounted for 47.0% of total revenues in 2003, grew by 5.5%, partially offsetting the reduction in revenues from international subsidiaries.

Operating income amounted to Ch\$110,917 million in 2003, compared to Ch\$100,999 million in 2002, an increase of 9.8%. The increase in operating income was the result of lower cost of sales and selling, general and administrative expenses, which collectively declined by 13.1% as part of a company-wide effort to produce cost savings. The operating margin increased from 12.1% in 2002 to 14.8% in 2003.

Non-operating losses amounted to Ch\$41,116 million in 2003, compared to

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non-operating losses of Ch\$52,674 million in 2002. Non-operating losses decreased mainly due to a reduction in interest expense as a consequence of a lower indebtedness level, as well as a decline in expenses related to personnel severance indemnities.

Entel reported net income of Ch\$61,476 million in 2003, compared to Ch\$42,545 million in 2002, an increase of 44.5%, attributable to the aforementioned improvements in the company's operating and non-operating results during the year.

### Habitaria - 2004 compared to 2003

In 2004, Habitaria reported a net loss of Ch\$8,609 million, of which 50% corresponded to Quinenco's proportional share. For a discussion of Habitaria's 2004 results compared to 2003, see "- Non-Operating Expenses".

### Habitaria - 2003 compared to 2002

In 2003, Habitaria reported a net loss of Ch\$689 million, of which 50% corresponded to Quinenco's proportional share. For a discussion of Habitaria's 2003 results compared to 2002, see "- Non-Operating Expenses".

## OTHER NON - OPERATING INCOME

### 2004 compared to 2003

Other non-operating income was Ch\$5,694 million in 2004, compared to Ch\$63,052 million in 2003. In 2003, Quinenco reported a non-recurring gain of Ch\$36,936 million related to the settlement of arbitration with its ex-partners in IRSA, and an extraordinary credit of Ch\$21,658 million to negative goodwill amortization associated with the fact that Quinenco did not subscribe to Madeco's 2003 capital increase, mainly explaining the difference between the two years.

### 2003 compared to 2002

Other non-operating income was Ch\$63,052 million in 2003, compared to Ch\$7,698 million in 2002. The increase in 2003 is mainly attributable to several factors, including a non-recurring gain of Ch\$36,936 million related to the settlement of arbitration with Quinenco's ex-partners in IRSA, the controlling entity which holds a 61.6% interest in CCU, and an extraordinary credit of Ch\$21,658 million to negative goodwill amortization associated with the fact that Quinenco did not subscribe to Madeco's capital increase in 2003. This credit was offset by a charge to other non-operating expenses of Ch\$21,658 million related to the non-subscription and the net effect on income was zero in 2003.

## INTEREST EXPENSE

### 2004 Compared to 2003

Interest expense was Ch\$28,723 million in 2004, a 20.4% decrease from the Ch\$36,072 million reported in 2003. The decrease in interest expense is explained by a reduction in the Company's indebtedness level, primarily attributable to the disposal of Lucchetti Chile, as well as lower prevailing interest rates. Consolidated interest expense in 2004 is principally composed of interest expense incurred

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by Quinenco and intermediate holding companies (49.4%), Madeco (38.3%), Telefonica del Sur (9.7%) and Indalsa (2.6%).

### 2003 Compared to 2002

Interest expense was Ch\$36,072 million in 2003, a 31.3% decrease from the Ch\$52,515 million reported in 2002. The decrease in interest expense is explained by a reduction in the Company's indebtedness level as well as lower prevailing interest rates. In addition, the deconsolidation of Indalsa's Chilean operations also served to reduce interest expense in 2003. Consolidated interest expense in 2003 is principally composed of interest expense incurred by Quinenco and intermediate holding companies (46.5%), Madeco (35.4%), Indalsa (8.2%), Telefonica del Sur (8.6%) and others (1.3%).

### NON - OPERATING EXPENSES

	2002	2003
	-----	-----
	(in millions of c	
Proportional share of net loss of equity method investments:		
Habitaria .....	--	34
Others.....	511	26
	-----	-----
Total proportional share of net loss of equity method investments.	511	61
Other non-operating expenses.....	88,197	67,48
	-----	-----
Total non-operating expenses.....	88,708	68,10
	=====	=====

### PROPORTIONAL SHARE OF NET LOSS OF EQUITY METHOD INVESTMENTS

#### 2004 compared to 2003

The proportional share of the net loss of equity method investments was Ch\$4,543 million in 2004, compared to Ch\$614 million in 2003.

#### Habitaria - 2004 compared to 2003

Quinenco's proportional share of Habitaria's net loss was 50%, or Ch\$4,305 million in 2004, compared to a proportional share of Habitaria's net loss of Ch\$345 million in 2003.

Habitaria reported a net loss in 2004 of Ch\$8,609 million, compared to a net loss of Ch\$689 million in 2003. Sales revenues reached Ch\$12,172 million in 2004, compared to Ch\$18,518 million in 2003, reflecting a marked reduction in the number of new units Habitaria had available for sale in 2004. Habitaria sold and delivered 187 housing units in 2004. In comparison, 2003 sales revenue corresponded to the sale and delivery of 275 units. Habitaria incurred operating losses of Ch\$1,310 million, mainly as a result of the lower sales level and an increase in SG&A expenses of 47.4%, mostly attributable to employee severance costs. Other non-operating expenses, which amounted to Ch\$6,975 million, included charges to write-down the value of several real estate projects to their net realizable value, based on appraisals.

#### Habitaria - 2003 compared to 2002

Quinenco's proportional share of Habitaria's net loss was 50%, or Ch\$345 million in 2003, compared to a proportional share of Habitaria's net income of

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Ch\$464 million in 2002.

Habitaria reported a net loss in 2003 of Ch\$689 million, compared to net income of Ch\$930 million in 2002. Sales revenues reached Ch\$18,518 million in 2003, compared to Ch\$23,817 million in 2002, reflecting weak demand for housing units as well as a reduction in the number of new units Habitaria had available for sale in 2003. Habitaria sold and delivered 275 apartments in 2003. In comparison, 2002 sales revenues corresponded to the sale and delivery of 436 apartments. Operating income was Ch\$51 million in 2003, compared to operating income of Ch\$1,444 million in 2002.

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### OTHER NON - OPERATING EXPENSES

2004 compared to 2003

Other non-operating expenses declined from Ch\$67,486 million in 2003 to Ch\$36,578 million in 2004. In 2003, other non-operating expenses included a one-time charge of Ch\$21,658 million related to Quinenco's non-subscription in Madeco's capital increase (offset by a credit to negative goodwill amortization for the same amount), a loss provision of Ch\$5,040 million for the liquidation of Madeco's Optel subsidiary in Brazil and a loss on the sale of the Hotel Carrera in Santiago of Ch\$4,831 million, mainly explaining the variation between the two years.

In 2004, other non-operating expenses of Ch\$7,224 million corresponded to Indalsa's operations and included a provision on the sale of Lucchetti Chile of Ch\$1,124 million and write-offs and other expenses associated with the forced closing of Lucchetti Peru of Ch\$5,732 million. Other non-operating expenses of Ch\$3,681 million were attributable to Madeco's operations and mainly included depreciation expense on unused assets and other asset write-downs. Other non-operating expenses corresponding to Telefonica del Sur, Quinenco and intermediate holding companies amounted to Ch\$5,101 million and was mainly composed of a loss on Quinenco's non-subscription to Madeco's capital increase in 2004 and board of directors' remuneration expense.

Other non-operating expenses also include goodwill amortization, which is primarily associated with the Banco de Chile acquisition of Ch\$20,572 million in 2004 and Ch\$20,597 million in 2003.

2003 compared to 2002

In 2003, other non-operating expenses were Ch\$67,486 million, compared to Ch\$88,197 million in 2002, a decrease of 23.5%. The variation is explained by several factors, including a significant charge to income in 2002 of Ch\$30,863 million in relation to the forced closure of Lucchetti Peru's plant facilities. In addition, Madeco wrote-down its operations in Argentina as a consequence of the economic crisis and incurred restructuring and personnel severance indemnities amounting to Ch\$17,766 million in 2002. The reduction in other non-operating expenses in 2003 was partially offset by a charge to income of Ch\$21,658 million related to Quinenco's non-subscription to Madeco's capital increase in June and August 2003 (offset by a credit to negative goodwill amortization for the same amount), a loss provision of Ch\$5,040 million made in connection with the liquidation of Madeco's fiber optic cable subsidiary in Brazil and a loss on the sale of the Hotel Carrera in Santiago of Ch\$4,831 million.

### PRICE - LEVEL RESTATEMENT

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### 2004 Compared to 2003

In 2004, the net charge to income to adjust for the 2.5% change in purchasing power of the Chilean peso on the Company's net non-monetary liability position and income and expense accounts amounted to Ch\$357 million, compared to a net non-monetary asset position, which resulted in a credit to income of Ch\$1,939 million in 2003.

### 2003 Compared to 2002

In 2003, the net credit to income to adjust for the change in purchasing power of the Chilean peso on the Company's net non-monetary asset position and income and expense accounts amounted to Ch\$1,939 million, compared to a net credit to income of Ch\$5,200 million in 2002.

### FOREIGN EXCHANGE DIFFERENCES

#### 2004 Compared to 2003

Foreign exchange gains amounted to Ch\$299 million in 2004, compared to foreign exchange gains of Ch\$1,009 million in 2003. In 2004, exchange rate gains mostly corresponded to Madeco's operations primarily due to the appreciation of the Chilean peso against the U.S. dollar (which reduced

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the valuation of U.S. dollar liabilities) and a reduction in the company's U.S. dollar dominated debt position.

#### 2003 Compared to 2002

Foreign exchange gains amounted to Ch\$1,009 million in 2003, compared to foreign exchange losses of Ch\$14,410 million in 2002.

The variation is mostly attributable to Madeco's operations, which in 2002 incurred significant exchange rate translation losses as a result of the devaluation of the Chilean peso, Argentine peso and Brazilian real vis-a-vis the U.S. dollar. In 2003, exchange rate translation gains mostly correspond to the appreciation of the Chilean peso vis-a-vis the U.S. dollar.

### MINORITY INTEREST

	2002	2003	2004
	-----	-----	-----
	(in millions of constant Ch\$)		
Madeco & subsidiaries.....	20,544	5,575	(4,718)
Telefonica del Sur & subsidiaries.....	(1,789)	(2,169)	(1,942)
Indalsa & subsidiaries.....	2,430	107	145
Hoteles Carrera.....	67	354	16
Other.....	(7)	44	(225)
	-----	-----	-----
Total minority interest.....	21,245	3,911	(6,724)
	=====	=====	=====

#### 2004 Compared to 2003

In 2004, minority interest amounted to a deduction from income of Ch\$6,724 million, compared to a credit to income of Ch\$3,911 million in 2003. Madeco reported net income of Ch\$8,512 million in 2004, which resulted in a deduction from income of the net income which did not correspond to Quinenco of Ch\$4,718

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million. The deduction from income of Ch\$1,942 million corresponding to Telefonica del Sur was related to the portion of Telefonica del Sur's net income which did not correspond to the Company's interest.

### 2003 Compared to 2002

In 2003, minority interest amounted to a credit to income of Ch\$3,911 million, compared to a credit to income of Ch\$21,245 million in 2002. Madeco reported a net loss of Ch\$17,153 million in 2003, which resulted in an add-back to income of the net loss which did not correspond to Quinenco of Ch\$5,575 million. The deduction from income of Ch\$2,169 million corresponding to Telefonica del Sur was related to the portion of Telefonica del Sur's net income which did not correspond to the Company's interest.

### NET INCOME

### 2004 Compared to 2003

In 2004, the Company reported net income of Ch\$23,353 million, compared to net income of Ch\$38,637 million in 2003. The variation is largely explained by a reduction in other non-operating income, which in 2003 included a non-recurring arbitration settlement payment of Ch\$36,936 million. This reduction was partially offset by an improvement in the net income contribution from the main operating companies of the group, particularly Banco de Chile, CCU and Madeco and a decline in interest expense and lower non-operating expenses.

### 2003 Compared to 2002

In 2003, the company reported net income of Ch\$38,637 million, compared to a net loss of Ch\$78,141 million in 2002. The variation is largely explained by the improvement in the net income contribution from the main operating companies of the group, particularly Banco de Chile, CCU, Indalsa and Madeco. At the corporate level, the non-recurring settlement payment of Ch\$36,936 million received

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by Quinenco from its ex-partners in IRSA also contributed significantly to the increase in net income in 2003.

### IMPACT OF INFLATION AND PRICE - LEVEL RESTATEMENT

As explained in detail in Notes 2 b) and c) and Notes 3 and 4 to the Consolidated Financial Statements, the Company is required to restate non-monetary assets and liabilities, equity and income and expense accounts to reflect the effect of variations in the purchasing power of the Chilean peso, thus reflecting by an indirect method the gain or loss resulting from holding or owning monetary assets and liabilities. For all the above balances, the restatement is based on the variation of the official Consumer Price Index ("CPI") of the National Institute of Statistics.

Chilean companies sometimes finance current assets and fixed assets with short-term and long-term liabilities in foreign currency. Because assets are generally restated using the CPI and liabilities in foreign currencies are restated to closing exchange rates, the price-level restatement line in the income statement is affected by the relationship between local inflation and the U.S. dollar exchange rate of the Chilean peso.

Because of Chile's past history with inflation, the financial markets have developed a system of borrowing and lending in UFs. Most long-term assets and

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liabilities in pesos are indexed in UFs, and the adjustment to the closing value is reflected in the price-level adjustment account.

The restatement of the principal non-monetary assets and liabilities, equity and income and expense accounts and the corresponding effect on the Company's results of operations is set forth in the following table:

Price-level restatement	Credit (charge) Year Ended December 31,		
	2002	2003	2004
	(in millions of constant Ch\$)		
Property, plant and equipment.....	Ch\$8,301	Ch\$2,744	Ch\$5,002
Shareholders' equity accounts.....	(20,858)	(6,463)	(15,676)
Other assets and liabilities.....	30,245	11,380	19,418
Income and expense accounts in terms of period-end constant Chilean pesos.....	868	(551)	(128)
Net adjustment of assets and liabilities indexed in UFs	(13,356)	(5,171)	(8,973)
Price-level restatement.....	Ch\$5,200	Ch\$1,939	Ch\$ (357)

Foreign Exchange	Credit (charge) Year Ended December 31,		
	2002	2003	2004
	(in millions of constant Ch\$)		
Derivative instruments.....	Ch\$3,591	Ch\$(13,069)	Ch\$783
Assets and liabilities denominated in U.S. dollars....	(13,858)	10,655	(1,530)
Assets and liabilities denominated in other currencies.	332	(138)	18
Translation adjustment.....	(1,806)	5,004	1,983
Hedging costs Brazil.....	(2,669)	(1,443)	(955)
Net foreign exchange gain (loss).....	Ch\$(14,410)	Ch\$1,009	Ch\$299

### WORKING CAPITAL IN FOREIGN CURRENCIES

The Company's operating results and investments are exposed to fluctuations of foreign currency exchange rates principally as a result of carrying working capital in local currencies. According to Chilean GAAP, the Company's financial statements are expressed in Chilean pesos which result from the consolidation of financial statements of Chilean subsidiaries expressed in Chilean pesos and the

translation of the foreign subsidiaries' financial statements expressed in U.S. dollars to Chilean pesos. In 2004, approximately 35.3% of the Company's consolidated revenues were from sales made outside of Chile and investments in

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subsidiaries outside of Chile represented approximately 11.6% of the Company's total investments at December 31, 2004.

The Company maintains foreign exchange forward and swap contracts to hedge against the risk of fluctuations in foreign currencies. For discussion of the Company's use of hedging instruments, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk - Foreign Currency Exchange Rate Risk".

The following table presents the working capital position (net) in local currencies as of December 31, 2004. All amounts are expressed in thousands of Chilean pesos.

	U.S. dollars -----	Euros -----	Other currencies -----	Argentine pesos -----	Peruvian sols -----	Brazilian reals -----
	(in thousands of constant Ch\$)					
Working capital in foreign currencies (net) (1).....	3,400,993	71,394	8,038,203	4,696,772	265,211	20,447,35

(1) working capital in foreign currencies (net) is the difference between current assets and current liabilities in each of the currencies shown in the above table.

In addition, CCU, an equity-method investment, maintains working capital in foreign currencies. As of December 31, 2004, CCU's working capital in foreign currencies (net) was Ch\$27,178 million in U.S. dollars (net liabilities), Ch\$7,379 million in Argentine pesos (net assets) and Ch\$13 million in other foreign currencies (net assets).

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, which would potentially result in materially different results under different assumptions and conditions. The Company principally operates in five operating segments, Manufacturing, Food and Beverage, Telecommunications, Financial Services and Real estate/hotel administration, each with different critical accounting policies and estimates described below.

The Company believes that its critical accounting policies in the preparation of its Chilean GAAP financial statements are limited to those described below. It should be noted that in many cases, Chilean GAAP specifically dictates the accounting treatment of a particular transaction, with no need for management's judgment in their application. Additionally, significant differences can exist between Chilean GAAP and U.S. GAAP, as explained in Note 26 of the financial statements. There are also areas in which management's judgment in selecting available alternatives would not produce materially different results. For a summary of significant accounting policies and methods used in the preparation of the financial statements, see Note 2 and Note 27 to the consolidated financial statements.

#### Financial Services

Banco de Chile prepares its financial statements in accordance with Chilean GAAP and the rules of the SBIF. It is required to make estimates and assumptions in the application of certain rules because they are related to matters that are inherently uncertain. Banco de Chile believes that the

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following are the more critical judgment areas or are those accounting policies that involve a higher degree of complexity and affect the bank's financial condition and results of operations.

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### Allowance for Loan Losses

Under the regulations of the SBIF, banks must classify their loan portfolio into five categories of payment capability. The minimum amount of required loan loss allowances are determined based on fixed percentages of estimated loan losses assigned to each category.

The classification of the Bank's loan portfolio for Chilean GAAP purposes and for allowances for loan losses under U.S. GAAP is determined through statistical modeling and estimates. Informed judgments must be made when identifying deteriorating loans, the probability of default, the expected loss, the value of collateral and current economic conditions. Even though Banco de Chile considers its allowances for loan losses to be adequate, the use of different estimates and assumptions could produce different allowances for loan losses, and amendments to the allowances may be required in the future due to changes in the value of collateral, the amount of cash to be received or other economic events.

On January 1, 2004, Chilean banks were required to reassess their allowance for loan losses in accordance with Circular No. 3,246 issued by the SBIF, which contemplates a new methodology to determine allowances for loan losses. This new regulation did not adversely affect Banco de Chile's financial position or results of operations; however, there was an increase in the number of categories of payment capability with the objective of more closely aligning the allowance with the likely cash flows to be received in the future. The classification of the bank's loan portfolio is determined based on a systematic ongoing review and evaluation performed as part of the credit-risk evaluation process, estimated fair value and adequacy of collateral and other pertinent factors. Additionally, in the past, Chilean banks were also permitted to maintain voluntary reserves in excess of the minimum required amount so as to provide additional coverage for potential loan losses. Under the new regulations, banks are not permitted to have voluntary reserves in order to reduce the subjectivity involved in the determination of the allowance.

### Investment securities

Investment portfolios principally include debt securities purchased in connection with the bank's balance sheet management activities. These securities are classified at the time of purchase, based on management's intentions, as either trading or permanent.

The bank accounts for financial investments that have a secondary market at fair value with unrealized gains and losses included in other operating income (expenses) for those classified as trading investments, and unrealized gains and losses are included in a separate component of shareholders' equity for those classified as permanent, in accordance with the regulations of the SBIF. All other financial investments are carried at acquisition cost plus accrued interest and UF indexation adjustments, as applicable.

If available, quoted market prices provide the best indication of value. If quoted market prices are not available for fixed maturity securities, the bank discounts the expected cash flows using market interest rates commensurate with the credit quality and maturity of the investment. Alternatively, matrix or model pricing may be used to determine an appropriate fair value.

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### Fair value accounting

A portion of Banco de Chile's assets and liabilities are carried at fair value. Under both Chilean GAAP and U.S. GAAP, financial instruments are stated at fair value, except for those classified as "held-to-maturity" under U.S. GAAP, which are carried at amortized cost. Under U.S. GAAP, derivative financial instruments are recorded at fair value and assets received in lieu of payment are recorded at fair value less their estimated cost of sale. Fair values are based on quoted market prices or, if not available, on internally developed pricing models informed by independently obtained market information. If market information is limited or in some instances not available, management applies its professional judgment. Other factors that may also affect estimates are incorrect model assumptions, market

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dislocations and unexpected correlations. Notwithstanding the level of subjectivity inherent in determining fair value, we believe our estimates of fair value are adequate. The use of different models or assumptions could lead to changes in our reported results.

### Food and Beverage

#### Allowance for Doubtful Accounts

The allowance for doubtful accounts is based upon the assessment of probable loss related to overdue accounts receivable. A 100% provision is applied for those customers that are 180 days overdue in the case of CCU and 90 days overdue in respect of Indalsa.

#### Accounting for bottles

CCU incurs a liability for the deposits on bottles in circulation paid by its customers. Its recorded liability for such deposits is based on an annual inventory of the bottles and cases in the possession of customers along with an independent statistical analysis of the number of deposits that have not been reclaimed.

Bottles are included in fixed assets and depreciated over the estimate of their useful life. For glass bottles, CCU estimates the useful life to be eight years while for plastic bottles, it estimates the useful life to be four years.

#### Inventory

CCU's inventories of finished and in-process goods, raw materials and supplies are stated at replacement cost, as defined in the Chilean Income Tax Law, including solely the cost of raw materials added to the products. The resulting value of inventories does not exceed their estimated net realizable values.

At December 31, 2002, CCU's subsidiaries Cervecera CCU Chile Ltda., ECUSA, Plasco S.A. and Compania Industrial Cervecera S.A. changed the method used to value their finished products from direct cost including only raw materials to a method that includes raw materials, labor and overhead costs.

### Telecommunications

#### Revenue Recognition

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Telefonica del Sur's revenues include income from contract fees and services rendered but not billed at each period end, which have been valued at contracted rates existing at each respective period end.

### Manufacturing

#### Revenue Recognition

Madeco recognizes revenues when goods are shipped or services are provided and recognizes provisions for anticipated losses on contracts at the time they become known.

#### Inventories

Inventories of finished products, work in progress and by-products are valued at production cost including direct manufacturing costs plus price-level restatement ("restated cost"). Inventories of goods for resale, raw materials, other materials and materials in transit are valued at restated cost. Work in progress and finished goods include direct and indirect manufacturing costs. Madeco regularly reviews inventory quantities on hand and records a provision for excess and obsolete inventory based primarily on an estimated forecast of product demand and production requirements. Inventory values do not exceed their estimated net realizable value. Additionally, Madeco's estimates of future product demand may prove to be inaccurate, in which case the company may have understated or overstated the provision

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required for excess and obsolete inventory. In the future, if inventory is determined to be overvalued, Madeco would be required to recognize such costs in cost of goods sold at the time of such determination. Likewise, if inventory is determined to be undervalued, Madeco may have over-reported costs of goods sold in previous periods and would be required to recognize such additional operating income at the time of sale. Therefore, although Madeco makes every an effort to ensure the accuracy of its forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of its inventory and reported operating results.

Accounting policies common to all segments and areas of accounting to which a U.S. reader may not be accustomed.

#### Accounting for Argentine operations

Since 1991, the Argentine peso had been pegged to the U.S. dollar at a rate of 1 Argentine peso to 1 U.S. dollar. In early December 2001, restrictions were put in place that prohibited cash withdrawals above a certain amount and foreign money transfers, with certain limited exceptions. While the legal exchange rate remained at 1 peso to 1 U.S. dollar, financial institutions were allowed to conduct only limited activity due to these controls, and currency exchange activity was effectively halted except for personal transactions in small amounts.

In January 2002, the Argentine government announced its intent to create a dual currency system with an "official" fixed exchange rate of 1.4 pesos to 1 U.S. dollar for import and export transactions, and a "free" floating exchange rate for other transactions. On January 11, 2002, the exchange rate market holiday ended. The new "free" floating exchange rates ranged from 1.6 to 1.7 pesos to 1 U.S. dollar. On February 3, 2002, the Argentine government issued a decree to (1) eliminate the fixed exchange rate of 1 to 1; (2) establish one "free" floating exchange rate for the Argentine peso; and (3) require that U.S.

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dollar-denominated obligations be converted to peso-denominated obligations using mandated conversion rates, depending on the type of obligation. The "free" floating exchange rate was 1.7 Argentine pesos per U.S. dollar on the day the market opened on February 11, 2002.

The financial statements of the Company's Argentine operations are remeasured into U.S. dollars under Chilean GAAP in accordance with Technical Bulletin 64 ("BT 64"), which requires remeasurement of financial statements of foreign subsidiaries that operate in countries exposed to significant risks ("unstable" countries), and that are not considered to be an extension of the parent company's operations. The Company has remeasured its Argentine subsidiary financial statements in accordance with SVS Circular No. 81 using the conversion rate of 1.7 Argentine pesos per U.S. dollar for the year ended December 31, 2001 and thereafter has used the floating market exchange rate.

### Price-level restatement

Chilean GAAP requires that financial statements be restated to reflect the full effects of the loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The method prescribes that the historical cost of all non-monetary accounts be restated for general price-level changes between the date of origin of each item and the year-end. The Company's consolidated financial statements have been price-level restated in order to reflect the effects of the changes in the purchasing power of the Chilean currency during each year. All non-monetary assets and liabilities and all equity accounts have been restated to reflect the changes in the CPI from the date they were acquired or incurred to year-end. The purchasing power gain or loss included in net income reflects the effects of Chilean inflation on monetary assets and liabilities. For comparative purposes, the historical December 31, 2002 and 2003 consolidated financial statements and their accompanying notes have been presented in constant Chilean pesos as of December 31, 2004. This updating does not change the prior years' statements or information in any way except to update the amounts to constant pesos of similar purchasing power.

The price-level adjusted consolidated financial statements do not purport to represent appraised values, replacement cost, or any other current value of assets at which transactions would take place

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currently and are only intended to restate all non-monetary consolidated financial statement components in terms of local currency of a single purchasing power and to include in the net result for each year the gain or loss in purchasing power arising from the holding of monetary assets and liabilities exposed to the effects of inflation.

### Technical Bulletin No. 64

In October 1998, the Chilean Association of Accountants (Colegio de Contadores de Chile) issued Technical Bulletin No. 64, Accounting for Permanent Foreign Investments. Technical Bulletin No. 64 replaced Technical Bulletin No. 51, which was effective as from January 1, 1996. As required by Chilean GAAP, Technical Bulletin No. 64 has been applied prospectively from January 1, 1998. Technical Bulletin No. 64 differs from the foreign currency translation procedures to which a U.S. investor is accustomed under Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation" issued by the Financial Accounting Standards Board. Technical Bulletin No. 64 changes the method used to restate the foreign investments, by first translating foreign currency amounts in respect of foreign subsidiaries and investees to U.S.

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dollars at historical rates of exchange and then translating the U.S. dollar amounts to Chilean pesos at the period-end rate of exchange. In effect, the foreign investments are adopting the U.S. dollar as their "functional currency", because the Chilean peso is not considered to be a stable currency.

The application of Technical Bulletin No. 64 results in the comprehensive separation of the effects of inflation in Chile (for financial accounting purposes) from the changes in foreign currency translation, with respect to non-Chilean investments. Under Chilean GAAP, the amount of the net foreign investment as of the opening balance sheet date is price-level restated for the effects of inflation in Chile, thereby increasing net income due to price-level restatement. Changes in the opening balance sheet balance of the net foreign investment due to movements in the Chilean peso to U.S. dollar exchange rates are recorded net of the effects of price-level restatement mentioned above in shareholders' equity under the caption "cumulative translation adjustments." As a result, during periods when the Chilean peso depreciates in excess of inflation in Chile, compared to the U.S. dollar, shareholders' equity would increase. Conversely, during periods in which the Chilean peso appreciates in excess of inflation in Chile, as compared to the U.S. dollar, shareholders' equity would decrease.

The application of Chilean foreign currency translation standard Technical Bulletin No. 64 with respect to the translation of non-Chilean operations is part of the comprehensive basis of preparing of price-level adjusted financial statements required by Chilean GAAP. The inclusion of inflation and translation effects in the financial statements is considered appropriate under the inflationary conditions that have historically affected the Chilean economy and, accordingly, have not been eliminated. The U.S. Securities Exchange Commission has confirmed that they do not object to the view that the adjustments made in respect of investments in unstable countries are part of a comprehensive basis of adjusting for inflation. Accordingly, differences between Technical Bulletin No. 64 and SFAS No. 52 do not need to be eliminated in the reconciliation to U.S. GAAP. If the Company applied SFAS No. 52 instead of Technical Bulletin No. 64, significant differences would result:

- As the methodology used to determine both the Company's and its subsidiaries functional currencies differs under SFAS No. 52, it is probable that the local currency would be considered the functional currency of the Company's foreign subsidiaries instead of the U.S. dollar.
- Income statement amounts would be translated using the actual or average exchange rates instead of the closing rates.
- Gains or losses recorded in net income for the period related to foreign currency denominated assets and liabilities may vary significantly.

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### Recoverability of Tangible Assets

The Company assesses the permanent impairment of tangible assets and investments whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors it considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;

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- significant changes in the use of the acquired assets or the strategy for the overall business;
- significant negative industry or economic trends.

When the Company determines that the carrying value of tangible assets and investments may not be recoverable based upon the existence of one or more of the above indicators of impairment, it evaluates the future cash flows to determine if it needs to write down the asset or the investment. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the assets, the Company would recognize an impairment loss. The measurement of the impairment loss is based on the fair value of the asset, which is generally determined using a discounted cash flow approach and recent comparable transactions in the market.

### Derivative Contracts

The Company maintains foreign exchange forward and swap contracts to hedge against the risk of fluctuations in foreign currencies. These contracts are recorded at fair value with losses recognized in earnings. Generally, fair values under Chilean GAAP are estimated using the closing spot exchange rate and interest rate differential at the period end, because listed forward market prices between these currencies are not widely available in the Chilean market, and spot rates and interest rate differentials are the accepted local standard to estimate fair value.

The Company's estimates of fair value are based on assumptions about market variables that may change in the future. Changes in assumptions could have a significant impact on the estimates. As a result, such fair value amounts are subject to volatility and are dependent on the quality of the assumptions used.

### Income and Deferred Taxes

In accordance with Chilean law, the Company and each of its subsidiaries compute and pay tax on a separate basis. The Company estimates its actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as depreciation, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheet.

Prior to January 1, 2000 deferred taxes were not recorded under Chilean GAAP. As a transitional provision, the Company recorded a contra asset or liability offsetting the effects of the deferred tax assets and liabilities not recorded prior to that date. These asset or liability amounts must be amortized to income over the estimated average reversal periods corresponding to the underlying temporary differences to which the deferred tax asset or liability relates calculated using the tax rates in effect at the time of reversal. The Company then assesses the likelihood that its deferred tax assets will be recovered from future taxable income and to the extent it believes that recovery is unlikely, it establishes a valuation allowance. Revisions to the estimated realizable value of deferred tax assets or estimated average reversal periods of contra assets or liabilities could cause the provision for income taxes to vary significantly from period to period.

### Changes in Accounting Principles

Financial Services - Banco de Chile and Banco Edwards

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During 2000 for Banco Edwards and 2001 for Banco de Chile, the banks began to write-off assets received or awarded in lieu of payment, and assets recovered from leasing operations, on a straight-line basis over 18 months if they are not sold within one year. Previously, they were required to write-off completely those assets received in lieu of payment that were not sold within one year.

Also during 2000 for Banco Edwards and 2001 for Banco de Chile, the banks modified the accounting treatment of fees and expenses related to the origination of loans, as well as fees for services rendered, to be deferred and recognized in income over the term of the loans to which they relate, and over the period that the services are performed. Previously, these fees and expenses were recognized in income as the fees were received or the expenses incurred.

The changes in accounting principles described above were made in order to comply with regulations issued by the SBIF.

On January 1, 2004, in accordance with Circular No.3,246 of the Superintendency of Banks and Financial Institutions, the new standards on determination of Loan Loss Provisions established in Chapter 7-10 of this Superintendency's accounting rules became effective. Application of this new criterion for determining provisions did not have a significant effect on the financial situation of Banco de Chile and its subsidiaries presented in these consolidated financial statements. In addition, Banco de Chile redesignated the voluntary provisions recorded as of December 31, 2003 to the additional provisions category in conformity with the new regulations.

For U.S. GAAP purposes, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets", as of January 1, 2002, which applies to all goodwill and identified intangible assets acquired in a business combination. Under the new standard, all goodwill, including that acquired before initial application of the standard, and indefinite-lived intangible assets are not amortized, but must be tested for impairment at least annually. In addition to the transitional impairment test required by the standard, which was performed during 2002 and which did not result in any impairment, the Company must perform the required impairment test annually. The Company is required to apply the new standard prospectively.

### U.S. GAAP RECONCILIATION

The differences between Chilean GAAP and U.S. GAAP as they affected the Company's results for the three years in the period ended December 31, 2004 principally related to accounting for (i) the consolidation of banking operations, (ii) the recognition of goodwill and other purchase accounting adjustments resulting from the step acquisitions of Banco de Chile and Banco Edwards and their subsequent merger and the subsequent amortization of such differences, (iii) investments accounted for by the equity method, (iv) price-level restatement, (v) investment securities, and (vi) deferred income taxes.

### Consolidation of Banking Operations

Under Chilean GAAP, banking operations are not generally consolidated with non-financial businesses in Chile primarily due to the dissimilarity of both the nature of the businesses and the related accounting policies. However, under U.S. GAAP, all majority-owned subsidiaries, including the Company's banking subsidiaries, must be consolidated. Note 27 to the financial statements presents the effects of consolidating the Company's banking operations under Chilean

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GAAP.

Recognition of goodwill and other purchase accounting and merger adjustments

Under Chilean GAAP, the Company recorded assets acquired and liabilities assumed from the step acquisitions of Banco de Chile and Banco Edwards at their historical carrying values. The excess of the purchase price over carrying values is recorded as goodwill.

Under U.S. GAAP, the Company has allocated the purchase price between the fair value of the identifiable assets assumed and identifiable liabilities acquired as of the acquisition date. Any remaining unidentifiable excess amount of the purchase price is recorded as goodwill. Included in the fair value of the assets are identifiable intangible assets, such as the brand name and the value of the banks' long-term customer relationships. Goodwill must be allocated to reporting units and tested for impairment. The Company tests goodwill, including those amounts related to its banking operations, for impairment annually or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test. Impairment testing is performed at the reporting-unit level, which is generally one level below the each of business segments included in our audited consolidated financial statements. The test consists of two parts. The first of which is a test comparing the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value is less than the carrying value, then the second part of the test is conducted to measure the amount of potential goodwill impairment. The implied fair value of the reporting unit goodwill is calculated and compared to the carrying amount of goodwill recorded in our financial records. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, then we would recognize an impairment loss in the amount of the difference, which would be recorded as a charge against net income.

The fair values of the reporting units are determined using discounted cash flow models based on each reporting unit's internal forecasts.

Based on the above analyses under U.S. GAAP goodwill related to the Company's investment in Madeco was determined to be impaired during the years ended December 31, 2002 and 2003, and as a result a corresponding charge was taken to income. Goodwill was determined not to be impaired as of December 31, 2004, nor was any goodwill written-off and 2004.

The initial goodwill and intangibles recorded and subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired asset will perform in the future using a discounted cash flow analysis. Additionally, estimated cash flows may extend beyond ten years and, by their nature, are difficult to determine. Events and factors that may significantly affect the estimates include competitive forces, customer behavior and attrition, changes in revenue growth trends, cost structures and technology and changes in interest rates and specific industry or market sector conditions. Impairment is recognized earlier whenever warranted. For a further discussion of accounting practices for goodwill under U.S. GAAP, see Note 27 to the Consolidated Financial Statements.

Investments accounted for by the equity method

The Company records certain investments using the equity method under both Chilean and U.S. GAAP. Under the equity method, the carrying amount of an investment is initially recorded at cost and is displayed in a separate caption on the balance sheet and income statement of the investor. The carrying value is adjusted to recognize the investor's share of changes in the carrying amount of the investee determined subsequent to the date of investment. The Company's

equity participation in the increases or

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decreases in the carrying value of such investments is generally included in the determination of net income by the investor. However, the Company is required to adjust an investee's Chilean GAAP financial statements to U.S. GAAP in order to determine its equity participation in the net income of the investment under U.S. GAAP. There are significant differences in accounting criteria applied under Chilean GAAP as compared to U.S. GAAP in the Company's equity method investments in CCU and Banco de Chile.

In CCU, the main U.S. GAAP differences in accounting criteria relate primarily to deferred income taxes, goodwill and trademark amortization, employee severance indemnities and the capitalization of interest cost.

Similarly, due to basis differences that exist in the carrying values of investments in other companies that the Company holds, differences exist in the amount of gain or loss that is recorded under U.S. GAAP and Chilean GAAP when the investment is sold.

#### Price-level restatement

Chilean accounting principles require that financial statements be restated to reflect the full effects of loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The method, which is described in more detail in note 2(b) to the Company's consolidated financial statements, is based on a model that requires the calculation of net inflation gains or losses caused by monetary assets and liabilities exposed to changes in the purchasing power of the local currency by restating all non-monetary accounts in the financial statements. The model prescribes that the historical cost of such accounts be restated for general price-level changes between the date of origin of each item and the year-end.

Although the cumulative inflation rate in Chile as measured by the Consumer Price Index for the three-year period ended December 31, 2004 was only approximately 6.6%, the inclusion of price-level adjustments in the Company's consolidated financial statements is considered appropriate under the prolonged inflationary conditions that have affected the Chilean economy in the past. Therefore, the Company has not eliminated the effect of price-level changes in its reconciliation to U.S. GAAP.

#### Investment Securities

The Company held a 5.7% ownership interest in Entel as of December 31, 2002, 2003 and 2004. Under Chilean GAAP, this investment is recorded based on the Company's equity participation in the net income and net equity of Entel. Under U.S. GAAP, these investments would be classified as available-for-sale marketable securities with unrealized gains and losses included in a separate component of shareholders' equity, while realized gains and losses on sale of such investment securities are included in the results from operations.

#### Deferred Income Taxes

On January 1, 2000, the Company began to apply Technical Bulletin No.60 of the Chilean Association of Accountants concerning deferred taxes. Technical Bulletin No.60 requires the recognition of deferred income taxes for all temporary differences arising after January 1, 2000, whether recurring or not, using an asset and liability approach. For U.S. GAAP purposes, in prior years the Company had applied SFAS 109, "Accounting for Income Taxes", whereby income

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taxes are also recognized using substantially the same asset and liability approach, with deferred income tax assets and liabilities established for temporary differences between the financial reporting basis and tax basis of the assets and liabilities based on rates at the time that the temporary differences are expected to reverse.

Prior to the implementation of Technical Bulletin No. 60, the Company had not recorded deferred income taxes under Chilean GAAP to the extent that the timing differences were expected to be offset in the year that they were projected to reverse by new timing differences of a similar nature. Because the

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effects of deferred income taxes are only recognized in the results of operations for temporary differences arising after January 1, 2000, after that date, Chilean GAAP and U.S. GAAP differ primarily due to the recognition for U.S. GAAP purposes of the reversal of deferred income taxes included in the U.S. GAAP reconciliation in prior years.

Investments held in other companies and sales of interests in other companies

Under Chilean GAAP, the investments held in other companies are reported in the financial statements at the lower of restated cost or market value. Unrealized losses on such investments are reflected in the statements of income.

Under U.S. GAAP, investments in other companies are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, a separate component of shareholders' equity, net of the deferred income tax effects.

Due to differences in carrying value in the interests in other companies that the Company holds, when the Company sells such investments, there is a difference in the amount of gain or loss that is recorded under U.S. GAAP and Chilean GAAP.

### Derivative Instruments

Under Chilean GAAP the Company's banking operations account for forward contracts between foreign currencies and U.S. dollars at fair value with realized and unrealized gains and losses on these instruments recognized in other income. As required by the guidelines issued by the SBIF, forward contracts between the U.S. dollar and the Chilean peso, or the UF, are valued at the closing spot exchange rate at each balance sheet date, with the initial discount or premium being amortized over the life of the contract. Interest rate swap agreements are treated as off-balance-sheet financial instruments and the net interest effect, which corresponds to the difference between interest income and interest expense arising from such agreements, is recorded in net income in the period that such differences originate, except for interest rate and cross currency swaps designated as a hedge of the foreign investment portfolio, which are recorded at their estimated fair market values. Under U.S. GAAP, Banco de Chile's entire portfolio of swap agreements are recorded at their estimated fair value and forward contracts between the U.S. dollar and the Chilean peso, or the UF, at the fair value based on the forward exchange rate.

Additionally, certain of the Company's subsidiaries are required to separately measure embedded derivatives included within host contracts as freestanding derivative instruments at their estimated fair values. All changes in fair value of such instruments are recognized in earnings when they occur.

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### B. LIQUIDITY AND CAPITAL RESOURCES

#### General

As a holding company, Quinenco's income and cash flow and its ability to pay debt obligations and dividends depends primarily upon the receipt of dividends and other capital distributions from its subsidiaries, equity investments, other investments accounted for under the cost method and related companies and, to a certain extent, on the periodic sale of investments. The payment of dividends by such subsidiaries, equity investments and related companies is in certain instances subject to restrictions and is contingent upon their earnings and cash flows.

Some of the Company's loan agreements contain contractual restrictions on the ability of subsidiaries to transfer funds to the parent company in certain specific situations, such as negative covenants on the payment of dividends or advances. However, Quinenco does not believe that any of these covenants or restrictions will have any material impact on its ability to meet its cash obligations. Note 27 to the consolidated financial statements provides a description of restrictions which limit the payment of dividends.

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Quinenco owns a controlling interest in most of the companies in which it invests and has in the past and expects in the future to influence the dividend policies of its subsidiaries and affiliates in order to retain resources within such companies where it is deemed necessary or appropriate to further these entities' individual business plans and strategies. In addition, certain of Quinenco's non-consolidated subsidiaries and related companies, and their respective subsidiaries, are operated pursuant to shareholders' agreements that require unanimous consent of the parties thereto to pay dividends beyond the minimum required by law, and in some cases, the parties have agreed not to pay dividends for certain periods.

In addition to funds used for its own operations, Quinenco's primary use of funds has been oriented to investments in consolidated investments and unconsolidated equity investments. Quinenco believes that its working capital is sufficient to meet its present working capital requirements.

#### CASH AND CASH EQUIVALENTS

	2002	2003	2004
	-----	-----	-----
	(in millions of constant Ch\$)		
Madeco.....	8,032	5,556	12,872
Indalsa.....	92	8,259	1,813
Telefonica del Sur.....	2,011	1,944	8,206
Hoteles Carrera.....	175	6,240	939
Quinenco & intermediate holding co. ....	86,058	35,717	18,600
	-----	-----	-----
Total.....	96,368	57,716	42,430
	=====	=====	=====

At December 31, 2004, the Company had cash and cash equivalents totaling Ch\$42,430 million on a consolidated basis and Ch\$10,716 million on a non-consolidated basis. This compares to Ch\$57,716 million on a consolidated basis and Ch\$28,617 million on a non-consolidated basis at December 31, 2003 and Ch\$96,368 million on a consolidated basis and Ch\$62,093 million on a non-consolidated basis at December 31, 2002.

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DIVIDEND INCOME

The following table shows dividends received by the Company from its investments in 2002, 2003 and 2004:

	Dividends Paid	% of Economic Interest Owned by Quinenco (1)	Amount Co Quinenco In
	-----	-----	-----
	(in millions of constant Ch\$, except per		
2004			
----			
Banco de Chile.....	Ch\$130,550	29.9%	
CCU.....	28,886	30.8	
Telefonica del Sur.....	4,481	73.7	
Entel.....	21,480	5.7	
Others.....	n/a	n/a	
Eliminations.....	n/a	n/a	
Total.....	n/a	n/a	
2003			
----			
Banco de Chile.....	Ch\$53,948	29.2%	
CCU.....	192,999	30.8	
Telefonica del Sur.....	4,326	73.6	
Entel.....	16,004	5.7	
Others.....	n/a	n/a	
Eliminations.....	n/a	n/a	
Total.....	n/a	n/a	
2002			
----			
Banco de Chile.....	Ch\$100,490	29.2%	
CCU.....	23,913	30.8	
Telefonica del Sur.....	4,985	73.6	
Entel.....	12,194	5.7	
Others.....	n/a	n/a	
Eliminations.....	n/a	n/a	
Total.....	n/a	n/a	

(1) Directly or indirectly

OPERATING ACTIVITIES

Consolidated cash flow provided by operating activities was Ch\$57,831 million in 2004, compared to cash flow provided by operating activities of Ch\$66,463 million and Ch\$31,065 million in 2003 and 2002, respectively.

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### Operating Activities - 2004

In 2004, cash flow provided by operating activities totaled Ch\$57,831 million. The main components of cash flow generated by operating activities in 2004 mainly consisted of dividend income of Ch\$49,052 million (see "Dividend Income" table in this section) and collection of accounts receivable (net of payments to suppliers and personnel) of Ch\$42,728 million. Collection of accounts receivable (net), of which Ch\$53,606 million corresponded to Telefonica del Sur's and Madeco's operations, was partially offset by net payments to suppliers and personnel of Ch\$10,878 million made by Quinenco and intermediate holding companies. Cash flow provided by operating activities was partially offset by cash flow used in operating activities, which mainly consisted of interest paid of Ch\$26,683 million and VAT taxes and other similar items paid of Ch\$11,693 million.

The negative variation of Ch\$8,632 million in cash flow provided by operating activities between 2004 and 2003 is attributable to a decrease in dividend income of Ch\$27,365 million, the effect of which

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was partially offset by a reduction in the amount of interest, VAT taxes and other expenses paid during the year, as well as an increase in the collection of accounts receivable (net), the sum of which amounted to an increase of Ch\$15,130 million compared to 2003. The variation in dividend income between the two years is mainly explained by an extraordinary dividend of Ch\$53,106 million paid by CCU in 2003. Interest paid decreased by Ch\$5,107 million, mostly in relation to the divestment of Lucchetti Chile and lower indebtedness at Madeco. The decline in VAT taxes and other similar items paid is primarily attributable to the sale of Lucchetti Chile. Other expenses decreased as a result of the reductions in other expenses paid at Madeco and Telefonica del Sur. Accounts receivable collections increased at both Madeco and Telefonica del Sur by Ch\$4,659 million and Ch\$5,728 million, respectively, although at the consolidated level, this was partially offset by the sale of Lucchetti Chile which explained a reduction in the same account of Ch\$7,395 million.

### Operating Activities - 2003

In 2003, cash flow provided by operating activities totaled Ch\$66,463 million. The main components of cash flow generated by operating activities in 2003 mainly consisted of dividend income of Ch\$76,417 million (see "Dividend Income" table in this section) and collection of accounts receivable (net of payments to suppliers and personnel) of Ch\$39,103 million. Collection of accounts receivable (net), of which Ch\$43,219 million corresponded to Telefonica del Sur's and Madeco's operations, were partially offset by net payments to suppliers and personnel of Ch\$7,295 million made by Quinenco. Cash flow provided by operating activities was partially offset by cash flow used in operating activities, which mainly consisted of interest paid of Ch\$31,790 million and VAT taxes and other similar items paid of Ch\$14,605 million.

The variation of Ch\$35,398 million in cash flow provided by operating activities between 2003 and 2002 is attributable to various factors, the most relevant of which was an increase in dividend income of Ch\$46,118 million, mainly attributable to an extraordinary dividend paid by CCU. In addition, interest paid decreased by Ch\$13,305 million, mainly in relation to Madeco as a result of its financial restructuring, and to Quinenco and intermediate holding companies, as well as the deconsolidation of Lucchetti Chile. Quinenco and intermediate holding companies decreased the amount of interest paid as a result of lower indebtedness levels and a decline in prevailing interest rates. VAT

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taxes and other similar items paid decreased by Ch\$9,087 million, almost entirely attributable to Madeco's operations.

The increase in cash flow provided by operating activities was partially offset by a decrease in collection of accounts receivable (net of payments to suppliers and personnel) of Ch\$19,661 million and a reduction in financial income of Ch\$11,697 million. The decrease in collection of accounts receivable (net of payments to suppliers and personnel) mainly corresponded to Madeco's operations as a consequence of its lower sales level and slower turnover, partially offset by an increase in collection of accounts receivable (net of payments to suppliers and personnel) due to the deconsolidation of Lucchetti Chile. The decline in financial income was mostly attributable to Quinenco's and Madeco's operations in connection with lower average cash and cash equivalent balances maintained throughout 2003, as well as lower prevailing interest rates.

### Operating Activities - 2002

In 2002, cash flow provided by operating activities totaled Ch\$31,065 million. The principal components of cash flow generated by operating activities in 2002 were dividend income of Ch\$30,299 million (see "Dividend Income" table in this section), collection of accounts receivable (net of payments to suppliers and personnel) of Ch\$58,763 million and financial income of Ch\$14,573 million. Collection of accounts receivable (net of payments to suppliers and personnel) mainly corresponded to Madeco's and Telefonica del Sur's operations of Ch\$70,117 million, partially offset by net payments to suppliers and personnel made by Quinenco and intermediate holding companies of Ch\$11,456 million. Financial income was mostly attributable to Quinenco's and Madeco's operations. Cash flow provided by operating activities was partially offset by cash flow used in operating activities which mainly consisted of interest paid of Ch\$45,095 million and VAT taxes and other similar items paid of Ch\$23,692 million.

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### INVESTING ACTIVITIES

In 2004, consolidated cash flow used in investing activities was Ch\$31,021 million, compared to cash flow provided by investing activities of Ch\$12,260 million and Ch\$908 million in 2003 and 2002, respectively.

### Investing Activities - 2004

In 2004, cash flow of Ch\$50,725 million was used to invest in other companies, primarily the purchase of 11.4% of the shares of Almacenes Paris for Ch\$35,398 million and Ch\$15,327 million in other investments, including a 50% interest in Calaf S.A.. Investment in property, plant and equipment amounted to Ch\$19,112 million, mainly attributable to investments made by Madeco and Telefonica del Sur, which totaled Ch\$15,414 million. The cash flow used in investing activities was partially offset by proceeds of Ch\$11,400 million from the sale of Lucchetti Chile and proceeds from the sale of other investments of Ch\$28,665 million, primarily related to the liquidation of financial instruments held by Madeco (see table "Proceeds from Sales of Investments" in this section).

### Investing Activities - 2003

In 2003, the main components of cash flow provided by investing activities were funds provided by other investing activities (net) of Ch\$38,673 million, proceeds from the sale of investments of Ch\$20,913 million and proceeds from the sale of property, plant and equipment of Ch\$16,152 million (see table "Proceeds from Sales of Property, Plant and Equipment" in this section). Cash flow

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provided by other investing activities (net) mostly consisted of a settlement payment of Ch\$36,936 million received by Quinenco from its former partner in IRSA in connection with the arbitration process that was concluded in early 2003. Proceeds from the sale of other investments were almost entirely attributable to the liquidation of financial instruments held by Madeco (see table "Proceeds from Sales of Investments" in this section). Proceeds from the sale of property, plant and equipment mainly corresponded to the sale of the Hotel Carrera building and grounds in November 2003 for Ch\$14,478 million.

Cash flow provided by investing activities was partially offset by investments in financial instruments of Ch\$50,054 million, of which Ch\$49,981 million corresponded to Madeco, and additions to property, plant and equipment of Ch\$12,457 million of which Ch\$7,494 million and Ch\$3,566 million corresponded to fixed asset additions at Telefonica del Sur and Madeco, respectively.

### Investing Activities - 2002

In 2002, the main components of cash flow provided by investing activities were funds provided by other investing activities (net) of Ch\$22,005 million and proceeds from the sale of property, plant and equipment of Ch\$2,869 million (see table "Proceeds from the Sale of Property, Plant and Equipment" in this section), partially offset by additions to property, plant and equipment of Ch\$23,691 million. Cash flow provided by other investing activities (net) mostly consisted of a receipt of a note receivable at Quinenco for Ch\$21,408 million related to the Banco Edwards share acquisition in 1999. Cash flow used in investing activities in 2002 was primarily related to additions to plant, property and equipment of Ch\$14,870 million at Telefonica del Sur and Ch\$6,627 million at Madeco.

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### PROCEEDS FROM SALES OF PROPERTY, PLANT AND EQUIPMENT

The following table shows proceeds received by the Company from the sales of property, plant and equipment in 2002, 2003 and 2004:

	2002	2003	2004
	-----	-----	-----
	(in millions of constant Ch\$)		
Madeco.....	Ch\$834	Ch\$1,098	Ch\$986
Indalsa.....	90	47	984
Telefonica del Sur.....	1,657	37	208
Hoteles Carrera.....	211	14,479	781
Quinenco & intermediate holding co. ....	77	491	1,252
	-----	-----	-----
Total.....	Ch\$2,869	Ch\$16,152	Ch\$4,211
	=====	=====	=====

### PROCEEDS FROM SALES OF INVESTMENTS

The following table shows proceeds received by the Company from the sales of investments in 2002, 2003 and 2004:

	2002	2003	2004
--	------	------	------

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	-----	-----	-----
	(in millions of constant Ch\$)		
Madeco.....	Ch--	Ch\$20,837	Ch\$28,665
Indalsa.....	--	--	11,400
Telefonica del Sur.....	--	--	--
Hoteles Carrera.....	--	--	--
Quinenco & intermediate holding co. ....	622	76	--
	-----	-----	-----
Total.....	Ch\$622	Ch\$20,913	Ch\$40,065
	=====	=====	=====

### FINANCING ACTIVITIES

Madeco, Telefonica del Sur, Indalsa, Banco de Chile, CCU, Hoteles Carrera and Habitaria generally do not rely on each other or on Quinenco for financing except that they may rely on Quinenco when significant new capital or other expenditures are to be made. When intercompany financing is needed, it is generally provided by Quinenco to such companies (or to intermediate holding companies) by means of capital contributions or loans. Quinenco, its intermediate holding companies, subsidiaries and affiliates may periodically borrow from the Company's bank in the ordinary course of business on commercial terms and on an arms' length basis.

Quinenco believes that it has access to local and international funding such as short-term and long-term bank borrowings, bonds and capital markets in order to fund its investment programs.

The cash flows of Banco de Chile, CCU, Entel and Habitaria, which are accounted for under the equity method, are not included in the Company's consolidated statements of cash flows.

In 2004, consolidated cash flow used in financing activities was Ch\$41,433 million, compared to cash flow used in financing activities of Ch\$102,186 million in 2003 and cash flow provided by financing activities of Ch\$5,311 million in 2002.

#### Financing Activities - 2004

The treasury policy of the Company is to invest excess cash in highly liquid financial instruments issued by highly rated financial institutions in Chile and abroad. Investments are primarily made in Chilean pesos and U.S. dollars.

In 2004, the main use of cash flow from financing activities was payments of loans (net of new borrowings), which amounted to Ch\$53,882 million and mainly corresponded to payments made by LQIF and intermediate holding companies. In addition, LQIF repaid a loan to a related company amounting to Ch\$40,614 million. Quinenco paid cash dividends of Ch\$18,849 million in 2004. Cash flow provided by

financing activities mainly consisted of a net increase of Ch\$64,104 million in bonds payable. In 2004, LQIF and Madeco issued bonds (net of costs) amounting to Ch\$114,714 million and Ch\$30,563 million, respectively, in the Chilean market. Bond obligations were partially offset by payments made by Quinenco, Madeco and Telefonica del Sur of Ch\$81,173 million. Additional cash flow provided by financing activities was primarily related to a capital increase of Ch\$10,173

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million contributed by minority shareholders at Madeco.

### Financing Activities - 2003

In 2003, the main use of cash flow from financing activities was payments of loans and bonds (net of new borrowings and issuances), which amounted to Ch\$160,789 million and mainly corresponded to payments made by Madeco, Quinenco and intermediate holding companies. Net cash flow used in financing activities was partially offset by contributions by minority shareholders to Madeco's 2003 capital increase of Ch\$45,932 million. Cash flow provided by financing activities also included an increase of Ch\$14,141 million in accounts payable to related companies, mainly consisting of a US\$19 million (value at transaction date) loan made by a financial entity related to Quinenco's controlling shareholder, Andsberg Finance Corporation Ltd., to an intermediate holding company of Quinenco.

### Financing Activities - 2002

In 2002, the main source of cash flow provided by financing activities was borrowings from banks, which amounted to Ch\$145,544 million, mostly corresponding to loans obtained by intermediate holdings companies related to the acquisition of Banco de Chile and the restructuring of Madeco's debt. Other sources of cash flow provided by financing activities included related party financing for Ch\$47,071 million. The main uses of cash flow from financing activities were reductions in the bank borrowings of intermediate holding companies and Madeco of Ch\$166,104 million, dividends paid of Ch\$8,190 million and a net decrease in bonds payable totaling Ch\$17,879 million, of which Ch\$6,992 million corresponded to repayments made by Quinenco and Ch\$8,949 million to repayments made by Telefonica del Sur.

Related party financing of Ch\$47,071 million primarily consisted of a loan made by a financial entity related to Quinenco's controlling shareholder, Andsberg Finance Corporation Ltd., to LQIF, a wholly-owned subsidiary of Quinenco. Dividend payments, which amounted to Ch\$8,190 million in 2002, are mainly attributable to dividend payments made by Quinenco of Ch\$6,585 million and dividend payments by Telefonica del Sur to minority shareholders of Ch\$1,576 million.

### DEBT STRUCTURE

As of December 31, 2004, approximately 74.2% of the Company's Ch\$592,319 million in outstanding liabilities consisted of long-term interest bearing debt. The Company's outstanding long-term bank loans (excluding the current portion of long-term debt of Ch\$39,960 million) which totaled Ch\$189,350 million in 2004, generally consist of borrowings by Quinenco and intermediate holding companies, Madeco and Telefonica del Sur for periods up to five years. Approximately 9.3% of these long-term bank facilities were dollar-denominated with interest rates averaging 4.1% and 90.7% were Chilean UF-denominated with interest rates averaging 3.4%. The average interest rate of U.S. dollar-denominated debt was 3.1% and the average interest rate of Chilean UF-denominated debt was 4.5% in the year 2003. Additionally, the Company has long-term bond obligations denominated in Chilean UF, which at December 31, 2004 amounted to Ch\$242,348 million. The average terms of the bond obligations are between five and twenty-one years. The average interest rate of long term bond obligations was 4.9% in 2004. 35.8% of the Company's bond obligations will mature within the next three years.

As of December 31, 2004, the Company's outstanding short-term bank loans totaled approximately Ch\$23,647 million, which represented 4.0% of the Company's outstanding liabilities. The Company's outstanding short-term bank loans mostly consist of borrowings by Madeco and Quinenco under unsecured revolving credit facilities provided by Chilean and U.S. commercial banks. At December 31, 2004,

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the Company had no committed credit lines. Approximately 45.6% of short-term facilities were

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dollar-denominated with interest rates which averaged 4.1% and 30.8% were Chilean UF-denominated with interest rates which averaged 4.6%. In 2003, approximately 30.4% of these short-term facilities were dollar-denominated with interest rates which averaged 3.6% and 39.5% were Chilean UF-denominated with interest rates which averaged 4.2%.

The Company's total dollar-denominated liabilities amounted to Ch\$44,865 million at December 31, 2004, compared to Ch\$115,261 million at December 31, 2003. The Company's total debt to capitalization ratio decreased to 41.8% at December 31, 2004 from 44.7% at December 31, 2003.

At December 31, 2004, the Company's net consolidated dollar-denominated assets (after deducting dollar-denominated liabilities) were Ch\$92,811 million, compared to net consolidated dollar-denominated assets of Ch\$81,346 million in 2003.

There is no seasonality with respect to Quinenco's borrowings. For a summary of the maturities of the Company's long-term debt, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk".

The Company utilizes foreign exchange forward contracts and swap exchange currency contracts in order to hedge its currency exchange exposure as part of its asset and liability management. Investment contracts (for speculative purposes) are recorded at the closing spot exchange rate and gains and losses are included in earnings as Other non-operating income and expenses. For a summary of Foreign Exchange Rate Exposure, see "Item 11. Foreign Currency Exchange Rate Risk".

The following table shows the Company's financial debt structure consisting of interest bearing bank debt and bond debt in 2002, 2003 and 2004:

	2002	2003	2004
	-----	-----	-----
	(in millions of constant Ch\$)		
Madeco.....	Ch\$223,342	Ch\$150,189	Ch\$119,245
Indalsa.....	50,841	46,409	--
Telefonica del Sur.....	69,489	59,742	59,142
Hoteles Carrera.....	4,799	300	--
Quinenco & intermediate holding co. ....	414,432	338,289	347,220
	-----	-----	-----
Total.....	Ch\$762,903	Ch\$594,929	Ch\$525,607
	=====	=====	=====

### FINANCIAL COVENANTS AND OTHER RESTRICTIONS

The Company is subject to certain financial covenants and restrictions with respect to its existing agreements with banks and bondholders. The Company believes that it is in compliance with all of the financial covenants and restrictions associated with its credit facilities and bond issuances as of December 31, 2004. For further information on financial covenants and other restrictions, see Note 16 d) to the Consolidated Financial Statements.

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CAPITAL EXPENDITURES AND OTHER INVESTMENTS

The following table sets forth the capital expenditures and other investments made by each of the Company's principal businesses for the years ended December 31, 2002, 2003 and 2004:

Capital Expenditures and Other Investments	2002	2003	2004
	(in millions of constant Ch\$)		
<b>Quinenco and Consolidated Subsidiaries</b>			
Madeco (Manufacturing) .....	Ch\$6,445	Ch\$3,584	Ch\$6,445
Telefonica del Sur (Telecommunications) .....	14,868	7,672	8,977
Indalsa (Food and Beverage).....	1,864	333	7,723
Hoteles Carrera (Real Estate and Hotel Administration) .....	149	266	18
Quinenco and others.....	811	798	46,674
<b>Total .....</b>	<b>Ch\$24,318</b>	<b>Ch\$12,653</b>	<b>Ch\$69,837</b>
<b>Main Equity Investments (1)</b>			
CCU (Food and Beverage).....	35,814	60,408	36,073
Banco de Chile (Financial Services) .....	15,772	11,493	19,854
<b>Total.....</b>	<b>Ch\$51,586</b>	<b>Ch\$71,901</b>	<b>Ch\$55,927</b>

(1) Represents Quinenco's main equity investments, all of which are either controlled directly by Quinenco or indirectly by Quinenco in conjunction with strategic partners.

EXPANSION PLANS; FUTURE CAPITAL EXPENDITURES

The following table sets forth the total capital expenditures currently planned to be made by the Company and its principal businesses for the years ending December 31, 2005, 2006 and 2007:

Planned Capital Expenditures 2005 - 2007	2005	2006	2007
	(in millions of constant Ch\$)		
<b>Quinenco and Consolidated Subsidiaries</b>			
Madeco (Manufacturing).....	Ch\$6,056	Ch\$5,935	Ch\$5,935
Telefonica del Sur (Telecommunications).....	10,059	7,910	8,784
Quinenco and others (1).....	--	--	--
<b>Total.....</b>	<b>Ch\$16,115</b>	<b>Ch\$13,845</b>	<b>Ch\$14,719</b>
<b>Main Equity Investments</b>			
CCU (Food and Beverage).....	Ch\$56,718	Ch\$30,406	Ch\$68,926
Banco de Chile (Financial Services).....	42,594	21,755	15,679

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Total.....	Ch\$99,312 =====	Ch\$52,161 =====	Ch\$84,605 =====
------------	---------------------	---------------------	---------------------

- (1) Capital expenditures for Quinenco, intermediate holding companies, subsidiaries and equity investments do not include future acquisitions for the years 2005-2007. Historically, capital expenditures used for acquisitions have been significant, though they may vary.

Quinenco, its subsidiaries and equity investments review their capital expenditures program periodically and changes are made as needed and appropriate. Accordingly, there can be no assurance that the Company will make the capital expenditures described herein. The actual amount of future capital expenditures, which could vary significantly from those planned, will depend on a variety of factors, many of which are beyond the Company's control.

If necessary, Quinenco intends to provide or actively participate in obtaining financing (whether equity, debt or a combination thereof) to support the planned future capital expenditures and expansion of its principal businesses. The amounts and terms of any such debt or equity financing from Quinenco will depend, among other things, on the terms and conditions of financing available to its businesses from third parties and international capital markets, as well as Quinenco's strategy to maintain control of its businesses. In addition, Quinenco may participate in the planned capital increases of its principal businesses, depending on the terms, timing, and other investment considerations relevant to Quinenco.

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Quinenco. Capital expenditures in 2005 through 2007 do not include further acquisitions that could be made by Quinenco or its intermediate holding companies as these amounts are not readily estimated and depend on many factors outside of the Company's control.

Banco de Chile. Banco de Chile has planned capital expenditures amounting to Ch\$80,028 million for the three year period 2005-2007. Planned capital expenditures are related to investment in technology, including an upgrade of the core technology system. In addition, Banco de Chile plans to maintain and improve its existing branch network infrastructure. Capital expenditures for the three-year period will be financed with internally generated funds.

CCU. CCU plans to make an aggregate of approximately Ch\$156,050 million in capital expenditures over the 2005-2007 period, mainly to adapt, update and increase production capacity, install new bottling lines, enhance environmental protection, optimize its distribution system and warehouse facilities, invest in additional returnable bottles and crates to replace obsolete inventories, adapt to new packaging formats and support industry volume growth. Capital expenditures are also focused on improving management information systems and making additional investments in marketing assets. CCU expects to fund its capital expenditures through a combination of internally generated funds and long term indebtedness.

Madeco. Madeco's capital expenditures for the years 2005 to 2007 are estimated to total Ch\$17,926 million. Capital expenditures for the three year period related to the company's wire and cable business unit are expected to be Ch\$8,252 million, to the brass mills business unit, Ch\$4,314 million, to the flexible packaging business unit, Ch\$4,342 million and to the aluminum profiles business unit, Ch\$1,018 million. The planned capital expenditures are generally to maintain and upgrade production facilities and machinery and equipment used in production processes.

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Telefonica del Sur. Telefonica del Sur's capital expenditures planned for 2004, 2005 and 2006 relate to the expansion of its telephony business based in the south of Chile. Telefonica del Sur plans to continue investing in the development of businesses related to Internet, wide band wireless networks utilizing WIFI and Bluetooth technology, data networks and telesecurity services. It will also continue to invest in those areas where its considers that fixed line growth potential exists. Telefonica del Sur expects to finance its capital expenditures mainly through internally generated funds.

### C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

The Company does not own patents, licenses to technology, copyrights or other intellectual property, nor is it involved in any research and development. The Company has not spent any money on research and development during the three year period immediately preceding the date of this annual report.

### D. TREND INFORMATION

#### Economic Overview

The Company's lines of business and results of operations are, to a large extent, dependent on the overall level of economic activity and growth in Chile. Of the total aggregate revenues of the Company's main operating companies (excluding Banco de Chile), which amounted to Ch\$803,149 million in 2004, approximately 78% were made in Chile. In addition, Banco de Chile mainly operates in Chile, deriving approximately 98% of its net income from domestic operations. In addition to Chile, Madeco is dependent on the overall level of economic activity and growth in Brazil, Argentina and Peru, and CCU is dependent on the overall level of economic activity in Argentina.

Chile. In the context of a strong world economy and an improvement in the terms of exchange, the Chilean economy experienced growth of 6.1% in 2004. An increase in export prices, especially copper, served to help create a current account and fiscal account surpluses. The strong external conditions and historically low interest rates also helped stimulate internal demand, which grew by 7.9%,

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and boosted investment levels and consumption by 12.7% and 5.6%, respectively. In 2005, the economy is expected to maintain this momentum, and gross domestic product growth is estimated to grow at 5.8%, despite high fuel prices and restrictions on gas imports from Argentina, according to economists surveyed by the Central Bank of Chile.

Argentina. After four years of a severe recession, Argentina experienced robust growth for the second consecutive year. In 2004, double digit internal demand helped contribute to an economic growth rate of 9%. In addition, the Argentine government successfully renegotiated its outstanding external debt, the payments of which had been suspended since 2002. Nonetheless, it has yet to reach an agreement with the IMF and has not demonstrated that it can develop a comprehensive medium and long-term growth plan. Furthermore, unrest among the private business sector and an outbreak of inflation may prevent the country from achieving sustained growth in the future, although economists surveyed by the Central Bank of Argentina expect the economy to grow by 7% in 2005.

Brazil. Aided by a strong world economy, the Brazilian economy grew by 4.9% in 2004. For the second consecutive year, Brazil maintained a current account surplus and fiscal accounts are well under control. Likewise, the

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Brazilian real revalued vis-a-vis the U.S. dollar, lessening the impact of U.S. dollar debt service during the year. In 2005, according to economists surveyed by the Central Bank of Brazil, growth should slow to a moderate 3.3% as a result of inflationary pressures which have caused interest rates to rise sharply.

### Quinenco

As of December 31, 2004, Quinenco's investments in the Financial Services Sector represented approximately 64% of Quinenco's total investments and 60% of total assets at the corporate level. Due to the importance of Quinenco's investments in the financial services sector, the level of income from dividends and participation in net income will depend, to a large extent, on results from this sector.

The share acquisition of Banco de Chile involved significant cash outlays during 2001, which amounted to Ch\$340,340 million (historic value) in 2001, which were financed with debt. Until the debt incurred in connection with the acquisition has been further reduced through sales of non-strategic assets, dividend income and other resources, the Company will continue to incur interest expense associated with the current indebtedness.

In connection with the acquisition of Banco de Chile, the Company recognized goodwill in the amount of Ch\$247,779 million (historic value). The goodwill is being amortized over a period of 20 years, in accordance with Chilean GAAP and the related expense will represent a charge to income in future periods.

### Financial Services - Banco de Chile

The Chilean banking industry has become increasingly competitive in recent years, which has led to, among other things, increased consolidation in the industry and reduction of margins. Limited barriers to entry, as a consequence of greater flexibility in the regulatory framework of the Chilean financial system, and continued consolidation of the Chilean banking industry have intensified this competition. Banco de Chile expects the trend of increased competition to continue, particularly in connection with the formation of new large financial groups and the creation of new niche banks. The Bank also faces competition from non-bank competitors with respect to some of its credit products, such as credit cards and consumer loans, mainly from large department stores. Although the Company believes that Banco de Chile is currently large enough to compete effectively in its target markets, the continued consolidation may materially and adversely affect Banco de Chile's financial condition and results of operations by affecting the net interest margins it is able to generate and creating further efficiency pressures.

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### Food and Beverage - CCU

The most significant trend affecting CCU's results of operations currently and during the past five fiscal years has been the prolonged recession in Argentina which culminated in an economic crisis in late 2001, and the stagnated consumption due to the weak economic recovery after its 1999 recession in Chile.

After four years of recession in Argentina, during 2003 the economy stabilized, evidenced by significant increases in consumption and prices in the beer industry. This positive tendency has continued throughout 2004. However, current prices in U.S. dollar terms are still significantly lower than those prevailing in December 2001, before the Argentine peso devaluation. Nevertheless, further recovery in Argentina will depend on deep structural

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reforms in many areas, including the relationship between the federal government and the provinces, regulations in many markets, the resumption of external debt service, as well as the solution of the energy crisis and an increase in investments to support the current economic growth.

Revenues from CCU Argentina in Chilean pesos are also subject to the volatility of exchange rates of the Chilean peso, U.S. dollar and Argentine peso in any given period, which may also affect the level of income reported from CCU's foreign operations under Chilean GAAP.

The Chilean economy experienced significant growth of 6.1% in 2004. This positive trend has continued during 2005, with growth of 5.7% during the first quarter and growth between 5.3% and 6.3% expected for the year, according to estimates by the Chilean Central Bank. On the domestic side of the economy, private consumer demand increased 5.6% during 2004, and interest rates continue at relatively low levels. In spite of the favorable economic climate, there can be no assurance that the consumption of CCU's products will grow in the same proportion. Furthermore, CCU's margins have been affected during the first months of 2005 by cost pressures due to higher oil prices and the Argentine gas crisis that has forced it to use diesel oil instead of natural gas, both in Chile and Argentina.

CCU expects that its wine business will continue to improve its profitability level, both in domestic and export markets, due to the measures CCU has been implementing to rationalize costs and expenses, reduce SKUs, optimize prices and focus on its main export markets.

In addition, CCU's beer brands in Chile may face increased competition from other brewers as well as from alcoholic beverages such as wine and spirits, and non-alcoholic beverages such as soft drinks. Beer consumption in Chile has historically been influenced by changes in domestic wine prices. Increases in domestic wine prices have tended to lead to increases in beer consumption, while reductions in wine prices have tended to reduce or slow the growth of beer consumption. In fact, during the first months of 2005, beer consumption has increased strongly, as well as wine prices. Nevertheless, during the past years, wine price increases have not significantly influenced beer consumption levels due to factors like awareness of the positive effects of moderate wine consumption on health and higher wine quality. Similarly, the price of soft drinks has decreased relative to the price of beer over the past few years, due to lower packaging costs and the introduction of larger packaging formats, which may also affect further growth in beer consumption.

In recent months, the Argentine government began restricting gas exports to Chile due to supply problems in that country. This situation will have a cost effect on CCU's beer production plants in Chile and Argentina, as well as its soft drinks plants in Chile. Additionally, CCU expects an increase in electrical power costs, related to these same gas restrictions. CCU does not need additional investments because its boilers can work with gas or with alternative fuels, such as diesel oil. Considering the current energy prices, CCU estimates that the higher costs at a consolidated level should not exceed Ch\$2,200 million for 2005.

### Manufacturing - Madeco

In 2003, Madeco underwent a debt restructuring process and a capital increase. Proceeds obtained from the capital increase were used to reduce indebtedness, resulting in a significant improvement in the

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company's capital structure. The company's capital structure continued to improve in 2004, and indebtedness decreased by a further 21%. In addition, Madeco has taken measures to improve the profitability of its production and commercial operations in its main markets. The company believes that these steps have led to a sustainable recovery in its results, however the cyclical nature of the company's principal businesses will continue to make it vulnerable to the effects that reductions in investment levels in its main markets could have on future results from operations.

At the beginning of 2002, Madeco closed its cable and brass mills operations in Argentina as a consequence of the economic deterioration and currency devaluation in that country, considerably reducing its exposure in that country. As of December 31, 2004, Madeco had 15.8% of its property, plant and equipment in Argentina and in 2004 and 2003 derived 6.8% and 6.9% of its revenue from its Argentine operations, respectively. While Madeco has partially reopened its plants for cable and brass mills production in Argentina, it cannot determine at this time when levels of demand will have the scale to operate efficiently and whether or not such levels will be sustainable.

In 2004, Madeco's Brazilian wire and cable business unit generated 46.7% of total wire and cable segment sales and 24.0% of Madeco's total consolidated revenues. Madeco's revenues are dependent on the overall level of economic activity and investment in Brazil and demand from its main customers. Demand for metallic and fiber optic cables by telecom customers, which prior to the year 2001 represented an important part of the unit's sales, only accounted for only than 5% of sales in 2004 and is not expected to recover in the foreseeable future due to, among other things, a lack of investment by telecom operators, the substitution with optical fiber cables and a growing use of wireless telephone communications. Madeco is attempting to diversify its customer base and product offering, focusing on higher value added products, such as specialty cables for industrial use and the shipping industry in order to mitigate the effect of the downturn in demand from the telecom sector over the medium to long-term.

Revenues from Madeco's foreign operations in Chilean pesos are also subject to the volatility of exchange rates of the Chilean peso, U.S. dollar, the Brazilian real, the Argentine peso and Peruvian Sole in any given period, which may also affect the level of income reported from Madeco's foreign operations under Chilean GAAP.

While Madeco has access to alternative energy sources, such as oil and liquid gas, which reduce the impact of the gas restrictions which may be imposed on Madeco as a consequence of supply problems in Argentina, the cost of such sources could be higher than its current energy sources and Madeco may not be able to increase its selling prices in response to this potential cost increase.

### Telecommunications - Telefonica del Sur

In recent years, the rate of growth of mobile telephony has exceeded that of fixed line telephony, and the number of mobile subscribers in Chile is now greater than the number of fixed line telephony subscribers, with an estimated penetration rate of 54%. This substitution from fixed line telephony has tended to diminish Telefonica del Sur's traditional fixed line telephony revenue base, and further strong growth of mobile telephony could negatively affect the company's future revenues associated with basic telephony services. As a consequence, Telefonica del Sur has developed new non-regulated products and services to compensate for the decline in its basic telephony services revenues. These revenues accounted for approximately 20% of Telefonica del Sur's total revenues in 2004, up from 18% in 2003.

In addition, increased competition in the telecommunications industry has led to, among other things, increased consolidation in the industry. In 2004,

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Telefonica Movil of Spain acquired Bellsouth's operations and VTR, owned by Liberty Media, acquired Metropolis Intercom and their operations are in the process of being merged. Additionally, two international telecommunications providers, Nextel and Telmex, began to operate in Chile in 2004. Telefonica del Sur expects the trend in increased competition to continue, particularly in connection with the formation of large telecommunications groups.

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During 2004, the Ministry of Transportation and Telecommunications, began to set forth the rates for the regulated services of fixed line and mobile providers for the next five years. Additionally, two initiatives have been introduced by regulators which will establish regulation over voice over internet protocol (VoIP) and network desegregation which will involve all telecommunications providers and are intended to stimulate the development of mobile virtual network operators (MVNO). Telefonica del Sur believes that these initiatives could attract new telecommunications providers to the Chilean industry, further increasing competition within the sector.

### Food and Beverage - Indalsa

On March 31, 2004, Indalsa sold its principal business, accounting for more than 85% of its consolidated assets, to a local competitor. Indalsa's sole remaining activity is a 50% investment in Calaf, a cookie and candy manufacturer acquired in a joint venture with CCU for Ch\$6,656 million (historic value) in January 2004 .

### E. OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements as of December 31, 2004.

### CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following tables summarize the Company's contractual and commercial obligations as of December 31, 2004:

	(in millions of constant Ch\$)			
Contractual Commitments	Total	Less than 1 year	2-3 years	4-5 years
Short term and long term debt	525,347	93,650	140,442	134,398
Capital lease obligations	7,531	1,165	1,825	974
Operating leases	364	154	210	--
Service contracts	2,194	2,092	102	--
Other short term and long term obligations	50,014	49,088	2,079	151
	-----			
Total contractual cash obligations	588,450	146,149	144,658	135,523
	=====			
Commercial Commitments	Total	Less than 1 year	2-3 years	4-5 years
Lines of credit	15,714	9,834	3,359	2,521
Stand by letters of credit	40	40	--	--
Guarantees	121,042	41,110	79,932	--

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Stand by repurchase obligations	--	--	--	--
Other commercial commitments	437	437	--	--
Total commercial commitments	137,233	51,421	83,291	2,521

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Directors

Quinenco is managed by its Board of Directors which, in accordance with Quinenco's By-laws, currently consists of seven directors who are elected at the Annual General Shareholders' Meeting. The entire Board of Directors is elected every three years. At an Extraordinary Shareholders' Meeting held on November 5, 2004, the number of members of the Board was reduced from nine to seven. Since this required a modification of the Company's by-laws under Chilean law, the entire Board of Directors resigned at the Extraordinary Shareholders' Meeting and a new Board was reelected during the same meeting. All of the reelected Board members were members prior to the Extraordinary Shareholders' Meeting. The two members who were not reelected were Joaquin Errazuriz and Vladimir Radic. The last

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election was held on April 28, 2005, and the seven members of the Board were reelected. The next election will be held in April 2008. The Board of Directors may appoint replacements to fill any vacancies that occur during periods between elections. Quinenco's Chief Executive Officer is appointed by the Board of Directors. There are regularly scheduled meetings of the Board of Directors at least once a month on dates predetermined by the Board; extraordinary meetings are called by the Chairman of the Board or when requested by an absolute majority of directors.

The following table sets forth information with regard to Quinenco's directors as of December 31, 2004:

Name	Position in Quinenco	Year Born	First Elected	Principal Directorships
Guillermo Luksic	Chairman of the Board	1956	1982	CCU (1) (3) Telefonica del Sur (1) (3) Madeco (1) (3) Banco de Chile (1) LQIF (1) (3)
Andronico Luksic	Vice Chairman of the Board	1954	1978	Banco de Chile (1) SM Chile (1) Madeco (1) CCU (1)
Hernan Buchi	Director	1949	1990	Madeco (1) CCU (advisor) (1) Soquimich S.A. Falabella S.A. Parque Arauco S.A. (advisor) Pilmaiquen S.A.

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				P&S S.A. Alto Palermo (Argentina) Metalpar S.A. Banco Santander Chile Grupo Mall Plaza HQI Transelec Almagro S.A. Interamericana Chile
Juan Andres Fontaine .....	Director.....	1954	1997	Antofagasta plc (2) Antofagasta Minerals S.A. (2) Antofagasta Railway Co. (2) Minera Los Pelambres Ltd. (2) Minera Michilla S.A. (2) (3) Minera El Tesoro S.A. (2) (3) Madeco (1)
Matko Koljatic.....	Director.....	1944	2003	Telefonica del Sur (1) Inversiones Vita S.A. (1) Banco de Chile (1) SM Chile S.A. (1) Banchile Seguros de Vida S.A. Antofagasta plc (2) Antofagasta Minerals S.A. (2) Minera Michilla S.A. (2)
Jean-Paul Luksic.....	Director.....	1964	1993	Banco Latinoamericano de Exp Fundacion Andronico Luksic A Aguas Antofagasta S.A. (2) Minera Los Pelambres (2)
Gonzalo Menendez .....	Director.....	1949	1996	

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- (1) Subsidiary or affiliate of Quinenco.
- (2) Company associated with the Luksic Group.
- (3) Chairman of the Board.

Guillermo Luksic, Andronico Luksic and Jean-Paul Luksic are brothers. Other than such relationships, there is no family relationship between any director or executive officer and any other director or officer of Quinenco.

The following table sets forth Quinenco's key executive officers as of December 31, 2004, their positions and years of service with Quinenco and with the Luksic Group:

Name of Executive Officer -----	Position -----	Years with Quinenco -----	Years with Luksic Group -----
Francisco Perez Mackenna .....	Chief Executive Officer	7	14
Luis Fernando Antunez .....	Chief Financial Officer	9	18
Manuel Jose Noguera .....	Chief Legal Counsel	5	30
Felipe Joannon.....	Business Development Manager	6	6
Martin Rodriguez.....	Strategic Development Manager	6	6
Sergio Cavagnaro (1).....	Human Resources Manager	8	19
Fernando Silva.....	Controller	24	24

(1) Until June 15, 2005

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Francisco Perez Mackenna, (47) Francisco Perez Mackenna has served as Chief Executive Officer of the Company since 1998. He is also a Director of many Quinenco group companies, including Banco de Chile, CCU, Inversiones y Rentas, LQIF, ECUSA, Vina San Pedro, CCU Argentina, Calaf, Banchile Corredores de Bolsa and Compania Pisquera de Chile S.A. Prior to joining Quinenco, between 1991 and 1998, Mr. Perez Mackenna was CEO of CCU. Prior to his experience with the Luksic Group, he worked in key positions at Bankers Trust and Citicorp Chile. Mr. Perez attended the Catholic University of Chile, majoring in Business Administration. He holds a postgraduate degree (MBA) from the University of Chicago.

Luis Fernando Antunez Bories, (49) Luis Fernando Antunez has served as Chief Financial Officer of Quinenco since 1996. In addition, he is General Manager of Quinenco's wholly-owned subsidiary, LQIF. Prior to joining Quinenco, between 1985 and 1996, Mr. Antunez was CFO of CCU. Prior to his experience with the Luksic Group, he worked in COPEC as a financial analyst. Mr. Antunez attended the Catholic University of Chile, majoring in Industrial Engineering. He holds a postgraduate degree (MBA) from Georgia State University.

Manuel Jose Noguera Eyzaguirre, (55) Manuel Jose Noguera has served as Chief Legal Counsel of Quinenco since 2000. He is also a Director of several Quinenco group companies, including CCU, Inversiones y Rentas, LQIF and Calaf, and an advisor to the Board of Madeco. In his capacity as Chief Legal Counsel, he serves as an advisor to the board of Quinenco. Prior to joining Quinenco, Mr. Noguera developed his career in other Luksic group companies for over 30 years. He is also a partner at the law firm of Morales, Noguera, Valdivieso y Besa. Mr. Noguera received his law degree from the Catholic University of Chile.

Felipe Joannon Vergara, (45) Felipe Joannon has served as Business Development Manager of Quinenco since 1999. He is also currently a Director of Madeco, Habitaria, Entel, LQIF and Calaf. Prior to joining Quinenco, Mr. Joannon was General Manager and CEO of Vina Santa Rita, CFO of Cristalerias Chile and Resident Vice President of the Corporate Finance Area of Citicorp Chile. He has also been a Professor at the Business School of the Catholic University of Chile and Universidad de Los Andes. He received a degree in Economics from the Catholic University of Chile and holds an MBA degree from the Wharton School, University of Pennsylvania.

Martin Rodriguez Guiraldes, (44) Martin Rodriguez has been with Quinenco since 1999 as Manager of Mergers and Acquisitions and since late 2003, as Manager of Strategic Development. He is

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also currently a Director of LQIF, Calaf, Indalsa and Banchile Seguros de Vida. Prior to joining Quinenco, Mr. Rodriguez worked in key positions in Bankers Trust in Chile and the United States between 1993 and 1998. Other work experience includes Santander Investment where he worked in the Corporate Finance and M&A areas, Procter and Gamble (marketing), Inverchile (debt to equity swaps) and Citibank Chile (executive trainee program). Mr. Rodriguez holds an MBA degree from the Anderson Graduate School of Management at UCLA and an undergraduate and master degree in economics from the Catholic University of Chile.

Sergio Cavagnaro Santa Maria, (50) Sergio Cavagnaro has served as Human Resources Manager for Quinenco since 2000. Mr. Cavagnaro's experience with the Luksic Group dates back 19 years. During his career with the group, he has served as Chief Executive Officer of VTR Celular S.A., and Chief Executive Officer of VTR Telefonica S.A. He is currently on the boards of Habitaria and VTR, where he also serves as CEO. Mr. Cavagnaro received his degree in Civil

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Industrial Engineering from the Catholic University of Chile, and he has a postgraduate degree from Adolfo Ibanez University.

Fernando Silva Lavin, (57) Fernando Silva has worked with the Luksic Group since 1981, occupying key positions such as General Manager of Quinenco, Mergers & Acquisitions Manager, Business Development Manager and Consultant to the Board of Directors. He has held the position of Controller since late 2003. Mr. Silva is also currently a member of the board of several Quinenco companies, including Habitaria and Lucchetti Peru. Mr. Silva received his degree in business administration from the Catholic University of Chile.

The following table shows the Chief Executive Officer and Chief Financial Officer of the principal businesses of the group as of December 31, 2004:

Name -----	Position -----
Pablo Granifo .....	Chief Executive Officer of Banco de Chile
Arturo Concha.....	Manager of the Financial Division of Banco de Chile
Arturo Tagle.....	Manager of the Planning and Research Division of Banco de Chile
Patricio Jottar .....	Chief Executive Officer of CCU
Ricardo Bartel (1) .....	Chief Financial Officer of CCU
Jorge Atton .....	Chief Executive Officer of Telefonica del Sur
Luis Vidal .....	Chief Financial Officer of Telefonica del Sur
Tiberio Dall'Olio.....	Chief Executive Officer of Madeco
Jorge Tagle.....	Chief Financial Officer of Madeco
Jaime del Valle .....	Chief Executive Officer of Habitaria
Jennifer Tsang.....	Chief Financial Officer of Habitaria

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(1) Since May 2004.

Pablo Granifo Lavin, (46) Pablo Granifo was appointed Chief Executive Officer of Banco de Chile in October 2001. He was Chief Executive Officer of Banco de A. Edwards from November 2000 to October 2001, after having been a commercial manager at Banco Santiago from 1995 to 1999 and a corporate manager at Banco Santiago from 1999 to January 2000. Mr. Granifo is a member of the board of directors of Banchile Administradora General de Fondos, Banchile Asesoria Financiera, Socofin, Banchile Securitizadora, Banchile Factoring and Banchile Trade Services Limited. He is also a member of the executive committee of Banchile Corredores de Seguros Ltda. He holds a degree in business from the Pontificia Universidad Catolica de Chile.

Patricio Jottar, (42) Patricio Jottar has served as Chief Executive Officer of CCU S.A. since 1998. He is also currently a Director of CCU Argentina, ECUSA, Austral, Kunstmann and Calaf and is Chairman of the Board of Vina San Pedro and Compania Pisquera de Chile. Prior to joining CCU, he was Chief Executive Officer of Santander Chile Holding. He received a degree in Business Administration from the Catholic University of Chile, and a Masters degree in Economics and Business Administration from IESE, in Barcelona, Spain.

Jorge Atton Palma, (51) Jorge Atton has served as Chief Executive Officer of Telefonica del Sur S.A. and Telefonica de Coyhaique S.A. since 1998. He is

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also currently Chairman of the Board of Telefonica del Sur Servicios Intermedios S.A, Telefonica del Sur Seguridad S.A, and Blue Two Chile S.A., all of which are subsidiaries of Telefonica del Sur. He is a member of the board of Compania de Telecomunicaciones Llanquihue S.A. During his career with Telefonica del Sur, he has been Operations Manager and Client Service Manager of Telefonica de Coyhaique. He received his degree in Electronic Engineering, specializing in telecommunications, from the Universidad de Concepcion, and a degree in Electronic Engineering from Universidad Austral de Chile.

Tiberio Dall'Olio, (68) Tiberio Dall'Olio was named Chief Executive Officer of Madeco S.A. in October of 2002. He has a long career in the cable industry, having served as General Manager and CEO of Teleco Cable Italia (subsidiary of the Siemens Group of companies) between 1991 and 2000. Mr. Dall'Olio was General Manager and CEO of Madeco earlier in his career from 1980 to 1986. He also was General Manager and CEO of CCU between 1986 and 1990. Mr. Dall'Olio holds a degree in law from the Universidad de Padua in Italy.

Jaime del Valle, (49) Jaime del Valle was named Chief Executive Officer of Habitaria in early 2004. Prior to this, between 1999 and 2004, he was the Technical Engineering Manager for the company. Mr. del Valle has worked in various private and public companies in the construction and real estate industry during the last thirteen years. Between 1987 and 1992, he was the CFO of a company related to American Express Bank.

### B. Compensation

#### Director Compensation

For the year ended December 31, 2004, compensation paid to each of the Company's Directors in connection with their service on Quinenco and subsidiary boards was the following:

Director	Total Compensation
-----	-----
	(in millions of constant Ch\$)
Guillermo Luksic.....	Ch\$151
Andronico Luksic.....	209
Jean Paul Luksic.....	36
Gonzalo Menendez.....	350
Hernan Buchi.....	45
Juan Andres Fontaine.....	34
Joaquin Errazuriz.....	40
Vladimir Radic.....	40
Matko Koljatic.....	35
	-----
Total.....	Ch\$940
	=====

#### Executive Officer Compensation

For the year ended December 31, 2004, the aggregate amount of compensation paid to officers and key executives of Quinenco, including bonuses, was Ch\$2,814 million. For the year ended December 31, 2004 and prior years, Quinenco did not disclose to its shareholders or otherwise make publicly available information as to the compensation of its individual executive officers.

Each executive officer of the Company receives a fixed monthly salary and benefit package. In addition, the Company may, at its discretion, compensate executive officers with an annual bonus, depending on individual performance and adherence to predefined goals.

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In addition, in accordance with approval granted by the Board of Directors on March 8, 2000, a long-term executive incentive plan was established by the Company in March 2000 for qualified executives. In accordance with this plan, shares of Quinenco and its principal operating companies were

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purchased by a group of qualified executives and each executive was offered a predetermined number of shares, approved in each case by the Board of Directors. Financing was provided by the Company through non-interest bearing loans to each executive, the total of which amounted to Ch\$2,070 million as of December 31, 2004.

The loans, which are expressed in Unidades de Fomento (UF), are repayable in annual installments beginning in 2003 and maturing in 2006. The individual shares are pledged as collateral during the loan period. At each installment date, the pledged shares may be delivered as full payment for such installment or the entire loan. To the extent that the value of the shares exceeds the loan value, the executive will be entitled to the difference as compensation. The first three loan installments came due in the first half of 2003, 2004 and 2005 for UF69,210.33, UF62,068.31 and UF53,455.22, respectively. At this time, each of the participating executives determined to deliver shares in full payment for such loan installment or a combination of shares and money in full payment for the loan installment. The terms and conditions of the loans may not be modified and once an installment is paid, the loan may not be renewed.

The Company does not maintain any pension plans or retirement programs for its directors or executive officers.

### C. Board Practices

The current term of office for each director expires in April 2008. At the Annual Shareholders' Meeting held on April 28, 2005, the entire board was reelected for a new term of three years. There are no service contracts among the Company and any of the directors providing for any additional benefits upon termination of employment.

#### Directors' Committee

The Chilean Corporations Act was amended effective December 20, 2000. The following is a summary of the main provisions of the amendment. Under the amendment, the boards of directors of corporations whose market capitalization reaches or exceeds UF1.5 million shall designate a directors' committee (the "Directors' Committee"). If the market capitalization falls below this threshold, the obligation to designate a Directors' Committee disappears. However, corporations which do not reach the threshold may voluntarily assume the obligations of the Directors' Committee, in which case they shall strictly follow the provisions of the amendment.

The Directors' Committee, as defined and mandated under the Chilean Corporations Act, does not satisfy the Audit Committee requirements of Rule 10A-3 under the Exchange Act and certain additional requirements under NYSE Rule 303A, with which the Company will be required to comply by July 31, 2005.

The Directors' Committee shall have the following powers and duties:

- (1) to examine the independent auditors' reports, the balance sheets, and other financial statements submitted by the corporation's managers or liquidators to the shareholders, and issue an opinion about them prior to their submission for shareholder approval;

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- (2) to make recommendations to the Board of Directors with respect to appointment of the independent auditors and the risk rating agencies, which the Board must then propose to the shareholders. Should the Board disagree with the Directors' Committee's proposal, the Board shall be entitled to make its own proposal, submitting both to the shareholders for their consideration;
- (3) to review (i) transactions in which directors have an interest and (ii) transactions between related or affiliated companies, and to produce a written report on such transaction. A copy of the report shall be delivered to the Chairman of the Board, who shall read it at the Board meeting in which the relevant transaction is presented for approval or rejection;

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- (4) to examine the remuneration policies and compensation plans of the Company's principal officers and executives; and
- (5) all other matters contemplated in the company's bylaws or entrusted to the Directors' Committee by a shareholders' meeting or the Board of Directors.

For purposes of the related party transactions mentioned in paragraph (3) above, the following persons are considered by the Securities Market Law and the Chilean Corporation Act to be related to a company:

- (a) any entities within the financial conglomerate to which the company belongs;
- (b) corporate entities that have, with respect to the company, the character of parent company, affiliated company, subsidiary or related company. Parent companies are those that control directly or indirectly more than 50% of the subsidiary's voting stock (or participations, in the case of business organizations other than stock companies), or that may otherwise elect or appoint, or cause the election or appointment, of the majority of the directors or managing officers. Limited partnerships (sociedades en comandita) may likewise be affiliates of a corporation, whenever the latter has the power to direct or guide the administration of the general partner (gestor) thereof.. Related companies are those that, without actually controlling the affiliate, own directly or indirectly 10% or more of the affiliate's voting stock (or participations, in the case of business organizations other than stock companies), or that may otherwise elect or appoint, or cause the election or appointment of at least one board member or manager;
- (c) persons who are directors, managers, administrators or liquidators of the company, and their spouses or their close relatives (i.e., parents, father/mother in law, sisters, brothers, sisters/brothers in law); and
- (d) any person who, whether acting alone or in agreement with others, may appoint at least one member of the management of the company or controls 10% or more of the capital of the company.

In addition, the Superintendency of Securities and Insurance may create a presumption that any individual or corporate entity is related with a company if, because of relationships of equity, administration, kinship, responsibility

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or subordination, the person:

- (i) whether acting alone or in agreement with others, has sufficient voting power to influence the company's management;
- (ii) creates conflicts of interest in doing business with the company;
- (iii) in the case of a corporate entity, is influenced in its management by the company; or
- (iv) holds an employment position, which affords the person access to non-public information about the company and its business which renders the person capable of influencing the value of the company's securities.

However, a person shall not be considered to be related to a company by the mere fact of owning up to 5% of the company, or if the person is only an employee of the company without managerial responsibilities.

The Directors' Committee's discussions, agreements, and organization are regulated, in every applicable matter, by the Chilean Corporations Act provisions relating to board of directors' meetings. The Directors' Committee shall inform the Board of Directors about the manner in which it will request information and about its resolutions.

In addition to the general liabilities imputable to any director, the directors that compose the Directors' Committee shall, in the exercise of their duties, be jointly and severally liable for any damage caused to the corporation or the shareholders.

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The Directors' Committee shall be composed of three members, the majority of which shall be independent. Independent directors are those that would have been elected even if the votes cast in that director's favor by the controlling shareholder and its related persons had not been counted. However, a majority of directors related to the controlling shareholder is permissible if there is an insufficient number of independent directors. Should there be more than three directors entitled to participate in the Directors' Committee, the Board of Directors shall elect the members of the Directors' Committee by unanimous vote. Should the Board fail to reach an agreement, the matter shall be decided by drawing. The Company's Directors' Committee is currently composed of Guillermo Luksic, Gonzalo Menendez and Matko Koljatic.

The members of the Directors' Committee shall be remunerated. The amount of such remuneration shall be established annually by the shareholders, taking into consideration the duties that the Directors' Committee members shall perform. The remuneration of the members of the Company's Directors' Committee was UF25 per session in 2004.

The shareholders shall determine the budget of the Directors' Committee and its advisors, and the Directors' Committee shall be allowed to request the recruitment of professionals to fulfill its duties, within the limits imposed by the budget. The activities of the Directors' Committee and its expenses, including those of its advisors, shall be included in the annual report and made known to the shareholders. The annual budget of the Company's Directors' Committee and its advisors was UF2,000 in 2004.

General summary of significant differences with regard to corporate government standards

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The following paragraphs provide a brief, general summary of significant differences between corporate government practices followed by Quinenco pursuant to its home-country rules and those applicable to U.S. domestic issuers under New York Stock Exchange ("NYSE") listing standards.

Composition of the board of directors; independence. The NYSE listing standards provide that listed companies must have a majority of independent directors and that certain board committees must consist solely of independent directors. Under NYSE rule 303A.02, a director qualifies as independent only if the board affirmatively determines that such director has no material relationship with the company, either directly or indirectly. In addition, the NYSE listing standards enumerate a number of relationships that preclude independence.

Under Chilean law there is no legal obligation to have independent directors. However, Chilean law establishes a number of principles of general applicability designed to avoid conflicts of interests and to establish standards for related party transactions. Specifically, directors elected by a group or class of shareholders have the same duties to the company and to the other shareholders as the rest of the directors, and all transactions with the company in which a director has an interest, either personally (which includes the director's spouse and certain relatives) or as a representative of a third party, require prior approval by the board of directors and must be entered into on market terms and conditions. Furthermore, such transactions must be reviewed by the Directors' Committee (as defined below) and disclosed at the next meeting of shareholders. Pursuant to NYSE rule 303A.00, Quinenco may follow Chilean practices and is not required to have a majority of independent directors.

Committees. The NYSE listing standards require that listed companies have a Nominating/Corporate Governance Committee, a Compensation Committee and an Audit Committee. Each of these committees must consist solely of independent directors and must have a written charter that addresses certain matters specified by the listing standards.

Under Chilean law, the only board committee that is required is the Directors' Committee, composed of three members, such committee having a direct responsibility to (a) review the company's financial statements and the independent auditors' report and issue an opinion on such financial statements and report prior to their submission for shareholders' approval, (b) make recommendations to the board of directors with respect to the appointment of independent auditors and risk rating agencies, (c)

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review transactions in which directors have an interest and transactions between affiliated companies, and issue a report on such transactions, (d) review the Chief Executive Officer's ("CEO") and principal executive officers, compensation policies and plans and (e) perform other duties as defined by the company's charter, by the general shareholders' meeting or by the board. A director who is a member of the Directors' Committee is "independent" if, subtracting the votes of the controlling shareholder and its affiliates from the total number of votes given in favor of such director, he or she would have been nevertheless elected. Directors elected with the votes of the controlling shareholder and its affiliates may constitute the majority of the Directors' Committee if there are not enough independent directors on the board.

However, pursuant to NYSE Rule 303A.06, Quinenco must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act and the additional requirements under NYSE Rule 303A by July 31, 2005.

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Therefore, the company must establish an independent audit committee and a written audit committee charter addressing the audit committee's purpose and responsibilities by July 31, 2005.

Shareholder approval of equity-compensation plans. Under NYSE listing standards, shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with limited exemptions. An "equity-compensation plan" is a plan or other arrangement that provides for the delivery of equity securities of the listed company to any employee, director or other service provider as compensation for services.

Under Chilean law, if previously approved by shareholders at an extraordinary shareholders' meeting, up to ten percent of a capital increase in a publicly traded company may be set aside to fund equity-compensation plans for the company's employees and/or for the employees of the company's subsidiaries. Pursuant to NYSE rule 303A.00, as a foreign issuer, Quinenco may follow Chilean practices and is not required to comply with the NYSE listing standards with respect to shareholder approval of equity-compensation plans.

Corporate Governance Guidelines. The NYSE listing standards provide that listed companies must adopt and disclose corporate governance guidelines with regard to (a) director qualifications standards; (b) director responsibilities; (c) director access to management and independent advisors; (d) director compensation; (e) director orientation and continuing education; (f) management succession; and (g) annual performance evaluation of the board.

Chilean law does not require that such corporate governance guidelines be adopted. Director responsibilities and access to management and independent advisors are directly provided for by applicable law. Director compensation is approved by the annual meeting of shareholders pursuant to applicable law. As a foreign issuer, Quinenco may follow Chilean practices and is not required to adopt and disclose corporate governance guidelines.

Code of Business Conduct and Ethics. The NYSE listing standards require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

Quinenco has adopted a code of business conduct and ethics that applies generally to all of its executive officers and employees. A copy of the code of ethics is filed as an exhibit to this annual report.

Executive Sessions. To empower non-management directors to serve as a more effective check on management, NYSE listing standards provide that non-management directors of each company must meet at regularly scheduled executive sessions without management.

Under Chilean law, the office of director is not legally compatible with that of a company officer in publicly traded companies. The board of directors exercises its functions as a collective body and may partially delegate its powers to executive officers, attorneys, a director or a board commission of the

company, and for specific purposes to other persons. As a foreign issuer, Quinenco may follow Chilean practices and is not required to comply with the NYSE listing standard for executive sessions.

Certification Requirements. Under the NYSE listing standards, Section 303A.12(a) requires that each listed company CEO must certify to the NYSE each

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year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards. Section 303A.12(b) requires that each listed company CEO must promptly notify the NYSE in writing after any executive officer of the listed company becomes aware of any material non-compliance with any applicable provisions of Section 303A. Section 303 A.12 (c) requires that each listed company must submit an executed written affirmation regarding certain board and committee practices annually and each time a change occurs to the board or certain of its committees.

As a foreign private issuer, Quinenco is required to comply with Section 303A.12(b) and (c), but is not required to comply with the certifications requirements set forth in Section 303A.12(a).

### D. Employees

The following table sets forth the number of employees of Quinenco and its subsidiaries as of December 31, 2002, 2003 and 2004:

2004	Executives -----	Professional/Technical -----	Other Personnel -----	Total -----
Quinenco	12	13	15	40
Banco de Chile	318	4,750	4,297	9,365
Madeco	47	641	2,080	2,768
Telefonica del Sur	6	196	301	503
Other subsidiaries	19	69	99	178
	-----	-----	-----	-----
Total employees	402	5,669	6,792	12,863
	=====	=====	=====	=====

2003	Executives -----	Professional/Technical -----	Other Personnel -----	Total -----
Quinenco	12	15	10	37
Banco de Chile	300	4,515	4,318	9,133
Madeco	40	291	2,394	2,725
Telefonica del Sur	33	276	203	512
Indalsa	17	129	317	463
Hoteles Carrera	7	52	225	284
Other subsidiaries	14	93	41	148
	-----	-----	-----	-----
Total employees	423	5,371	7,508	13,302
	=====	=====	=====	=====

2002	Executives -----	Professional/Technical -----	Other Personnel -----	Total -----
Quinenco	12	17	10	39
Banco de Chile	279	4,239	4,137	8,655
Madeco	52	331	2,405	2,788
Telefonica del Sur	26	298	212	536
Indalsa	24	151	406	581
Hoteles Carrera	10	25	242	277
Other subsidiaries	13	76	33	122

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	-----	-----	-----	-----
Total employees	416	5,137	7,445	12,998
	=====	=====	=====	=====

In addition, at December 31, 2002, 2003 and 2004, CCU had 3,908, 3,901 and 3,876 employees, respectively. For the same years ended, Habitaria had 85, 59 and 60 employees, respectively.

The Company believes that its subsidiaries maintain productive relationships with their employees' respective unions. Specific information regarding labor relationships of CCU, Madeco and Banco Chile is set forth below.

At December 31, 2004, CCU's unionized employees in Chile represented approximately 60% of the total permanent workforce. During 2004, 612 employees renewed their collective contracts, all for a period of two years. In Argentina, CCU's unionized employees represented approximately 63% of the total workforce. Collective bargaining agreements in Argentina are carried out on an industry-wide basis. In 2004, a new agreement was executed regulating working conditions and remuneration of the beer workforce in Argentina.

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45.8% of Madeco's total workforce was represented by 17 labor unions, which represent their members in collective bargaining negotiations as of December 31, 2004. Additionally, Madeco had a total of 391 temporary employees who were hired for specific time periods to satisfy short-term needs of the company. Madeco believes that its relationship with the labor unions representing its employees is generally good.

At December 31, 2004, 1,892 employees of Banco de Chile were unionized. All management positions are held by non-union employees. Banco de Chile is party to four collective bargaining agreements (one of which was assumed as part of the merger with Banco Edwards) covering the unionized employees. These collective bargaining agreements were signed in December 2004 and expire in December 2008.

61.9% of Telefonica del Sur's total workforce was represented by 4 labor unions, which represent their members in collective bargaining negotiations as of December 31, 2004. These collective bargaining agreements were signed in 2004 for a four year period expiring in 2008. Telefonica del Sur believes that its relationship with the labor unions representing its employees is generally good.

### E. Share Ownership

As of December 31, 2003, except as disclosed in "Item 7. Major Shareholders and Related Party Transactions - Principal Shareholders", none of the Company's directors or executive officers beneficially owned more than one percent of the outstanding stock. Excluding members of the Luksic Group, the directors and executive officers collectively held 0.3% of the Company's shares as of December 31, 2004. As of May 31, 2005, the percentage of shares collectively held by directors and executive officers was 0.2%.

Other than the long-term incentive plan for qualified executives of Quinenco described in " - B. Compensation", the Company does not have any stock option or other programs involving employees in the capital of the Company.

### Item 7. Major Shareholders and Related Party Transactions

#### A. Major Shareholders

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As of the date of this Annual Report, members of the Luksic Group, which consists of Mr. Andronico Luksic Sr. and his sons, Andronico Luksic Craig, Guillermo Luksic Craig and Jean Paul Luksic Fontbona, beneficially own approximately 82.5% of the outstanding shares of common stock of Quinenco and thereby control the Company. Guillermo Luksic, Andronico Luksic and Jean Paul Luksic are all directors on the Company's Board of Directors.

Control by the Luksic Group is exercised through the Luksic Group's control of Andsberg Inversiones Ltda., Ruana Copper A.G. Agencia Chile, Inversiones Consolidadas S.A., Sociedad Inmobiliaria e Inversiones Rio Claro S.A. and Inversiones Salta S.A., which are the Luksic Group companies that hold shares of Quinenco. Although there are no formal agreements as to the voting or disposition of shares known to Quinenco, Quinenco believes that the members of the Luksic Group generally consult with each other regarding actions to be taken by shareholders of Quinenco. Consequently, the Luksic Group has the power to elect a majority of Quinenco's directors and to determine the outcome of substantially all matters to be decided by a vote of shareholders.

Quinenco's only outstanding voting securities are its shares of common stock. There was no significant change in the share ownership of the Company in 2002, 2003 or 2004. The following table sets forth certain information concerning ownership of the shares with respect to the Luksic Group's companies at December 31, 2004:

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Title of Class -----	Identity of Person or Group -----	Amount Owned -----
Common Stock	Andsberg Inversiones Ltda.....	364,163,159
	Ruana Copper A.G. Agencia Chile.....	240,938,000
	Inmobiliaria e Inversiones Rio Claro S.A.....	142,819,109
	Inversiones Consolidadas S.A.....	124,819,108
	Inversiones Salta S.A. ....	18,000,000

In addition, the Fundacion Andronico Luksic A., a charity foundation presided over by Mr. Andronico Luksic, owned 1,348,247 shares of Quinenco equivalent to a 0.1% interest, Inversiones Orengo S.A., a company indirectly owned by the Luksic family owned 2,465,667 shares, equivalent to a 0.2% interest and Inversiones Carahue S.A., a company owned by Paola Luksic Fontbona, owned 7,730 shares as of December 31, 2004. Davor and Andronico Luksic Lederer, sons of Andronico Luksic Craig, each own 128 shares of Quinenco.

Registration Rights Agreement with Antofagasta. In connection with the reorganization of Quinenco during 1996, Quinenco entered into a registration rights agreement with Antofagasta plc ("Antofagasta"), pursuant to which Antofagasta has the right to demand up to five registered offerings in the United States in respect of the common stock of Quinenco held by Antofagasta and its subsidiaries pursuant to the 1996 reorganization. In addition, Antofagasta has "piggy-back" rights in connection with its shares which permit Antofagasta, subject to certain conditions and limitations, to include shares received by its subsidiaries in connection with the 1996 reorganization and held by Antofagasta and its affiliates in any future registered public offerings of shares (or ADSs representing shares) in the United States.

On September 2, 2003, Antofagasta announced its intention to transfer its

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33.6% interest in Quinenco's shares to a wholly-owned holding company, Andsberg Ltd. ("Andsberg"). Following shareholder approval on October 1, 2003, each ordinary shareholder of Antofagasta shares received one share of Andsberg for every share held of Antofagasta on the record date. In addition, shareholders were granted a share redemption right by Dolberg Finance Corporation Establishment, a company related to the Luksic Group, Quinenco's controlling shareholder, at a fixed price of US\$1.11 per share. The Luksic Group's beneficial ownership in Quinenco of 82.4% did not change as a result of the transfer.

On September 4, 2003, in an ordinary board meeting, Quinenco's Board of Directors approved to transfer the rights associated with the registrations rights agreement with Antofagasta to Andsberg.

For information concerning the portion of the Company's common stock held in the United States, see "Item 9. The Offer and Listing".

### B. Related Party Transactions

Article 89 of the Chilean Corporations Law, Law No.18.046, requires that the Company's transactions with related parties be on terms similar to those of an arm's length transaction. Directors and executive officers of companies that violate Article 89 are liable for losses resulting from such violations. In addition, Articles 44 and 50 of the Chilean Corporations Law provide that any related party transaction, including any transaction in which a director has a personal interest or is acting on behalf of a third party may be executed only when such transaction is disclosed to the Audit Committee and previously approved by the Board of Directors, and the terms of such transaction are similar to those of an arm's length transaction. If the conflicting interest transaction involves a "material amount," the Board of Directors is required to produce a statement declaring in advance that the conflicting interest transaction is similar in its terms to an arm's length transaction. A conflicting interest transaction is deemed to involve a "material amount" if the amount involved is both greater than UF2,000 (as of March 31, 2005, approximately US\$59 thousand) and exceeds 1% of the assets of the corporation, or if the amount exceeds UF20,000 (as of March 31, 2005, approximately US\$587 thousand) regardless of the size of the corporation.

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If the Board of Directors believes that it is not possible to ascertain whether the conflicting interest transaction is similar to an arm's length transaction, it may approve or reject the conflicting interest transaction, or appoint independent advisors to make such a determination. In each case, interested directors are excluded from the decision of the Board related to the conflicting interest transaction. If the Board appoints independent advisors, the report prepared by the advisors will be made available to the shareholders and the Board of Directors for 20 business days from the date the last report was received from the independent advisors. The shareholders will be notified in writing of the receipt of the report. After this period the Board may approve or reject the conflicting interest transaction, but the Board is not required to follow the independent advisors' conclusion. The Board may treat the conflicting interest transaction and the report as confidential information. In each circumstance, the interested director would be excluded from the decision-making process at the Board level.

Within a twenty day period, shareholders representing at least a 5% of the voting shares of the Company may request the Board to call a shareholders' meeting in order to approve or reject the conflicting interest transaction by a two-thirds majority of the outstanding voting shares. All decisions adopted by

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the Board in respect of the conflicting interest transaction must be reported at the next shareholders' meeting.

The controller of the corporation or the related party which intends to enter into the conflicting interest transaction shall make available to the Board of Directors, at the time the transaction is being considered by the Board, all information relating to the transaction filed with any non-Chilean regulatory entities or stock exchanges. A violation of Article 44 may result in administrative or criminal sanctions against the interested director. The Company, the shareholders or interested third parties who suffer losses as a result of such violation have the right to receive compensation from such director in certain situations.

In the ordinary course of its business, the Company engages in a variety of transactions with affiliates of the Luksic Group. Financial information concerning these transactions during the last three years is set forth in Note 22 to the Consolidated Financial Statements. The Company believes that it has complied with the requirements of Chilean law in all transactions with related parties.

Although the Company generally does not provide or receive long-term debt financing to or from other entities within the Luksic Group (except in connection with bank loans on arm's length terms in the ordinary course of business from the Company's subsidiary, Banco de Chile), the Company has occasionally in the past and may in the future advance funds and receive advances of funds from other companies under the common control of the Luksic Group when required to meet liquidity requirements. These loans have historically been made on an unsecured basis at market rates of interest and, in the case of loans made by the Company to affiliated companies, require the prior approval of the Audit Committee and Quinenco's Board of Directors pursuant to the requirements of the Chilean Corporations Laws relating to open companies such as Quinenco. The outstanding amounts of such loans made by the Company to affiliated companies during the years ended December 31, 2002, 2003 and 2004 were not material to Quinenco, individually or in the aggregate. In addition, the Company has from time to time in the past made loans and advances to affiliated companies in the Luksic Group and to strategic investors and their affiliates to provide financing resources in connection with acquisitions of assets and other transactions. Such loans and advances have generally been made on a secured basis at market rates of interest. See Note 22 to the Consolidated Financial Statements.

The Company also provides goods and services in commercial transactions in the ordinary course of business to affiliated companies in the Luksic Group. In connection with such transactions, the Company from time to time extends unsecured credit on terms substantially similar to those available to other customers purchasing goods and services in similar quantities.

Except for the transactions described below, none of the transactions carried out during 2004 between the Company and related parties were deemed to have been material to the related party:

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1. In December 2004, Quinenco's wholly-owned subsidiary, Hidroindustriales Overseas Company, repaid a US\$19 million loan (historic value) from Andsberg Finance Corporation, a company based in Bermuda owned by Mr. Andronico Luksic. The transaction was carried out on terms similar to those of an arms' length transaction.

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2. In December 2004, Quinenco's wholly-owned subsidiary, LQIF, repaid a US\$70 million loan (historic value) from Andsberg Finance Corporation, a company based in Bermuda owned by Mr. Andronico Luksic. The transaction was carried out on terms similar to those of an arms' length transaction.
3. Under its executive incentive plan established in 2000, Quinenco has made non-interest bearing loans to qualified executives in the amount of Ch\$2,814 million as of December 31, 2004. For a description of the incentive plan, see "Item 6B. Executive Compensation".
4. In May 2004, Quinenco's subsidiary, Inmobiliaria Norte Verde S.A., sold a property site to a company related to Quinenco's controlling shareholder, Mr. Androncio Luksic, for UF20,251, payable in semi-annual installments over five years. The corresponding interest rate is UF + 4.8% per annum.

### Item 8. Financial Information

#### A. Consolidated Statements and Other Financial Information

See "Item 18. Financial Statements".

#### Legal Proceedings

Neither Quinenco nor any of its subsidiaries or affiliates in which Quinenco holds significant non-consolidated equity investments is party to any legal proceedings which are material to the Company, except as described below.

##### Banco de Chile

Banco de Chile and its subsidiaries are subject to claims and are parties to legal proceedings in the normal course of business.

Beginning in September 2004, the OCC and the Federal Reserve conducted examinations of Banco de Chile's New York and Miami branches, respectively, to evaluate, among other things, the Bank's compliance with the U.S. Bank Secrecy Act and other U.S. anti-money laundering requirements. As a result of these examinations, on February 1, 2005, Banco de Chile agreed to the issuance of a consent order with the OCC and a cease and desist order with the Federal Reserve. Pursuant to these orders, the Bank has instituted an action plan which includes the maintenance of programs geared towards strengthening the Bank's compliance with the Bank Secrecy Act and the United States anti-money laundering laws.

Banco de Chile has created a global compliance division to oversee its compliance with applicable banking regulations and to implement related policies and procedures. Banco de Chile has established a new senior executive position, the global compliance officer, to manage the division in Chile and its New York and Miami branches. Additionally, Banco de Chile has created the US chief compliance officer position to manage compliance in the U.S. and report to the global compliance officer.

Based on the press statement issued by the OCC at the time the consent order was entered into, civil money penalties and other sanctions are possible, but the likelihood, extent and amount of such actions cannot be determined at this time. For further information, see "Banco de Chile's Annual Report on Form 20-F for the year ended December 31, 2004 - Notes 22(c) and 27(a) to the consolidated financial statements".

Madeco

On June 27, 2002, Madeco announced that it had been notified by Corning Inc. (Madeco's joint venture partner in Optel), of its desire to liquidate the joint venture. Madeco believed that Corning was attempting to unjustifiably terminate the agreement with Madeco and filed an arbitration suit against its partner to resolve this dispute.

Corning filed a counterclaim against Madeco in which it requested, among other things, that Corning be permitted to terminate its joint venture agreements with Madeco, alleging that Optel is effectively bankrupt.

On November 11, 2003, Madeco was informed of the resolution of the arbitration concerning its dispute with Corning. The arbitral decision provided for the termination of the Investment Agreement governing the joint venture, and as a result among others i) Madeco lost certain rights regarding the appointment of Optel's management (consequently, the subsidiary was not consolidated in Madeco's financial statements as of December 31, 2003) and ii) lost its right to exercise a put option to sell its Optel shares to Corning for approximately US\$18 million between January 2004 and December 2005. In addition, the decision obliged Madeco to agree to the liquidation of Optel on Corning's request. As a consequence of this unfavorable ruling, Madeco recognized loss provisions of Ch\$4,917 million in the fourth quarter of 2003 in order to reflect the value of its 50% equity share in Optel and costs associated with the ruling.

On March 31, 2005, Madeco and Corning reached an agreement whereby Corning sold its 50% share of Optel to Madeco. As a result, the liquidation of Optel, as required by the arbitration decision, was avoided and Madeco obtained control over Optel. In addition, two financial entities forgave a portion of Optel's debt and a total amount of US\$2 million was repaid. Madeco and Corning also agreed to a two-year non-compete period in all markets where Optel participates.

In Brazil, two legal disputes against the previous owner of Ficap have been pending since prior to Madeco's acquisition of Ficap in 1997. It is estimated that the total amount of the lawsuits involve approximately US\$10 million. Madeco has a personal guarantee from the previous owner of Ficap to indemnify Madeco if the Brazilian subsidiary were to be affected by these actions.

Madeco does not believe that the outcome of any of its outstanding litigation will have a material adverse effect on its financial condition or results of operations.

Telefonica del Sur

Telefonica del Sur is involved in five lawsuits related to its normal course of business involving claims worth an aggregate of Ch\$2,650 million. Telefonica del Sur has not made provisions to cover anticipated losses because it believes that the lawsuits will not result in significant losses.

Lucchetti Peru

In March 2000, allegations were made by certain governmental authorities and private parties in Peru that Lucchetti Peru representatives acted improperly to obtain a judgment in their favor with respect to legal proceedings in 1998 arising out of a dispute between Lucchetti Peru and the Municipality of Lima. Lucchetti Peru had commenced these proceedings following actions by the Municipality of Lima to suspend construction and operation of the Lucchetti Peru plant. The allegations were based in part on publicly-released portions of

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videotapes of meetings between Lucchetti Peru representatives and Vladimiro Montesinos, a senior official of the government of then President Alberto Fujimori who has since been implicated in a widespread corruption scandal. The videotapes have been portrayed as an attempt by Lucchetti Peru representatives to use Mr. Montesino's influence to intervene on behalf of Lucchetti Peru in order to obtain a favorable judgment. Lucchetti Peru has denied that it acted improperly in the matter.

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In May 2001, criminal charges were filed before the Second Anti-Corruption Court of Lima against certain Lucchetti Peru representatives and Peruvian government officials, alleging influence peddling in connection with the matter described above. These charges have been denied by the individuals involved, and are still being investigated by the court in order to determine whether or not there is cause to warrant a trial. Subsequent efforts by the prosecution to broaden the charges to include corruption were dismissed and may not be brought again.

Although Lucchetti Peru expects its representatives to prevail in the pending legal proceedings, no assurances can be given as to the outcome of these or any related proceeding or other actions which may be brought against Lucchetti, its Peruvian subsidiary or their respective representatives relating to this matter.

### Lucchetti Peru

In December 2002, Lucchetti Peru presented a request for arbitration to the International Centre for Settlement of Investment Disputes ("ICSID") in Washington D.C. Lucchetti Peru was seeking damages in connection with the loss of its investment in Peru, arguing that there was a lack of technical and legal justification for the Municipality to have adopted a resolution to close the plant.

On January 6, 2003, Lucchetti Peru received an order by an official of the Municipality of Chorrillos to immediately close the plant. Lucchetti Peru proceeded to close the plant and liquidate its Peruvian assets.

On February 7, 2005, the International Centre for Settlement of Investment Disputes (ICSID) ruled that it has no jurisdiction over arbitration proceedings between Lucchetti Peru and the Republic of Peru. On June 6, 2005, Lucchetti Peru filed a petition with ICSID to annul its earlier ruling. As of the date of this Annual Report, the ICSID has not responded to the annulment petition.

### Habitaria

The Company's 50%-owned affiliate, Habitaria is involved in five lawsuits for alleged construction defects and/or false advertising. Habitaria believes that it develops and markets high quality housing units and complies with all legal requirements under Chilean law. Habitaria considers the amounts involved are not significant to its operations and has not made a provision in its financial statements.

### Dividend Policy

A declaration of dividends is made to shareholders at a general ordinary meeting. A dividend declaration is based upon a proposal made by the Board of Directors. However, shareholders are not obligated to approve the board's recommendation. The dividend policy of the Company is to distribute at least 30% of annual net earnings as dividends. On April 28, 2005, a general ordinary

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meeting was held. At that time, it was proposed and accepted that a dividend payment of Ch\$12.98 pesos corresponding to the distribution of 60% of 2004 net income be paid. The definitive dividend was paid on May 11, 2005.

### B. Significant Changes

See "Item 4. Information on the Company - Developments During 2004" for certain developments in 2004.

### Item 9. The Offer and Listing

#### A. and C. Offer and Listing Details and Markets

The Company's common stock is traded on the Santiago Stock Exchange, the Chilean Electronic Stock Exchange and the Valparaiso Stock Exchange, and since June 1997 has been quoted on the New York Stock Exchange (the "NYSE") in the form of American Depositary Shares. The Company conducted a preemptive rights offering and United States offering of American Depositary Shares ("ADSs") in June 1997 (the "Offerings"). Since the conclusion of the Offerings, the ADSs (each ADS

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representing 10 shares) have been traded in the United States on the NYSE under the symbol LQ. The ADSs are evidenced by American Depositary Receipts ("ADRs"). The ADRs are outstanding under an amended and restated Deposit Agreement, dated as of August 19, 2003 (the "Deposit Agreement"), among the Company, Bank of New York, as depositary (the "Depositary"), and the holders from time to time of ADRs issued thereunder. Only persons in whose names ADRs are registered on the books of the Depositary are treated by the Depositary as owners of ADRs.

Until August 19, 2003, the ADRs were outstanding under a Deposit Agreement, dated as of June 24, 1997, among the Company, Citibank N.A., as depositary, and the holders from time to time of ADRs issued thereunder.

The table below shows, for the period indicated, the high and low closing prices in Chilean pesos of the Company's common stock on the Santiago Stock Exchange and the high and low closing prices of the ADS in U.S. dollars on the NYSE:

	Santiago Stock Exchange (1)		NYSE	
	Ch\$ per Share		US\$ per ADS	
Annual	High	Low	High	Low
2000 .....	795	390	14.63	6.75
2001 .....	545	347	8.00	5.48
2002 .....	490	245	7.40	3.30
2003 .....	600	325	9.50	4.51
2004 .....	729	495	13.00	7.40
2003				
1st Quarter .....	391	325	5.40	4.53
2nd Quarter .....	458	325	6.46	4.51
3rd Quarter .....	495	405	7.05	5.92
4th Quarter .....	600	465	9.50	7.05
2004				
1st Quarter .....	592	500	9.98	8.40

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2nd Quarter .....	560	495	9.40	7.40
3rd Quarter .....	700	525	11.50	8.20
4th Quarter .....	729	670	13.00	10.84
2005				
1st Quarter .....	730	666	12.99	11.64
January .....	715	666	12.90	11.64
February .....	723	675	12.87	11.65
March .....	730	709	12.99	11.76
April .....	710	670	12.01	11.51
May .....	680	650	11.80	10.80
June (through June 10) .....	685	660	11.40	11.10

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- (1) Pesos per Share and U.S. dollar per share reflected nominal price at trade date.
- (2) Shares began to trade on the Santiago Stock Exchange and the NYSE on June 25, 1997.

At December 31, 2004, ADRs evidencing 5,323,984 ADSs were outstanding (equivalent to 53,239,840 shares, or 4.93% of the total number of issued shares). It is not practicable for the Company to determine the proportion of ADRs beneficially owned by U.S. persons. At December 31, 2004, the Luksic Group did not own ADRs of Quinenco.

Madeco's shares are traded on the Chilean Stock Exchanges, and since 1993 have traded on the NYSE in the form of American Depositary Shares. CCU's shares are traded on the Chilean Stock Exchanges and between 1992 and March 1999 were quoted on the NASDAQ National Market in the form

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of American Depositary Shares. In March 1999, trading in CCU's American Depositary Shares moved to the NYSE. Until December 31, 2001, Banco Edwards's shares were traded on the Chilean Stock Exchanges, and starting in November 1995 were traded on the NYSE in the form of American Depositary Shares. On January 1, 2002, as a result of its merger with Banco de Chile, Banco Edwards shares were converted to Banco de Chile "F shares" and on March 21, 2002, following the distribution of Banco Edwards' 2001 net income, the "F shares were converted to Banco de Chile common shares. Banco de Chile's shares have been traded on the Chilean Stock Exchanges since November 1996 and on the NYSE since January 2002. Since the last quarter of 2002, Banco de Chile's shares have also been traded on the London Stock Exchange in the form of American Depositary Shares and on the Madrid Latibex Stock Exchange as ordinary shares. The shares of Indalsa, Entel and Telefonica del Sur are traded on the Chilean Stock Exchanges. The shares of Habitaria are not publicly traded.

### Markets

#### The Chilean Stock Market

#### General

The Chilean stock market, which is regulated by the Superintendencia de Valores y Seguros (SVS) under Chile's Securities Market Law, is one of the most developed among emerging markets, reflecting the particular economic history and development of Chile. The Chilean government's policy of privatizing state-owned companies, implemented during the 1980s, has led to an expansion of private ownership of shares, resulting in an increase in the importance of stock

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markets. This policy of privatization extended to the social security system, which was converted into a privately managed pension fund system. These pension funds have been allowed, subject to certain limitations, to invest in stocks and are currently major investors in the stock market. Certain elements of the market, including pension fund administrators, are highly regulated with respect to investment and remuneration criteria, but the general market is less regulated than the U.S. market with respect to disclosure requirements and information usage. While the expectation is that stock market regulations and practices will evolve, the Chilean stock market is still developing.

### History and Description

The Santiago Stock Exchange was established in 1893. As of December 31, 2004, 239 companies had shares listed on the Santiago Stock Exchange. The Santiago Stock Exchange is Chile's principal exchange, with transactions in 2004 which amounted to Ch\$7,270,080 million. In Chile, shares may also be traded on the Valparaiso Stock Exchange and the Chilean Electronic Stock Exchange.

There are two share price indices for the Santiago Stock Exchange: The General Share Price Index (the "IGPA") and the Selective Shares Price Index ("IPSA"). The IGPA index is calculated using the prices of companies traded on the exchange, divided into five main sectors: banks and finance, farming and forest products, mining, industrial, and miscellaneous. The IPSA is a major company index, currently including the Exchange's 40 most active stocks. Shares included in the IPSA are weighted according to the value of shares traded.

The table below summarizes recent value and performance indicators for the Santiago Stock Exchange.

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At or for the Year Ended	Market Capitalization	Annual Trading Volume	IGPA Index (1)	IPSA Index (1)	Percent Change in IGPA Index (2)	Perce Change IPSA Ind
-----	-----	-----	-----	-----	-----	-----
	(in US\$ millions)					
December 31, 2000....	60,426	5,778	186.37	371.36	(9.86)%	
December 31, 2001....	56,857	4,111	201.30	394.72	8.01%	
December 31, 2002....	47,693	3,370	182.06	324.46	(9.56)%	
December 31, 2003....	86,344	7,547	263.28	476.66	44.61%	
December 31, 2004....	116,718	13,043	321.62	563.03	22.16%	

Source: Santiago Stock Exchange

(1) Index base = 100 on December 31, 1980

(2) In nominal peso terms.

### Volatility and Suspension of Trading

The IPSA has increased at an average compounded annual rate of 13.38% for the period 2001 to 2004. During 2004, the IPSA increased by 18.12% in nominal peso terms. As the table above shows, swings in market performance are often significant and reflect the high level of volatility characteristic of the Chilean stock market.

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According to Article 14 of the Securities Market Law, the SVS may suspend the offer, quotation or trading of shares of any company listed on one or more Chilean stock exchanges for up to 30 days if in its opinion such suspension is necessary to protect investors or is justified for reasons of public interest. Such suspension may be extended to 120 days. If, at the expiration of the extension, the circumstances giving rise to the original suspension have not changed, the SVS may then cancel the relevant listing in the Registry of Securities.

### Liquidity

The aggregate market value of equity securities listed on the Santiago Stock Exchange as of December 31, 2004 was US\$116.7 billion. The ten largest companies in terms of market capitalization as of December 31, 2004 represented approximately 51% of that exchange's aggregate market capitalization and accounted for approximately 44% of total volume traded during 2004. Average monthly trading volume for 2004 was US\$1,087 million. (Comparatively, the NYSE had an aggregate global market capitalization of approximately US\$19.8 trillion at December 31, 2004, and average daily reported share volume of approximately 1.5 billion).

### Foreign Ownership

Foreign investment in Chile is governed by Decree Law No. 600 of 1974, as amended ("Decree Law No. 600"), by the Central Bank Foreign Exchange Regulations and by the Central Bank Act, law No. 18,840, which is an organic constitutional law requiring a "special majority" vote of the Chilean Congress to be modified (hereinafter referred to as the "Central Bank Act"). See "Item 10 D. Exchange Controls". Foreign investment into Chile under Decree Law No. 600 may not be remitted outside Chile earlier than one year after the initial investment. According to new regulations issued by the Central Bank in May 2000 and April 2001, if governed by Chapter XIV of the Central Bank Foreign Exchange Regulations, the capital may be remitted outside Chile at any time. Earnings may be remitted at any time, whether under Decree Law No. 600 or Chapter XIV. Capital and earnings must be remitted through the Formal Exchange Market.

Notwithstanding the foregoing, an investment in Chilean shares by foreigners through an ADR program is also governed by the Central Bank Act and by Chapter XIV of the Central Bank Foreign Exchange Regulations, which do not require a holding period before remitting capital or earnings abroad. See "Item 10 D. Exchange Controls"

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Foreign capital investment funds ("FCIFs") are governed by Law No. 18,657 and are permitted to receive preferential tax treatment. Law No.18,657 also regulates foreign venture capital investment funds, which have different investment limits than the ones set forth for the FCIFs. FCIFs are required to obtain a favorable report issued by the SVS in order to conduct business in Chile. FCIFs may not remit capital for five years following the investment of such capital as from the date the capital entered into Chile, although earnings may be remitted at any time. An FCIF may hold a maximum of 5% of a given company's shares, although this can be increased to a maximum of 10% if the excess over 5% corresponds to newly issued shares of such company that are subscribed and paid by the FCIF. Furthermore, no more than 10% of an FCIF's assets may be invested in a given company's stock, unless the security is issued or guaranteed by the Republic of Chile or the Central Bank, and no more than 25% of the outstanding shares of any stock corporation may be owned by FCIFs, taken together. In addition, a FCIF may not invest more than 40% of its assets in securities issued or authorized by the same group. For a description of Chilean

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taxation, see "Item 10. Additional Information - E. Taxation". The minimum amount of capital that may be invested in Chile by a given FCIF is US\$1,000,000.

### Item 10. Additional Information

#### B. Memorandum and Articles of Association

Pursuant to the requirements of the Chilean Corporations Law, and in accordance with Law Number 18,046, the Company's articles of incorporation and by-laws or estatutos have been registered with the Securities Register (Registro de Valores), under entry number 0594. As set forth in the Third Article of Quinenco's bylaws, its purposes include the acquisition, disposition and management of all manner of assets and investments in, among other things, industrial and financial activities.

#### Directors

Under the Ley de Sociedades Anonimas (Chilean Corporations Law), a corporation may not enter into a contract or agreement in which a director has a direct or indirect interest (i.e., a conflicting interest transaction) without prior approval by the Board of Directors, and only if the terms of the conflicting interest transaction are similar to those of an arm's length transaction.

If the conflicting interest transaction involves a "material amount," the Board of Directors is required to produce a statement declaring in advance that the conflicting interest transaction is similar in its terms to an arm's length transaction. A conflicting interest transaction is deemed to involve a "material amount" if the amount involved is both greater than UF2,000 (as of March 31, 2005, approximately US\$59 thousand) and exceeds 1% of the assets of the corporation, or if the amount exceeds UF20,000 (as of March 31, 2005, approximately US\$587 thousand) regardless of the size of the corporation.

If the Board of Directors believes that it is not possible to ascertain whether the conflicting interest transaction is similar to an arm's length transaction, it may approve or reject the conflicting interest transaction, or appoint two independent advisors to make such a determination, in all these cases, with the exclusion of the interested directors. If the Board appoints independent advisors, the reports prepared by the advisors will be made available to the shareholders and the Board of Directors for 20 business days from the date the last report was received from the independent advisors. The shareholders will be notified in writing of the receipt of the reports. After this period, and with the exclusion of the interested director, the Board may approve or reject the conflicting interest transaction, but the Board is not required to follow the independent advisors' conclusion. The Board may treat the conflicting interest transaction and the reports as confidential information. Shareholders representing at least a 5% of the voting shares of the Company may request the Board to call a shareholders' meeting in order to approve or reject the conflicting interest transaction by a two-thirds majority of the outstanding voting shares.

All decisions adopted by the Board in respect of the conflicting interest transaction must be reported to the next following shareholders' meeting. The controller of the corporation or the related party which intends to enter into the conflicting interest transaction shall make available to

the Board of Directors, at the time the transaction is being considered by the Board, all information relating to the transaction filed with any non-Chilean

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regulatory entities or stock exchanges.

If a suit for damages arises from such a transaction, the defendant (i.e., one or more directors, the controller, a related party, or all of them) bears the burden of proof that the transaction was equally as or more beneficial to the corporation than an arm's length transaction, unless the conflicting interest transaction was previously approved by the shareholders.

The amount of any director's remuneration is established each year at the annual shareholders' meeting. Directors are prohibited from borrowing or otherwise making use of corporate money or assets for their own benefit, unless previously authorized by the Board of Directors. Directors are also prohibited from borrowing or otherwise making use of corporate money or assets for the benefit of certain relatives or of companies in which such directors are either directors or owners of a 10% interest or more, unless previously authorized by the Board of Directors. However, the shareholders' authorization is not required. These rules can only be modified by law.

It is not necessary to hold shares of Quinenco to be elected a director, and there is no age limit established for the retirement of directors.

For a description of the Company's share capital, including rights, preferences and restrictions thereto, See "Description of Share Capital" in the Registration Statement, Form F-1, filed with the Securities and Exchange Commission on June 6, 1997.

### C. Material Contracts

Not applicable.

### D. Exchange Controls

The Central Bank is responsible for, among other things, monetary policies and exchange controls in Chile. See "Item 3. Key Information - Exchange Rates". Foreign investments can be registered with the Foreign Investment Committee under Decree Law No. 600 - registration which grants the investor access to the Formal Exchange Market - or with the Central Bank under Chapter XIV of the Central Bank Foreign Exchange Regulations.

Effective April 19, 2001, the Central Bank abrogated the then existing Chapter XXVI of the Central Bank Foreign Exchange Regulations ("Chapter XXVI"), which addressed issuances of ADSs by a Chilean company, and issued an entirely new set of Foreign Exchange Regulations (the "2001 Foreign Exchange Regulations"), virtually eliminating all the restrictions and limitations that had been in force up to that date. The 2001 Foreign Exchange Regulations were based upon the general principle that foreign exchange transactions can be done freely in Chile by any person, notwithstanding the power conferred by law to the Central Bank of imposing certain restrictions and limitations on such transactions.

With the issuance of the 2001 Foreign Exchange Regulations, the approval by the Central Bank required for access to the Formal Exchange Market was replaced with the requirement of disclosure of the relevant transactions to the Central Bank. However, some foreign exchange transactions, notably foreign loans, capital investment or deposits, continued to be subject to the requirement of being effected through the Formal Exchange Market.

The 2001 Foreign Exchange Regulations, among other things, eliminated the following restrictions:

- (1) prior authorization by the Central Bank for the entry of capital in connection with foreign loans, investment, capital contribution,

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bonds and ADRs;

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- (2) prior authorization by the Central Bank for the remittance of capital in connection with repatriation of capital, dividends and other benefits related to capital contributions and investment, and prepayment of foreign loans;
- (3) minimum risk classification restrictions and terms for the issuance of bonds;
- (4) restrictions to the issuance of ADSs. Therefore, the rules established under Chapter XXVI of the previous Foreign Exchange Regulations were abrogated; and
- (5) mandatory reserve deposits for foreign capital.

The abrogation of Chapter XXVI by the 2001 Foreign Exchange Regulations implied that the issuance of ADSs by a Chilean company remained subject to the rules contained in Chapter XIV of such regulations, according to which credits, deposits, investments and capital contributions coming from abroad must be effected through the Formal Exchange Market.

According to the 2001 Foreign Exchange Regulations, the foreign exchange transactions performed before April 19, 2001, remained subject to the regulations in effect at the time of the transactions, unless the interested parties elected the applicability of the 2001 Foreign Exchange Regulations, thereby expressly waiving the applicability of the regulations in force at the time of the execution of the respective transaction.

Effective March 1, 2002, the Central Bank abrogated the then existing Central Bank Foreign Exchange Regulations, i.e. the 2001 Foreign Exchange Regulations, and issued an entirely new set of Foreign Exchange Regulations (the "New Regulations"), thereby continuing the liberalization of the foreign exchange regulations. As the 2001 Foreign Exchange Regulations, the New Regulations are also based upon the general principle that foreign exchange transactions can be done freely in Chile by any person, notwithstanding the power conferred by law to the Central Bank of imposing certain restrictions and limitations on such transactions.

The New Regulations also require the disclosure of the relevant transaction to the Central Bank and that some foreign exchange transactions, notably foreign loans, capital investments or deposits, be effected through the Formal Exchange Market.

The issuance of ADSs by a Chilean company remains subject to the rules contained in Chapter XIV. These rules were partly amended in the New Regulations, which allow the use of proceeds from a foreign credit, deposit, investment or capital contribution directly abroad, i.e., without delivering the currency into Chile. The direct use abroad of the proceeds of a foreign credit, deposit, investment or capital contribution remain subject to the obligation of informing the Central Bank of the transaction.

The New Regulations have also simplified the forms required to provide the information to the Central Bank, so as to reduce the time needed to effect foreign exchange transactions by foreign investors in Chile.

The New Regulations contain a transitory norm establishing that foreign exchange transactions performed before April 19, 2001, remain subject to the

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regulations in effect at the time of the transactions, unless the interested parties elect the applicability of the New Regulation, thereby expressly waiving the applicability of the regulations in force at the time of the execution of the relevant transaction.

A Foreign Investment Contract was entered into among the Central Bank, the Company and the Depositary pursuant to Article 47 of the Central Bank Act and Chapter XXVI. According to Chilean law, a contract is ruled by the law in effect at the time of the execution of the contract. Therefore, the Foreign Investment Contract entered into among the Central Bank of Chile, the Company and the Depositary is ruled by the foreign exchange regulations in force before April 19, 2001, among which is Chapter XXVI.

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Absent the Foreign Investment Contract, under Chilean exchange controls in force until April 19, 2001, investors would not have been granted access to the Formal Exchange Market for the purpose of converting Chilean pesos to U.S. dollars and repatriating from Chile amounts received in respect of deposited shares or shares withdrawn from deposit on surrender of ADRs (including amounts received as cash dividends and proceeds from the sale in Chile of the underlying shares and any rights with respect thereto). In December 1999, amendments were introduced in Chapter XXVI whereby, among other things, the Central Bank was authorized to reject applications under such regulations without expression of cause. In resolving on such applications, the Central Bank was required to take into account the situation of the balance of payments and the stability of the capitals account. However, the Central Bank was authorized to require certain conditions to the applicants prior to resolving on the applications. In April 2000, Chapter XXVI was again amended in order to incorporate, in addition to shares issued by Chilean corporations, quotes of investment funds as eligible to be converted into ADSs. Chapter XXVI did not require delivery of a new application in case of the entry of U.S. dollars intended for the acquisition of shares not subscribed by the shareholders or by the transferees of the options to subscribe the shares.

Under Chapter XXVI and the Foreign Investment Contract, the Central Bank agreed to grant to the Depositary, on behalf of ADR holders, and to any non-Chilean resident investor who withdrew Shares upon surrender of ADRs (such Shares being referred to herein as "Withdrawn Shares") access to the Formal Exchange Market to convert Chilean pesos to U.S. dollars (and to remit such dollars outside of Chile) in respect of Shares represented by ADSs or Withdrawn Shares, including amounts received as (a) cash dividends, (b) proceeds from the sale in Chile of Withdrawn Shares (subject to receipt by the Central Bank of a certificate from the holder of the Withdrawn Shares (or from an institution authorized by the Central Bank) that such holder's residence and domicile were outside Chile and a certificate from a Chilean stock exchange (or from a brokerage or securities firm established in Chile) that such Withdrawn Shares had been sold on a Chilean exchange), (c) proceeds from the sale in Chile of pre-emptive rights to subscribe for and purchase additional Shares, (d) proceeds from the liquidation, merger or consolidation of the Company and (e) other distributions, including, without limitation, those resulting from any recapitalization, as a result of holding Shares represented by ADSs or Withdrawn Shares. Access to the Formal Exchange Market in the case of (a), (b), (c) and (d) above would be available for only five working days following the sale of the shares on the stock exchange. Transferees of Withdrawn Shares would not be entitled to any of the foregoing rights under Chapter XXVI unless the Withdrawn Shares were redeposited with the Custodian. Investors receiving Withdrawn Shares in exchange for ADRs would have the right to redeposit such Shares in exchange for ADRs, provided that certain conditions to redeposit were satisfied. For a description of the Formal Exchange Market, see "3A Exchange Rates".

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Alternatively, according to the amendments introduced to Chapter XXVI in December 1999, in case of Withdrawn Shares and their subsequent sale in a stock exchange, the Chilean peso proceeds obtained thereby could be converted into U.S. dollars in a market different from the Formal Exchange Market within five business days from the date of the sale.

Chapter XXVI provided that access to the Formal Exchange Market in connection with the sale of Withdrawn Shares or distributions thereon would be conditioned upon receipt by the Central Bank of a certification by the Depositary or the Custodian, as the case might have been, that such Shares had been withdrawn in exchange for delivery of the pertinent ADRs and receipt of a waiver of the benefits of the Foreign Investment Contract with respect thereto (except in connection with the proposed sale of the Shares) until such Withdrawn Shares were redeposited. Chapter XXVI also provided that access to the Formal Exchange Market in connection with dividend payments was conditioned on certification by the Company to the Central Bank that a dividend payment had been made. The provision contained in Chapter XXVI that established that access to the Formal Exchange Market in connection with dividend payments was conditioned on certification by the Company to the Central Bank that any applicable tax had been withheld was eliminated on November 23, 2000.

Chapter XXVI and the Foreign Investment Contract provided that a person who brought foreign currency into Chile, including U.S. dollars, to purchase Shares entitled to the benefit of the Foreign Investment Contract was required to convert such foreign currency into Chilean pesos on the same date

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and had five banking business days within which to invest in Shares in order to receive the benefit of the Foreign Investment Contract. If such person decided within such period not to acquire Shares, such person could access the Formal Exchange Market to reacquire foreign currency, provided that the applicable request was presented to the Central Bank within seven banking days of the initial conversion into pesos. Shares acquired as described above could be deposited in exchange for ADRs and receive the benefit of the Foreign Investment Contract, subject to receipt by the Central Bank of a certificate from the Depositary that such deposit had been effected and that the related ADRs had been issued and receipt by the Custodian of a declaration from the person making such deposit waiving the benefit of the Foreign Investment Contract with respect to the deposited Shares.

Chapter XXVI required foreign investors acquiring shares or securities in Chile to maintain a mandatory reserve (the "Mandatory Reserve") for one year in the form of a non-interest bearing U.S. dollar deposit with the Central Bank, or to pay to the Central Bank a non-refundable fee (the "Fee"). Such reserve requirement was imposed with respect to investments made by foreign investors to acquire shares or securities in the secondary market, but did not apply to capital contributions made for purposes of paying-in capital for a newly created company or increasing the capital of an existing company. As of June 1, 1999, the Mandatory Reserve was not applied to foreign investments made for purposes of acquiring shares of a stock corporation, provided that the investor was entitled to the benefit of Chapter XXVI, and that such acquisition was consummated in accordance with the provisions of Chapter XXVI. On September 17, 1998, the Central Bank reduced the Mandatory Reserve to 0%.

Access to the Formal Exchange Market under any of the circumstances described above was not automatic. Pursuant to Chapter XXVI, such access required approval of the Central Bank of Chile based on a request presented through a banking institution established in Chile within five business days from the occurrence of any of the events described in letters (a), (b), (c) and

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(d) above. Pursuant to the Foreign Investment Contract, if the Central Bank had not acted on such request within seven banking days, the request would be deemed approved.

Under current Chilean law, the Foreign Investment Contract cannot be changed unilaterally by the Central Bank. No assurance can be given, however, that new restrictions applicable to the holders of ADRs, the disposition of underlying Shares or the repatriation of the proceeds from such disposition will not be reinstated in the future by the Central Bank, nor can there be any assessment of the possible duration or impact of such restrictions.

### E. Taxation

#### Chilean Tax Considerations

The following discussion relates to Chilean income tax laws presently in force, including Ruling No. 324 of January 29, 1990 of the Chilean Internal Revenue Service and other applicable regulations and rulings in effect on the date of this Annual Report, all of which are subject to change. The discussion summarizes the principal Chilean income tax consequences of an investment in the ADSs or Shares by a person who is neither domiciled in nor a resident of Chile or by a legal entity that is not organized under the laws of Chile and does not have a permanent establishment located in Chile (any such individual or entity, a "Foreign Holder"). For purposes of Chilean tax law, an individual holder is a resident of Chile if he has resided in Chile for more than six consecutive months in one calendar year or for a total of six months, whether consecutive or not, in two consecutive tax years. The discussion is not intended as tax advice to any particular investor, which can be rendered only in light of that investor's particular tax situation.

Under Chilean law, provisions contained in statutes such as tax rates applicable to foreign investors, the computation of taxable income for Chilean purposes and the manner in which Chilean taxes are imposed and collected may only be amended by another statute. In addition, the Chilean tax authorities enact rulings and regulations of either general or specific application and interpret the provisions of Chilean tax law. Chilean tax may not be assessed retroactively against taxpayers who act in good faith relying on such rulings, regulations and interpretations, but Chilean tax authorities may change

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these rulings, regulations and interpretations prospectively. There is no income tax treaty in force between Chile and the United States.

#### Cash Dividends and Other Distributions

Cash dividends paid by Quinenco with respect to the ADSs or Shares held by a Foreign Holder will be subject to a 35% Chilean withholding tax, which is withheld and paid over to the Chilean tax authorities by Quinenco (the "Withholding Tax"). If the dividends, however, are paid to a Chilean Bank under whose name the Shares are registered by power of attorney, such bank will be liable for withholding and paying the Withholding Tax once the cash dividends are remitted to the bank's principal. A credit against the Withholding Tax is available based on the level of corporate income tax actually paid by Quinenco on the income to be distributed (the "First Category Tax"); however, this credit does not reduce the Withholding Tax on a one-for-one basis because it also increases the base on which the Withholding Tax is imposed. In addition, if Quinenco distributes less than all of its distributable income, the credit for First-Category Tax paid by Quinenco is proportionally reduced. Presently, the First Category Tax rate is 17%. The example below illustrates the effective

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Chilean Withholding Tax burden on a cash dividend received by a foreign holder, assuming a Withholding Tax rate of 35%, an effective First-Category Tax rate of 17% and a distribution of 30% of the consolidated net income of Quinenco distributable after payment of the First-Category Tax:

Quinenco taxable income.....	100
First Category Tax (17% of Ch\$100).....	(17)
	-----
Net distributable income.....	83
	-----
Dividend distributed (30% of net distributable income).....	24.9
Withholding Tax (35% of the sum of Ch\$24.9 dividend plus Ch\$5.1 First- Category Tax paid).....	(10.5)
Credit for 30% of First-Category Tax.....	5.1
	-----
Net additional tax withheld.....	(5.4)
	-----
Net dividend received.....	19.5
	-----
Effective dividend withholding rate.....	21.69%

In general, the effective dividend Withholding Tax rate, after giving effect to the credit for the First-Category Tax, can be calculated using the following formula:

$$\text{Effective dividend Withholding Tax rate} = \frac{(\text{Withholding Tax Rate}) - (\text{First Category Tax Rate})}{1 - (\text{First Category Tax Rate})}$$

Under Chilean income tax law, dividends generally are assumed to have been paid out of the Company's oldest retained profits for purposes of determining the level of First-Category Tax that was paid by the Company. For information as to the retained earnings of the Company for tax purposes and the tax credit available on the distribution of such retained earnings, see Note 24 to the Consolidated Financial Statements. The effective rate of Withholding Tax to be imposed on dividends paid by Quinenco will vary depending upon the amount of First Category Tax paid by the Company on the earnings to which the dividends are attributed. The effective rate for dividends attributed to earnings from 1991 until 2001, for which the First Category Tax was 15%, generally was 23.5%. For 2002, the First Category Tax rate was 16%, which resulted in an effective rate of Withholding Tax of 22.6%, and for 2003, the First Category Tax rate was 16.5%, resulting in an effective rate of Withholding Tax of 22.16% for the year. From 2004 onwards, the First Category Tax rate will be 17%, which will result in an effective rate of withholding tax of 21.69%.

For dividends attributable to the Company's profits during years when the First-Category Tax was 10% (before 1991), the effective dividend Withholding Tax rate will be 27.8%. However, whether the First-Category Tax is 10%, 15%, 16%, 16.5% or 17%, the effective overall combined tax rate imposed on the Company's distributed profits will be 35%.

Dividend distributions made in property would be subject to the same Chilean tax rules as cash dividends based on the fair market value of such property. Stock dividends and the distribution of preemptive rights are not subject to Chilean taxation.

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### Capital Gains

Under current tax law, gain from the sale or other disposition by a Foreign Holder of ADSs (or ADRs evidencing ADSs) outside Chile will not be subject to Chilean taxation. The deposit and withdrawal of Shares in exchange for ADRs will not be subject to any Chilean taxes.

Gain recognized on a sale or exchange of Shares (as distinguished from sales or exchanges of ADRs evidencing ADSs representing such Shares) may be subject to both the First-Category Tax and the Withholding Tax (the former being creditable against the latter) if either, (i) the Foreign Holder has held the Shares for less than one year since exchanging ADSs for the Shares, (ii) the Foreign Holder acquired and disposed of the Shares in the ordinary course of its business or as a habitual trader of shares, or (iii) the Foreign Holder and the purchaser of the Shares are "related parties" within the meaning of Article 17, Number 8, of Decree Law N(degree) 824 of 1974, the Chilean Income Tax Law. In all other cases, gain on the disposition of Shares will be subject only to a capital gains tax which is assessed at the same rate as the First Category Tax (currently imposed at a rate of 17%).

Gain recognized in the transfer of Shares that have a high presence in the stock exchange, however, is not subject to capital gains tax in Chile, provided that the Shares are transferred in a local stock exchange, in other authorized stock exchanges (up to this date, the New York Stock Exchange, the London Stock Exchange and the Madrid Stock Exchange have been authorized for these purposes), or within the process of a public tender of shares governed by the Chilean Securities Market Act. The Shares must also have been acquired either in a stock exchange, within the referred process of a public tender of shares governed by the Chilean Securities Market Act, in an initial public offer of shares resulting from the formation of a corporation or a capital increase of the same, or in an exchange of convertible bonds. Shares are considered to have a high presence in the stock exchange when they (i) are registered in the Securities Registry, (ii) are registered in a Chilean Stock exchange, and (iii) have an adjusted presence equal to or above 25%. To calculate the adjusted presence of a particular Share, the aforementioned regulation states that, the number of days in which the operations regarding the stock exceeded, in Chilean pesos, the equivalent of UF200 (approximately US\$6,000) within the previous 180 business days of the stock market, must be divided by 180, multiplied by 100, and expressed in a percentage value. The referred tax regime does not apply in case the transaction involves an amount of Shares that would allow the acquirer to take control of the publicly traded corporation, in which case the ordinary tax regime referred in the previous paragraph will apply, unless the sale complies with one of the following conditions: (i) the transfer is part of a tender offer governed by the Chilean Securities Market Act; or (ii) the transfer is done in a Chilean stock exchange, without substantially exceeding the market price.

Capital gains obtained in the sale of shares that are publicly traded and have a high presence in a stock exchange are also exempt from capital gains tax in Chile when the sale is made by "foreign institutional investors", such as mutual funds and pension funds, provided that the sale is made in a stock exchange or in accordance with the provisions of the Securities Market Law, or in any other form authorized by the Superintendencia de Valores y Seguros (the SVS is equivalent to the Securities and Exchange Commission in the U.S.). To qualify as a foreign institutional investor, the referred entities must be formed outside of Chile, not have a domicile in Chile, and they must be at least one of the following:

- (a) An investment fund that offers its shares or quotas publicly in a country with an investment grade for its public debt, according to a classification performed by an international risk classification entity registered with the SVS;

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- (b) An investment fund registered with a regulatory agency or authority from a country with an investment grade for its public debt, according to a classification performed by an international risk classification entity registered with the SVS, provided that its investments in Chile

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constitute less than 30% of the share value of the fund, including deeds issued abroad representing Chilean securities, such as ADRs of Chilean companies;

- (c) An investment fund whose investments in Chile represent less than 30% of the share value of the fund, including deeds issued abroad representing Chilean securities, such as ADRs of Chilean companies, provided that not more than 10% of the share value of the fund is directly or indirectly owned by Chilean residents;
- (d) A pension fund, i.e., those formed exclusively by natural persons that receive pensions out of an accumulated capital in the fund;
- (e) A Foreign Capital Investment Fund, as defined in Law No18.657; or
- (f) Any other foreign institutional investor that complies with the requirements set forth through general regulations for each category of investor, prior information from the SVS and the Chilean tax authority or Servicio de Impuestos Internos ("SII").

The foreign institutional investor must not directly or indirectly participate in the control of the corporations issuing the shares it invests in nor possess or participate in 10% or more of the capital or the profits of the same corporations.

Other requirements for the exemption to apply are that the referred foreign institutional investors must execute a written contract with a bank or a stock broker, both incorporated in Chile. In this contract, the bank or stock broker undertake to perform the purchase and sale orders, as well as to verify the applicability of the tax exemption and inform the SII of the investors it operates with and the transactions it performs. Finally, the foreign institutional investor must register with the SII by means of a sworn statement issued by the entities referred above (bank or stock broker).

The tax basis of Shares received in exchange for ADRs will be the acquisition value of the Shares on the date of exchange. The valuation procedure set forth in the Deposit Agreement, which values Shares which are being exchanged at the highest price at which they trade on the Santiago Stock Exchange on the date of the exchange, will determine the acquisition value for this purpose. Consequently, the surrender of ADRs for Shares and the immediate sale of the Shares for the value established under the Deposit Agreement will not generate a capital gain subject to taxation in Chile.

The exercise of preemptive rights relating to the Shares will not be subject to Chilean taxation. Any gain on the sale of preemptive rights relating to the Shares will be subject to both the First-Category Tax and the Withholding Tax (the former being creditable against the latter).

### Other Chilean Taxes

There are no Chilean inheritance, gift or succession taxes applicable to

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the ownership, transfer or disposition of ADSs by a Foreign Holder, but such taxes generally will apply to the transfer at death or by gift of the Shares by a Foreign Holder. There are no Chilean stamp, issue, registration or similar taxes or duties payable by Foreign Holders of ADSs or Shares.

### Withholding Tax Certificates

Upon request, Quinenco will provide to Foreign Holders appropriate documentation evidencing the payment of the Chilean Withholding Tax (net of applicable First Category Tax).

### United States Tax Considerations

The following is a summary of certain United States federal income tax consequences of the ownership of Shares or ADSs by an investor that is a U.S. Holder (as defined below) that holds the Shares or ADSs as capital assets. This summary does not purport to address all material tax consequences of the ownership of Shares or ADSs, and does not take into account the specific circumstances of any particular investors (such as tax-exempt entities, certain insurance companies, broker-dealers, traders in securities

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that elect to mark to market, investors liable for alternative minimum tax, investors that actually or constructively own 10% or more of the voting stock of the Company, investors that hold Shares or ADSs as part of a straddle or a hedging or conversion transaction or U.S. Holders (as defined below) whose functional currency is not the U.S. dollar), some of which may be subject to special rules. This summary is based on the tax laws of the United States (including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations there under, published rulings and court decisions) as in effect on the date hereof, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

For purposes of this discussion, a "U.S. Holder" is any beneficial owner of Shares or ADSs that is (i) a citizen or resident of the United States, (ii) a corporation or partnership organized under the laws of the United States or any State, (iii) an estate whose income is subject to United States federal income tax regardless of its source or (iv) a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust. The discussion does not address any aspects of United States taxation other than federal income taxation. Investors are urged to consult their tax advisors regarding the United States federal, state and local and other tax consequences of owning and disposing of Shares and ADSs.

In general, assuming that the representations of the Depositary are true and that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms, for United States federal income tax purposes, holders of ADRs evidencing ADSs will be treated as the owners of the Shares represented by those ADSs, and exchanges of Shares for ADSs, and ADSs for Shares, will not be subject to United States federal income tax.

### Cash Dividends and Other Distributions

Under the United States federal income tax laws, and subject to the passive foreign investment company ("PFIC") rules discussed below, U.S. Holders will include in gross income the gross amount of any dividend paid (after reduction for any Chilean First-Category Tax that is credited against Chilean Withholding Tax, but before reduction for the net amount of Chilean Withholding

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Tax) by the Company out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) as ordinary income when the dividend is actually or constructively received by the U.S. Holder, in the case of Shares, or by the Depositary, in the case of ADSs. The dividend will not be eligible for the dividends-received deduction. Dividends paid to a U.S. Holder that is a corporation are not eligible for the dividends received deduction available to corporations. Current law provides for a reduced tax rate (currently 15%) on the dividend income of an individual U.S. Holder with respect to dividends paid by a domestic corporation or "qualified foreign corporation". A qualified foreign corporation generally includes a foreign corporation if (i) its shares (or its ADSs) are readily tradable on an established securities market in the United States or (ii) it is eligible for benefits under a comprehensive United States income tax treaty. The ADSs are traded on the New York Stock Exchange. As a result, the Company may be treated as a qualified foreign corporation. However, if the Company is treated as a PFIC, as discussed below, it will not be a qualified foreign corporation. If the Company is a qualified foreign corporation, dividends paid to an individual U.S. Holder with respect to Shares or ADSs should, subject to generally applicable limitations, be taxed at a maximum rate of 15%. The maximum 15% tax rate is effective with respect to dividends included in income during the period beginning on or after January 1, 2003, and ending December 31, 2008. Each U.S. Holder should consult its own tax adviser regarding the treatment of dividends. The amount of the dividend distribution includible in income of a U.S. Holder will be the U.S. dollar value of the Chilean peso payments made, determined at the spot Chilean peso/U.S. dollar rate on the date such dividend distribution is includible in the income of the U.S. Holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in income to the date such payment is converted into U.S. dollars will be treated as ordinary income or loss. Such gain or loss will generally be from sources within the United States for foreign tax credit limitation purposes.

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Subject to certain generally applicable limitations, the net amount of Chilean Withholding Tax (after reduction for the credit for Chilean First-Category Tax) paid over to Chile will be creditable against the U.S. Holder's United States federal income tax liability. For foreign tax credit limitation purposes, the dividend will be income from sources without the United States. In the case of U.S. individuals, if the reduced rate of tax on dividends applies to such holder, such limitations and restrictions will appropriately take into account the rate differential under rules similar to section 904(b)(2)(B) of the Internal Revenue Code. The rules governing foreign tax credits are complex and U.S. Holders should consult their tax advisors regarding their application to the particular circumstances of such holder.

Pro rata distributions of Shares or preemptive rights generally are not subject to United States federal income tax. The basis of the new Shares or preemptive rights (if such rights are exercised or sold) generally will be determined by allocating the U.S. Holder's adjusted basis in the old shares between the old Shares and the new Shares or preemptive rights received, based on their relative fair market values on the date of distribution (except that the basis of the preemptive rights will be zero if the fair market value of the rights is less than 15% of the fair market value of the old Shares at the time of distribution, unless the U.S. Holder irrevocably elects to allocate basis between the old Shares and the preemptive rights). The holding period of a U.S. Holder for the new Shares or preemptive rights will include the U.S. Holders holding period for the old Shares with respect to which the new Shares or preemptive rights were issued.

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### Capital Gains

U.S. Holders will not recognize gain or loss on deposits or withdrawals of Shares in exchange for ADSs or on the exercise of preemptive rights. U.S. Holders will recognize capital gain or loss on the sale or other disposition of ADSs or Shares (or preemptive rights with respect to such Shares) held by the U.S. Holder or by the Depositary equal to the difference between the amount realized and the U.S. Holder's tax basis in the ADSs or Shares. Any gain recognized by a U.S. Holder generally will be treated as United States source income. Consequently, in the case of a disposition of Shares or preemptive rights (which, unlike a disposition of ADRs, will be taxable in Chile), the U.S. Holder may not be able to claim the foreign tax credit for Chilean tax imposed on the gain unless it appropriately can apply the credit against tax due on other income from foreign sources. Loss generally would be treated as United States source loss. The long-term capital gain tax rate for an individual U.S. Holder is currently 15%. For sales occurring before May 6, 2003, or after December 31, 2008, under current law the long-term capital gain rate for an individual U.S. Holder is 20%.

### PFIC Rules

Quinenco believes that it should not be treated as a PFIC for United States federal income tax purposes, although this conclusion is subject to some uncertainty. In particular, this conclusion depends on the valuation of its ownership interests in certain related companies and interpretations of the special rules for companies engaged in an active banking business (relevant to certain of Quinenco's subsidiaries) and the rules characterizing certain of its intangible assets, which assumptions Quinenco believes are reasonable but are not free from doubt due to the absence of authority directly addressing situations closely comparable to those of Quinenco. In addition, Quinenco maintains its financial books and records and presents its financial statements in accordance with Chilean GAAP rather than based on U.S. federal income tax principles. Quinenco has assumed in determining its PFIC status that a determination regarding its assets and income based on federal income tax principles would not differ materially from Chilean GAAP principles.

In general, the Company will be a PFIC with respect to a U.S. Holder if, for any taxable year in which the U.S. Holder held the Company's ADSs or Shares, either (i) at least 75% of the gross income of the Company for the taxable year is passive income or (ii) at least 50% of the value (determined on the basis of a quarterly average) of the Company's assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25%

by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportional share of the assets of the other corporation, and as receiving directly its proportional share of the other corporation's income. If the Company is treated as a PFIC, a U.S. Holder would be subject to special rules with respect to (a) any gain realized on the sale or other disposition of Shares or ADSs and (b) any "excess distribution" by the Company to the U.S. Holder (generally, any distributions to the U.S. Holder in respect of the Shares or ADSs during a single taxable year that are greater than 125% of the average annual distributions received by the U.S. Holder in respect of the Shares or ADSs during the three preceding taxable years or, if

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shorter, the U.S. Holder's holding period for the Shares or ADSs). Under these rules, (i) the gain or excess distribution would be allocated ratably over the U.S. Holder's holding period for the Shares or ADSs, (ii) the amount allocated to the taxable year in which the gain or excess distribution was realized would be taxable as ordinary income, (iii) the amount allocated to each prior year, with certain exceptions, would be subject to tax at the highest tax rate in effect for that year and (iv) the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such year.

Special rules apply with respect to the calculation of the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If the Company is treated as a PFIC, a U.S. Holder may be able to make a mark-to-market election if the Company's stock is treated as regularly traded on a registered national securities exchange or other exchange to the extent permitted by the IRS. If the election is made, the PFIC rules described above will not apply. Instead, in general, the electing U.S. Holder will be required to include as ordinary income each year the excess, if any, of the fair market value of the Shares or ADSs at the end of the taxable year over the U.S. Holder's adjusted tax basis in the Shares or ADSs. The electing U.S. Holder will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted tax basis in the Shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). An electing U.S. Holder's tax basis in the Shares or ADSs will be adjusted to reflect any such income or loss amounts.

Alternatively, a U.S. holder of shares or ADSs in a PFIC can sometimes avoid the rules described above by electing to treat the company as a "qualified electing fund" under section 1295 of the Internal Revenue Code. This option will not be available to U.S. Holders because the Company does not intend to comply with the requirements necessary to permit a U.S. Holder to make this election. U.S. Holders should consult their own tax advisors concerning the U.S. federal income tax consequences of holding Shares or ADSs if the Company is considered a passive foreign investment company in any taxable year.

### Information Reporting and Backup Withholding

Dividends in respect of the Shares or ADSs and proceeds from the sale, exchange, or redemption of the Shares or ADSs may be subject to information reporting to the United States Internal Revenue Service and a backup withholding tax of 28% may apply unless the holder furnishes a correct taxpayer identification number or certificate of foreign status or is otherwise exempt from backup withholding. Generally, a U.S. Holder will provide such certification on Form W-9 and a non-U.S. Holder will provide such certification on Form W-8BEN.

### H. Documents on Display

All Company documents referred to in this Annual Report may be inspected at the Company's offices, located at Enrique Foster 20, 14th Floor, Las Condes, Santiago, Chile.

### Item 11. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about the Company's risk management activities includes "forward-looking statements" that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

The Company faces material market risk exposures in four categories: interest rate risk, exchange rate risk, equity price risk and commodity price risk. None of the instruments, equity securities or commodities discussed below were entered into, acquired or held by the Company for trading purposes.

#### Interest Rate Risk

Of the Company's long-term interest bearing debt at December 31, 2004, Ch\$342,110 million was fixed rate and Ch\$168,280 million was variable rate; 99.2% of the Company's long-term interest bearing debt with fixed rate was indexed to the UF, 0.7% was indexed to foreign currencies and 0.1% to the Chilean peso. The Company's long-term interest bearing debt with variable rates was 88.7% indexed to the UF, 10.6% was dollar-denominated and tied to the LIBOR and 0.7% to the Chilean peso.

The following table summarizes the debt obligations held by the Company at December 31, 2004. The table presents principal payments obligations in thousands of Chilean pesos categorized by maturity date and the related weighted-average interest rates. U.S. dollar-denominated liabilities and notional amounts have been converted to Chilean pesos based on the observed exchange rate of December 31, 2004, which was US\$1.00 = Ch\$557.40.

On Balance Sheet Financial Instruments	Expected Maturity Date						2010 therea
	2005	2006	2007	2008	2009		
	(in thousands)						
LONG-TERM DEBT							
Fixed rate							
US\$-denominated	Ch\$	267,670	128,491	49,765	47,937		--
Weighted average interest rate		3.65%	1.53%	--	--		--
UF-denominated	Ch\$	44,461,355	35,001,619	35,749,423	27,929,649	55,050,727	141,26
Weighted average interest rate		4.70%	4.55%	4.58%	4.18%	3.31%	
Ch\$-denominated	Ch\$	77,203	81,153	49,243	--	--	--
Weighted average interest rate		--	--	--	--	--	--
Other-denominated	Ch\$	1,025,716	921,714	--	--	--	--
Weighted average interest rate		16.75%	--	--	--	--	--
Sub-total	Ch\$	45,831,944	36,132,977	35,848,431	27,977,586	55,050,727	141,26

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Variable rate							
US\$-denominated	Ch\$	212,840	3,412,209	3,758,718	2,365,218	3,942,036	4,13
Weighted average interest rate		4.11%	4.11%	4.11%	4.11%	4.11%	
UF-denominated	Ch\$	24,862,960	30,694,307	32,532,230	33,970,041	12,114,023	15,02
Weighted average interest rate		3.21%	3.16%	3.17%	3.18%	3.17%	
Ch\$-denominated	Ch\$	258,426	251,000	749,542	--	--	
Weighted average interest rate	Ch\$	1.31%	1.31%	1.31%	--	--	
Sub-total	Ch\$	25,334,226	34,357,516	37,040,490	36,335,259	16,056,059	19,15
Total	Ch\$	71,166,170	70,490,493	72,888,921	64,312,845	71,106,786	160,42

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Foreign Currency Exchange Rate Risk

At December 31, 2004, approximately 5.4% of the Company's short and long-term interest bearing debt of Ch\$534,039 million was exposed to risk from exchange rate fluctuations between the Chilean peso and the U.S. dollar. As of December 31, 2004, the Company had entered into 90 day forward contracts for Ch\$18,074 million (equivalent to US\$32.4 million) to limit the exposure to fluctuations between the Chilean peso and the U.S. dollar. As of the same date, the Company had entered into swap contracts with maturities of 90 days and 270 days for Ch\$4,381 million (equivalent to US\$7.9 million) to limit the exposure between the U.S. dollar and the Brazilian real. In addition, certain liabilities are considered hedge instruments of investments abroad, in accordance with Technical Bulletin 64.

The following table summarizes the debt obligations sensitive to foreign currency exchange rates held by the Company at December 31, 2004 by maturity date. The table presents principal payment obligations in thousands of Chilean pesos by maturity date. The U.S. dollar-denominated debt, which have been converted to Chilean pesos based on the observed exchange rate of December 31, 2004, was US\$1.00 = Ch\$557.40.

On Balance Sheet Financial Instruments		Expected Maturity Date				
		2005	2006	2007	2008	2009
US\$-denominated	Ch\$	11,259,095	3,540,700	3,808,483	2,413,155	3,942,036

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Other currencies	Ch\$	6,614,283	921,714	--	--	--
		-----	-----	-----	-----	-----
Total	Ch\$	17,873,378	4,462,414	3,808,483	2,413,155	3,942,036
		=====	=====	=====	=====	=====

### Equity Price Risk

At December 31, 2004, the Company's carrying value of investments under the cost method was Ch\$45,407 million. The market risk associated with these equity securities is the potential loss in fair value that would result from a decrease in their market price. As of December 31, 2004, a 10% decrease in the fair market value of these investments would not have a material impact on the results of operations of the Company.

### Commodity Price Risk

Madeco uses significant amounts of copper and aluminum to manufacture its products. Exposure to commodity price risk relates primarily to Madeco's metal inventories of copper and aluminum. Madeco fixes product prices taking into consideration the market value of the principal raw materials it purchases in such a way that prices should normally follow trends in raw material costs (with a short time lag), thereby reducing commodity price risks. Depending on the competitive price environment and general economic conditions, Madeco from time to time is unable to pass along raw material cost increases to its customers.

During 2004, Madeco sold on a consolidated basis 89,445 tons of copper and 17,458 tons of aluminum. As of December 31, 2004, Madeco held inventories of copper and aluminum of 17,791 and 5,686 tons, respectively.

### Item 12. Description of Securities Other than Equity Securities

Not applicable.

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## PART II

### Item 13. Defaults, Dividend Arrearages and Delinquencies

Not applicable.

### Item 14. Material Modifications of the Rights of Security Holders and Use of Proceeds

Not applicable.

### Item 15. Controls and Procedures

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as defined in Exchange Act rules 13a-14(c) and 15d-14(c)). These controls and procedures were designed to ensure that material information relating to the Company and its subsidiaries are communicated to the CEO and the CFO. Based on such evaluation, Quinenco's CEO and CFO concluded that, as of December 31, 2004, the Company's disclosure controls and procedures were effective in timely alerting them to material information required to be included in periodic SEC reports. There have been no significant changes in the Company's internal controls and procedures or in other factors that could

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significantly affect these controls and procedures subsequent to the date of this evaluation.

Item 16. (Reserved)

### A. Audit Committee Financial Expert

Quinenco is not required to have, and does not have, an audit committee financial expert (within the meaning of the regulations adopted under the Sarbanes-Oxley Act of 2002) serving on its audit committee. However, pursuant to NYSE Rule 303A.06, Quinenco must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act and certain additional requirements under NYSE Rule 303A, by July 31, 2005.

### B. Code of Ethics

Quinenco has adopted a code of ethics that applies to all of its executive officers and employees. This code of ethics was filed as an exhibit to the 2003 annual report and is available for viewing on Quinenco's website. Quinenco's code of ethics has not been amended and no waivers, either explicit or implicit, of provisions of the code of ethics have been granted to the Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer.

### C. Principal Accountant Fees and Services

The aggregate fees billed by Ernst & Young Limitada, the Company's independent auditor, for professional services related to Quinenco and its intermediate holding companies in 2004 and 2003 were as follows:

	2003	2004
	----	----
	(in millions of historic Ch\$)	
Audit Fees (1)	683	716
Audit-Related Fees (2)	33	210
Tax Fees (3)	20	51
All Other Fees (4)	129	44
	-----	-----
Total Fees	865	1,021

- (1) Provides aggregate fees billed for professional services rendered by Ernst & Young and Deloitte and Touche, for the audit of Quinenco and its subsidiaries' separate annual financial statement filings required by each country's regulatory authorities and annual financial statement filings required by the United States Securities and Exchange Commission.
- (2) Provides aggregate fees billed in each of the last two fiscal years for assurance and related services by Ernst & Young and Deloitte and Touche, for the performance of the audit or review of Quinenco's financial statements

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and are not reported under (1) above and that are related to financial structure activities and other auditing related activities.

- (3) Provides aggregate fees billed in each of the last two fiscal years for professional services rendered by external auditors for tax compliance, tax advice and tax planning.

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- (4) Provides aggregate fees billed in each of the last two fiscal years for products and services provided, other than the services reported in (1), (2) and (3) above and which were approved by the Company's Board of Directors.

Pre-approval by Audit Committee

Since May 2003, foreign private issuers have been subjected to "pre-approval" requirements under which all audit and non-audit services provided by the independent auditors must be pre-approved by an audit committee. Quinenco is not required to have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act and certain additional requirements under NYSE Rule 303A until July 31, 2005, at which time the Audit Committee will pre-approve all audit and non-audit services provided by the independent auditors. At present, Quinenco's Directors' Committee approves all audit, audit-related, tax and other services provided by Ernst & Young.

D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

PART III

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

Reference is made to pages F-1 through F-122

Item 19. Exhibits

Index to Consolidated Financial Statements

Independent Auditors' Reports:

- Report of Ernst & Young.....
- Report of Deloitte & Touche.....
- Report of PricewaterhouseCoopers.....

Consolidated Financial Statements:

- Consolidated Balance Sheets at December 31, 2002 and 2003.....
- Consolidated Statements of Income for each of the three years in the Period ended December 31, 2003.....
- Consolidated Statements of Cash Flows for each of the three years in the Period ended December 31, 2003.....
- Notes to the Consolidated Financial Statements.....
- Schedule 1 .....

Index to Exhibits

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Exhibit No. -----	Exhibit -----
1.1	By-Laws of Quinenco S.A. (incorporated by reference from Quinenco S.A. Annual Report on Form 20-F for the year ended December 31, 2000, filed on June 29, 2001).
1.2	Amendment to the By-laws of Quinenco S.A.
9.1	List of Subsidiaries
11.1	Code of Ethics (incorporated by reference from Quinenco S.A. Annual Report on Form 20-F for the year ended December 31, 2003, filed on June 30, 2004).
12.1	Certification of Chief Executive Officer of Quinenco S.A. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of Chief Financial Officer of Quinenco S.A. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification of Chief Executive Officer of Quinenco S.A. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2	Certification of Chief Financial Officer of Quinenco S.A. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1	Banco de Chile's Financial Statements at December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004 (incorporated by reference from Item 18 of the Banco de Chile 2004 Annual Report on Form 20-F, filed on June 24, 2005).
15.2	Banco de Chile's Guide 3 Data (incorporated by reference from Item 4 "Information on the Company - Selected Statistical Information" of the Banco de Chile 2004 Annual Report on Form 20-F, filed on June 24, 2005).
15.3	CCU's Financial Statements at December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004 (incorporated by reference from Item 18 of the CCU 2004 Annual Report on Form 20-F, filed on June 28, 2005).

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### SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

QUINENCO S.A.

By: /s/ Luis Fernando Antunez

-----  
Name: Luis Fernando Antunez  
Title: Authorized Representative

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Dated: June 30, 2005

## QUINENCO S.A. AND SUBSIDIARIES

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

#### Item 18. Financial Statements

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Consolidated Statements of Income for each of the three years in the period ended December 31, 2004.....	F-9
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2004.....	F-10
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Condensed Financial Information of Quinenco S.A. ....	F-119
Ch\$ - Chilean pesos	
ThCh\$ - Thousands of Chilean pesos	
MCh\$ - Millions of Chilean pesos	
US\$ - United States dollars	
ThUS\$ - Thousands of United States dollars	
UF - The UF is a Chilean inflation-indexed, peso-denominated monetary unit that is set daily in advance based on the previous month's inflation rate (Note 2 b))	

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#### REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of  
Quinenco S.A. and subsidiaries:

We have audited the accompanying consolidated balance sheets of Quinenco S.A. and subsidiaries (the "Company") as of December 31, 2003 and 2004 and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement Schedule 1 - Condensed financial information. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule, based on our audits. We did not audit the consolidated financial statements of the subsidiary Madeco S.A. and subsidiaries as of December 31, 2003 and for each of the two years in the period ended December 31, 2003, which statements reflect total assets of ThCh\$362,517,685 as of December 31, 2003, and total revenues of ThCh\$265,316,557 and ThCh\$243,607,682 for the years t ended December 31, 2003 and 2004, respectively. In addition, we did not audit the consolidated financial statements of Compania Cervecerias Unidas S.A., an equity method investment which represented ThCh\$88,022,481 and ThCh\$93,081,905 of total assets as of December 31, 2003 and 2004, respectively, and accounted for ThCh\$7,036,685, ThCh\$17,078,393 and ThCh\$13,985,850 of net income for the years then ended December 31, 2002, 2003 and 2004, respectively.

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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.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

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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 consolidated financial position of Quinenco S.A. and subsidiaries as of December 31, 2003 and 2004 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with generally accepted accounting principles in Chile, which differ in certain respects from generally accepted accounting principles in the United States of America (see note 27 to the consolidated financial statements). Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects, the information set forth therein.

ERNST & YOUNG LTDA.

Santiago, Chile March 9, 2005

(except for Notes 26 and 27 for which the date is June 3, 2005)

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Santiago, May 27, 2005

To the Board of Directors and Shareholders

Compania Cervecerias Unidas S.A.

1 We have audited the accompanying consolidated balance sheets of Compania Cervecerias Unidas S.A. and its subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income and of cash flows for each of the three years in the period ended December 31, 2004, expressed in constant Chilean pesos. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

2 We conducted our audits of these statements in accordance with generally

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accepted auditing standards in both Chile and the standards of the Public Company Accounting Oversight Board (United States). 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 As described in Note 1, the accompanying consolidated financial statements have been restated to reflect the effects of changes in the purchasing power of the Chilean peso on the Company's financial position and results of operations. Furthermore, the financial statements as of December 31, 2002 and 2003 and for the years then ended have been restated in terms of constant Chilean pesos of December 31, 2004 purchasing power.
- 4 In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Compania Cervecerias Unidas S.A. and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in Chile.
- 5 As discussed in Note 2 to the consolidated financial statements, the Company changed its method of valuing inventory as of January 1, 2002.

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Santiago, May 27, 2005  
Compania Cervecerias Unidas S.A.  
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- 6 Accounting principles generally accepted in Chile vary in certain important respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 24 to the consolidated financial statements.

PRICEWATERHOUSECOOPERS

Santiago, Chile  
May 27, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of  
Madeco S.A.

We have audited the accompanying consolidated balance sheet of Madeco S.A. and subsidiaries (the "Company") as of December 31, 2003, and the related consolidated statements of operations and of cash flows for each of the two years in the period ended December 31, 2003 all expressed in thousands of constant Chilean pesos. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an

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opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States of America). 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 the Company's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Madeco S.A. and its subsidiaries as of December 31, 2003, and the results of their operations and cash flows for each of the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in Chile.

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Accounting principles generally accepted in Chile vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net loss for each of the two years in the period ended December 31, 2003, and the determination of shareholders' equity at December 31, 2003, to the extent summarized in Note 32.

DELOITTE

Santiago, Chile

February 22, 2004, except for Note 32 as  
to which the date is June 24, 2004 and  
except for restatement to constant  
Chilean pesos as to  
which the date is June 3, 2005

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### QUINENCO S.A. AND SUBSIDIARIES

#### CONSOLIDATED BALANCE SHEETS

Restated for general price-level changes and expressed  
in constant December 31, 2004 Chilean pesos (Ch\$) and US dollars (US\$)

		As of Dece	
		2003	20
	Note	ThCh\$	ThC
Assets			
Current assets			
Cash.....	2	6,524,209	4,
Time deposits.....	5	43,401,501	13,
Marketable securities.....	6	6,306,097	

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Accounts receivable, net.....	7	79,652,556	72,
Notes and accounts receivable from related companies..	22	6,061,853	9,
Inventories, net.....	8	63,523,794	71,
Other current assets, net.....	9	49,813,269	39,
		-----	-----
Total current assets.....		255,283,279	211,
		-----	-----
Property, plant and equipment , net.....	10	333,921,599	274,
		-----	-----
Other assets			
Long-term notes and accounts receivable from related companies.....	22	1,949,744	
Investments in related and other companies.....	11	480,599,676	513,
Goodwill, net.....	12	321,775,033	302,
Other non-current assets.....	13	32,615,033	33,
		-----	-----
Total other assets.....		836,939,486	849,
		-----	-----
Total assets.....		1,426,144,364	1,335,
		=====	=====
Liabilities and Shareholders' Equity:			
Current liabilities			
Short-term bank loans.....	14	19,179,719	23,
Current portion of long-term liabilities.....	16	83,552,277	71,
Accounts payable and supplier notes payable.....		26,891,936	27,
Notes and accounts payable to related companies.....	22	495,163	
Accrued expenses and other liabilities.....	15	35,840,049	20,
		-----	-----
Total current liabilities.....		165,959,144	143,
		-----	-----
Long-term liabilities			
Long-term debt.....	16	350,675,094	196,
Bonds payable.....	16	151,757,981	242,
Notes and accounts payable to related companies.....	22	25,450	
Accrued expenses and other liabilities.....	15	9,085,957	9,
		-----	-----
Total long-term liabilities.....		511,544,482	448,
		-----	-----
Minority interest.....	23	98,768,003	108,
		-----	-----
Commitments and contingencies.....	20		
Shareholders' Equity			
Common stock 1,079,740,079 shares authorized, issued and outstanding with no par value).....	18	470,774,003	470,
Reserves.....	18	14,104,256	(16,
Retained earnings.....	18	164,994,476	180,
		-----	-----
Total Shareholders' Equity.....		649,872,735	635,
		-----	-----
Total Liabilities and Shareholders' Equity.....		1,426,144,364	1,335,
		=====	=====

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The accompanying notes 1 to 27 are an integral part of these consolidated financial statements.

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### QUINENCO S.A. AND SUBSIDIARIES

#### CONSOLIDATED STATEMENTS OF INCOME

Restated for general price-level changes and expressed  
in constant December 31, 2004 Chilean pesos (Ch\$) and US dollars (US\$)

	Note	Years ended Decem	
		2002	2003
		ThCh\$	ThCh\$
<b>Operating Results:</b>			
Net sales.....		410,268,223	366,313,912
Cost of sales.....		(327,078,370)	(292,153,062)
		-----	-----
Gross margin.....		83,189,853	74,160,850
Administrative and selling expenses.....		(72,550,707)	(61,095,210)
		-----	-----
Operating income.....		10,639,146	13,065,640
		-----	-----
<b>Non-Operating Results:</b>			
Interest income.....		5,536,242	3,001,628
Non-operating income.....	21	34,724,777	122,515,170
Interest expense.....		(52,515,284)	(36,072,185)
Non-operating expense.....	21	(88,708,377)	(68,099,778)
Price-level restatement gain (loss), net.....	3	5,200,171	1,939,233
Foreign exchange differences gain (loss), net.....	4	(14,409,690)	1,008,993
		-----	-----
Non-operating results.....		(110,172,161)	24,293,061
		-----	-----
(Loss) income before taxes.....		(99,533,015)	37,358,701
Income taxes.....	17	146,421	(2,632,981)
		-----	-----
(Loss) income before minority interest.....		(99,386,594)	34,725,720
Minority interest.....	23	21,245,705	3,911,497
		-----	-----
Net (loss) income.....		(78,140,889)	38,637,217
		=====	=====

The accompanying notes 1 to 27 are an integral part of these consolidated financial statements.

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QUINENCO S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Restated for general price-level changes and expressed  
in constant December 31, 2004 Chilean pesos (Ch\$) and US dollars (US\$)

	Years end	
	2002	2003
	ThCh\$	ThCh\$
<b>Cash Flow From Operating Activities:</b>		
Collection from customers .....	486,233,637	418,275,817
Financial income receivable .....	14,573,437	2,876,640
Other income received .....	33,088,220	78,316,245
Payments to suppliers and personnel .....	(427,470,067)	(379,172,828)
Interest paid .....	(45,094,716)	(31,790,396)
Income taxes paid .....	(2,062,360)	(1,538,070)
Other expenses .....	(4,511,566)	(5,898,894)
Value added taxes (VAT) and other similar items paid .....	(23,691,852)	(14,605,558)
Net cash flow provided by operating activities .....	31,064,733	66,462,956
<b>Cash Flow From Investing Activities:</b>		
Proceeds from sales of investments .....	622,220	20,912,881
Proceeds from sales of property, plant and equipment .....	2,869,248	16,152,410
Additions to property, plant and equipment .....	(23,691,385)	(12,456,676)
Investments in other companies .....	(626,337)	(195,958)
Investments in financial instruments .....	(309,157)	(50,053,820)
(Increase) decrease in accounts receivable from related companies .....	38,653	(771,659)
Other investing activities (net) .....	22,005,136	38,672,607
Net cash flow provided by (used in) investing activities .	908,378	12,259,785
<b>Cash Flow From Financing Activities:</b>		
Borrowings from banks and others .....	145,543,591	43,801,446
Dividends paid .....	(8,189,514)	(1,294,617)
Payments of loans .....	(166,103,891)	(171,436,015)
Increase in bonds payable .....	--	--
Decrease in bonds payable .....	(17,879,489)	(33,154,801)
Capital increase in subsidiaries contributed by minority shareholders .....	1,128,113	45,932,275
Capital decrease .....	--	(562,766)
Increase (decrease) in accounts payable to related companies ..	47,070,864	14,140,791
Other financing activities (net) .....	3,741,322	387,704
Net cash flow (used) provided by financing activities ....	5,310,996	(102,185,983)
Net increase (decrease) in cash and cash equivalents	37,284,107	(23,463,242)

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Price-level restatement of cash and cash equivalents	2,662,648	(15,188,893)
	-----	-----
Cash and cash equivalents at beginning of year .....	56,421,741	96,368,496
	-----	-----
Cash and cash equivalents at end of year .....	96,368,496	57,716,361
	=====	=====
Supplemental cash flow information:		
Interest paid, net of amounts capitalized .....	(45,094,716)	(31,790,396)
Income taxes paid .....	(2,062,360)	(1,538,070)
Capital lease obligations incurred .....	--	(23,051)

The accompanying notes 1 to 27 are an integral part of these consolidated financial statements.

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QUINENCO S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Restated for general price-level changes and expressed in constant December 31, 2004 Chilean pesos (Ch\$) and US dollars (US\$)

	Years ended	
	2002	2003
	-----	-----
	ThCh\$	ThCh\$
Reconciliation of net income (loss) for the year to net cash provides by operating activities		
Net (loss) income .....	(78,140,889)	38,637,217
Adjustments to reconcile net income to net cash provided by operating activities that do not represent cash flows:		
Depreciation .....	33,287,216	31,230,322
Amortization of goodwill, net .....	19,299,984	(3,514,187)
Minority interest .....	(21,245,705)	(3,911,497)
Price-level restatement gain (loss), net .....	(5,200,171)	(1,939,233)
Foreign exchange differences gain (loss), net .....	14,409,690	(1,008,993)
Losses on sales of property, plant and equipment .....	17,515	3,000,411
Participation in earnings of investments under equity method, net .....	(26,071,064)	(58,831,277)
Dividends received from unconsolidated investments .....	30,298,531	76,416,376
(Gains) losses on sales of investments .....	(415,880)	70,157
Write-offs and provisions .....	13,191,791	9,100,022
Other .....	48,189,111	32,559,858
Decrease (increase) in accounts and notes receivable .....	4,205,004	(19,874,519)
Decrease (increase) in inventories .....	8,056,936	1,644,687
Decrease (increase) in other assets .....	15,566,235	(56,823,489)
Increase (decrease) in accounts and notes payable .....	(42,019,102)	14,579,086
Increase (decrease) in other accrued and current liabilities ..	17,635,531	5,128,015
	-----	-----
Net cash flow provided by operating activities .....	31,064,733	66,462,956
	-----	-----

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The accompanying notes 1 to 27 are an integral part of these consolidated financial statements.

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### QUINENCO S.A. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (expressed in constant Chilean pesos of December 31, 2004, unless otherwise stated)

#### Note 1 - The Company

Quinenco S.A. and subsidiaries ("The Company") is a diversified company engaged in the industrial and financial services sectors primarily in Chile and the Southern Cone countries of South America. The Company has invested in four main sectors of the economy: financial services; food and beverage; telecommunications and manufacturing. In addition, Quinenco holds investments in the hotel and real estate development sectors, among others.

As of December 31, 2004, The Company provides banking and other financial services through its unconsolidated investment in Banco de Chile formed by the merger between Banco de Chile and Banco de A. Edwards ("Banco Edwards"); is involved in the production and distribution of beer, soft drinks, mineral water, wine and pisco through an equity method investment in Compania Cervecerias Unidas S.A. ("CCU"); provides telecommunications services through its subsidiary, Compania Nacional de Telefonos, Telefonica del Sur S.A. ("Telefonica del Sur") and manufactures copper and aluminum products and consumer packaging products through its subsidiary Madeco S.A. ("Madeco").

In addition, through its subsidiary, Industria Nacional de Alimentos S.A., ("Indalsa"), the Company processes and distributes food through an equity investment in Calaf S.A. ("Calaf"); is engaged in hotel services through its subsidiary Hoteles Carrera S.A. ("Hoteles Carrera"); and is involved in the development of residential real estate in Chile through its equity method investment in Habitaria S.A. ("Habitaria").

References herein to "Quinenco" or "The Parent Company" are to Quinenco S.A. and references herein to the "Company" are to Quinenco together with its consolidated subsidiaries and the companies in which Quinenco holds significant equity interests. Further details of the industries in which the Company operates are as follows:

**Financial Services.** Banco de Chile, which provides banking and financial services in Chile is an equity method investment of LQ Inversiones Financieras S.A. ("LQIF"), a consolidated subsidiary.

As of December 31, 2002, 2003 and 2004, Quinenco held a voting interest of 52.16%, 52.16% and 53.49% in Banco de Chile, respectively. Hereafter, interest will refer to the voting interest held, unless otherwise specified. Banco de Chile, a private Chilean bank with branches in New York and Miami, provides a range of services through its nationwide service network in Chile. As of January 1, 2002, Sociedad Matriz del Banco de Chile S.A. ("SM Chile") the holding company in which Quinenco maintains a 51.35% interest, holds a direct interest of 18.48% in Banco de Chile and indirectly holds an additional 42.00% through its wholly-owned subsidiary, Sociedad Administradora de la Obligacion Subordinada SAOS S.A. ("SAOS").

As of December 31, 2002 and 2003, the Company owned 52.16% of the voting rights

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and was entitled to 29.15% of the dividend rights in the merged bank. In 2004, Banco de Chile repurchased 2.5% of its own shares in accordance with its share repurchase program. As a result, the Company's voting rights and dividend rights in Banco de Chile increased to 53.49% and 29.89%, respectively.

Food and Beverage. CCU, an equity method investee, is a diversified beverage company. It is the largest beer producer in Chile with an ample product offering of proprietary and international beer brands. It also produces and distributes proprietary brand soft drinks, PepsiCo and Schweppes Holdings Ltd. brand soft drinks and nectars, mineral waters and pisco. CCU owns a majority interest in Vina San Pedro S.A. ("Vina San Pedro"), Chile's second-largest winery. In Argentina, CCU is the second-largest brewer where it produces and distributes proprietary and international beer brands. CCU produces plastic bottles for use in its businesses.

Quinenco owns its interest in CCU through a 50% interest in Inversiones y Rentas S.A. ("IRSA"). IRSA is a joint venture formed in 1986 between Quinenco and the Schorghuber Group, German brewers of the Paulaner beer brand. On April 17, 2003, the Schorghuber Group announced that it had sold its interest in IRSA to Heineken Americas B.V. ("Heineken"), the Dutch brewer. As a result Heineken is a 50% partner in IRSA, the entity that holds a 61.62% controlling interest in CCU.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 1 - The Company (continued)

Indalsa, formerly Empresa Lucchetti S.A., is a 97.02% owned consolidated subsidiary of the Company. Until March 31, 2004 it produced pasta, edible oil and packaged soups for the Chilean market. On this date, Indalsa sold its subsidiary, Lucchetti Chile S.A. ("Lucchetti Chile"), to Empresas Corpora Tresmontes S.A. ("Corpora Tresmontes") for ThCh\$56,074,000 (historic pesos) less financial debt, generating a gain on sale of ThCh\$4,069,786. The sale represented approximately 85% of Indalsa's consolidated net assets but did not include Indalsa's 50% interest in a chocolate and cookie maker acquired in January 2004, two real estate properties in Chile, deferred tax credits or its interest in Lucchetti Peru S.A. ("Lucchetti Peru"). Following the sale, Empresas Lucchetti S.A. changed its name to Industria Nacional de Alimentos S.A. on May 14, 2004.

Indalsa produced pasta products in Peru until early 2003 when its plant was forcibly closed by the Peruvian authorities for alleged environmental violations. Since that date, Indalsa has been in the process of liquidating its assets in Peru in order to repay its bank loans and amounts due to suppliers and personnel. In accordance with accounting principles generally accepted in Chile, the Company made a provision against the entire investment and for part of the accounts receivable of Lucchetti Peru amounting to a total of ThCh\$30,678,486 (historic pesos) as of December 31, 2002.

In 2002, 2003 and 2004, Indalsa carried out capital increases giving Quinenco an ownership interest in Indalsa of 93.69%, 95.91% and 97.02% as of December 31, 2002, 2003 and 2004, respectively.

Telecommunications. Telefonica del Sur, a consolidated subsidiary, provides local telephone service in Regions VIII, IX, X and XI of Chile. At December 31, 2004, Telefonica del Sur was a 73.67%-owned consolidated subsidiary of the

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Company. The Company's interest in Telefonica del Sur is held through a wholly-owned subsidiary, VTR S.A. ("VTR").

Telefonica del Sur is the principal provider of local telephone service in Regions X and XI. It is the second-largest provider of telephone services in the ninth region which includes the city of Temuco. It is the third-largest provider in the eighth region of the country. In addition to local telephone services, Telefonica del Sur is also a provider of nationwide domestic and international long distance telephone services, internet services and other non-regulated telecommunications services. Quinenco's economic interest in Telefonica del Sur was 73.67% at December 31, 2004, and 73.56% at December 31, 2003 and 2002, respectively.

Manufacturing. Madeco, a consolidated subsidiary, is a regional manufacturer of copper and aluminum based cable, brass mills products principally used in the telecommunications, construction, mining, energy and general industrial products sectors. Madeco is also a manufacturer of packaging for mass consumer products. Madeco has production facilities in Chile, Peru, Brazil and Argentina. In Brazil, Madeco owns a 100% interest in Ficap S.A. ("Ficap"), a manufacturer of copper and aluminum wire and cable products. As a result of the economic crisis in Argentina which culminated in 2001, Madeco closed its Argentine subsidiary, Decker-Indelqui S.A. ("Decker Indelqui"). It has since partially reopened its plant facilities for wire and cable and brass mills production. In Peru, Madeco owns Indeco S.A. ("Indeco"), a wire and cable manufacturer. Madeco's manufacturing activities of flexible product packaging are carried out through its subsidiaries in Chile and Argentina, Alusa S.A. ("Alusa") and Aluflex S.A. ("Aluflex").

As a result of the material adverse effect on Madeco of the deep economic recession in Argentina and other adverse economic developments in the markets in which it operates, Madeco developed and implemented in 2002 and 2003 a refinancing plan to fortify its capital structure and improve its debt repayment capacity. On December 18, 2002, Madeco reached agreements with fourteen of its bank lenders to amend certain of its credit facilities. The terms of the agreements provided for a US\$120 million debt (historic value) restructuring over seven years, conditioned upon a repayment of 30% of the loan balances at the time of signing amended and modified loan agreements.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 1 - The Company (continued)

During 2003, Madeco completed a capital increase in several stages. Quinenco subscribed directly and indirectly for shares totaling ThCh\$49,616,293. As of December 31, 2002, 2003 and 2004, Quinenco held a 53.41%, 55.22% and 51.23% interest in Madeco, respectively.

Real Estate and Hotel Administration. Hoteles Carrera previously operated a chain of five hotels in Chile. At the end 2003, it sold its main hotel located in Santiago to the Chilean government. Hoteles Carrera recognized a loss on sale of Ch\$4,831 million (historic pesos) associated with the disposal in 2003. In 2004, it did not renew the leases it had on three hotels it operated in the north of Chile. Its remaining hotel is a small four star located in the city of Concepcion. As of December 31, 2002, 2003 and 2004, Quinenco held an 89.95% interest in Hoteles Carrera.

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Quinenco owns a 50% equity method interest in Habitaria, a developer of residential real estate for Chilean families in the middle-income and upper-middle income segments. Habitaria is a joint venture between the Company and Ferrovial Inmobiliaria Chile Ltda., a subsidiary of the Spanish company Ferrovial S.A..

### Note 2 - Summary of Significant Accounting Policies

#### a) Basis of consolidation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Chile, and specific guidelines issued by the Superintendency of Securities and Insurance ("SVS"), (collectively referred to as "Chilean GAAP")

The consolidated financial statements of Quinenco and its subsidiaries as of December 31, 2003 and 2004 include the accounts of companies in which the Parent Company holds a direct or indirect ownership of more than 50%. However, they do not consolidate the financial statements of Banco de Chile, SM Chile, and Banchile Seguros de Vida S.A. ("Banchile"), because banking and insurance operations are generally not consolidated with non-financial businesses in Chile, primarily due to the dissimilarity of both the nature of the operations and the related accounting policies. The SVS has authorized the Company not to consolidate the financial statements of Banco de Chile, SM Chile and Banchile.

SM Chile's wholly-owned subsidiary, SAOS has significant liabilities (the "subordinated debt obligation") with the Chilean Central Bank to the amount of UF53,945,608.59 (approximately ThCh\$934,178,801) as of December 31, 2004. Under Chilean GAAP, as permitted by law, such liabilities are not included in SM Chile's financial statements. See note 11.

Indalsa has not consolidated the subsidiary Lucchetti Peru as of December 31, 2004 and 2003 as a result of action taken by Peruvian government as detailed in Note 20 b). This action resulted in the closure of the plant and the initiation of a process to liquidate its assets. This decision is based on the provisions of Technical Bulletin No. 64 of the Chilean Association of Accountants ("BT64") and SVS Resolution No.01642 dated March 11, 2003, which expressly authorized the non-consolidation of Lucchetti Peru.

The consolidated financial statements as of and for the years ended December 31, 2002, 2003 and 2004 include the following subsidiaries:

	At December 31,		
	2002	2003	2004
	%	%	%
Percentage of Direct and Indirect Ownership:			
Indalsa (formerly Empresa Lucchetti) and subsidiaries....	93.69	95.91	97.02
Telefonica del Sur and subsidiaries.....	73.56	73.56	73.67
Madeco and subsidiaries.....	53.41	55.22	51.23
Hoteles Carrera.....	89.95	89.95	89.95

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

### Note 2 - Summary of Significant Accounting Policies (continued)

All significant intercompany balances and transactions have been eliminated in consolidation, as well as any unrealized gains or losses arising from such transactions. The participation of non-controlling shareholders in subsidiaries has been given effect in the consolidated financial statements under the caption Minority Interest.

The preparation of financial statements in conformity with Chilean GAAP, along with the reconciliation to generally accepted accounting principles in the United States of America ("US GAAP"), requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In addition, certain reclassifications have been made in the 2002 and 2003 amounts to conform to the 2004 presentation.

#### b) Price-level restatement

The consolidated financial statements, which are expressed in Chilean pesos, have been restated to reflect the effects of variations in the purchasing power of the local currency during each year. For this purpose, and in conformity with current Chilean regulations, non-monetary assets and liabilities, shareholders' equity accounts and income and expense accounts have been restated each year in terms of year-end constant pesos. The resulting net charge or credit to income arises as a result of the gain or loss in purchasing power from the holding of monetary assets and liabilities exposed to the effects of inflation. In accordance with Chilean tax regulations and accounting practices, the restatements were calculated based on the official Consumer Price Index ("CPI") of the National Association of Statistics, which was 3.0%, 1.0% and 2.5% for the years ended November 30, 2002, 2003 and 2004, respectively. The index is based on the "prior month rule"; pursuant to which the inflation adjustments are based on the Consumer Price Index at the close of the month preceding the close of the respective period of the transaction.

This index is considered by the business community, the accounting profession and the Chilean government to be the index which most closely complies with the technical requirement to reflect the variation in the general level of prices in the country and, consequently, is widely used for financial reporting purposes in Chile. For comparative purposes, the consolidated financial statements for the years ended December 31, 2002 and 2003 and the amounts disclosed in the related footnotes have also been restated using the same index in terms of Chilean pesos of December 31, 2004 purchasing power.

The above-mentioned price-level restatements do not purport to present appraisal or replacement values and are only intended to restate all non-monetary financial statement components in terms of local currency of a single purchasing power, and to include in net income for each year the gain or loss in purchasing power arising from the holding of monetary assets and liabilities exposed to the effects of inflation.

Certain assets and liabilities are denominated in Unidades de Fomento ("UF"). The UF is a Chilean inflation-indexed, peso-denominated monetary unit that is set daily in advance based on changes in the CPI. The adjustments to the closing value of UF-denominated assets and liabilities are included in the Price-level restatement account in the Consolidated Statement of Income. Each UF was

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equivalent to Ch\$16,744.12, Ch\$16,920.00, and Ch\$17,317.05 as of December 31, 2002, 2003 and 2004, respectively.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 2 - Summary of Significant Accounting Policies (continued)

c) Assets and liabilities in foreign currency

Balances in foreign currency included in the Consolidated Balance Sheets and detailed in Note 19 have been translated into Chilean pesos at the Observed Exchange Rates determined by the Central Bank of Chile in effect at each year end. The changed rated as of December 31 2002, 2003 and 2004 of most relevant foreign currencies are as follows:

	As of December 31,		
	2002	2003	2004
United States Dollar (US\$) .....	\$ 718.61	\$ 593.80	\$ 557.40
Argentinian Pesos (AR\$) .....	211.98	201.97	187.36
Brazilian Reals (BR\$) .....	203.00	205.47	209.99

The net adjustment of assets and liabilities denominated in foreign currency is also detailed in Note 4.

d) Cash and cash equivalents

The Company considers all short-term, highly liquid investment securities with remaining maturities of three months or less to be cash equivalents for the purposes of the Consolidated Statements of Cash Flows:

	As of December 31,		
	2002	2003	2004
	ThCh\$	ThCh\$	ThCh\$
Cash .....	5,215,108	6,524,209	4,148,331
Time deposits that are cash equivalents .....	2,020,585	24,210,296	13,789,624
Mutual funds (Note 6) .....	6,967,304	6,066,488	412,783
Securities purchased under agreements to resell that are cash equivalents (Note 9) ..	82,165,499	20,915,368	24,078,859
Total .....	96,368,496	57,716,361	42,429,597

e) Time deposits and marketable securities

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Time deposits are stated at cost plus interest and price-level restatement (indexation) accrued at each year-end.

Marketable securities are valued as follows:

Shares: At the lower of restated cost plus price-level restatement or market value of the portfolio at each year-end. Shares include the quoted shares of companies in which both the Company's shareholding is less than 10% of the investee's capital and the Company does not exert significant influence over the investee.

Mutual funds: At the quoted redemption value of the respective share at each balance sheet date.

### f) Accounts receivable

Accounts receivables are shown net of the allowance for doubtful accounts. Allowances are recorded at the end of each period based on specific identification and those balances considered to be of doubtful recovery due to the age of the receivable.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

### Note 2 - Summary of Significant Accounting Policies (continued)

### g) Inventories

Inventories of finished products, work in progress and by-products are valued at production cost including indirect manufacturing costs plus price-level restatement ("restated cost"). Inventories of raw materials, materials in warehouse and materials in transit are valued at price-level restated cost. Inventory values do not exceed their estimated net realizable value. The related obsolescence allowances have been deducted from inventories.

Inventories with a turnover exceeding one year are shown under other long-term assets net of obsolescence allowance.

### h) Other current assets

Other current assets correspond principally to recoverable income taxes, deferred income taxes, prepaid expenses, disposable assets held for sale and securities purchased under agreements to resell. These securities represent investments in promissory notes issued by the Central Bank of Chile and Treasury Bills, which were purchased at a discount under agreements to resell at a fixed price. They are valued at their present value calculated on the basis of the interest yield used to determine the price of each instrument on the date of acquisition.

### i) Property, plant and equipment

Property, plant and equipment are stated at cost plus price-level restatement and include construction and financing costs incurred until the assets are in a condition to be used, applying the average cost of financing. Such costs exclude foreign exchange gains and losses that are included in the Consolidated

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Statements of Income.

Assets acquired under capital lease contracts are recorded at their present value, calculated using the contracted monthly installments plus the purchase option and using the interest rate implicit in the respective contract. The corresponding liability is shown net of deferred interest. Assets obtained under financial contracts are not the legal property of the Company until it exercises the related purchase option. Therefore, the Company cannot freely dispose of them.

Certain subsidiaries record the sale and leaseback of assets maintaining the value of the assets prior to the transaction. The assets will legally belong to the Company and its subsidiaries after they exercise the purchase option. Losses arising from these transactions are amortized over the useful lives of the related asset and are shown in other property, plant and equipment as part of capital leases.

Software included is shown at price-level restated acquisition cost and is amortized over 4 years in conformity with Circular No. 981 of the SVS.

In accordance with instructions issued by the SVS, property, plant and equipment include the revaluation increment arising from the technical appraisals of certain assets, which were carried out in 1979 and 1986.

Property, plant and equipment are shown net of allowances for obsolescence.

In substantially all cases, depreciation is determined by the straight-line method based on the estimated useful lives of the assets and where applicable as a function of the production units for certain plants (see Note 10).

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 2 - Summary of Significant Accounting Policies (continued)

The estimated useful lives of the principal categories of property, plant and equipment are as follows:

	Years -----
Buildings and installations.....	25 to 60
Machinery and equipment.....	10 to 20
Telephone plant and equipment.....	10 to 30
Other property, plant and equipment.....	10 to 20

The revaluation from technical appraisals is being amortized over the remaining lives of the respective assets.

Depreciation of temporarily inactive property, plant and equipment is classified under other non-operating expenses in the Statement of Income.

j) Investments in related companies

Investments in related companies over which the Company has significant influence, are included under the caption Other assets and are recorded using

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the equity method. Accordingly, the Company's proportional share in the net income (or loss) of each investee is recognized in the non-operating income and expense classification in the Consolidated Statements of Income on an accrual basis, after eliminating any unrealized profits from transactions with the related companies.

### j) Investments in related companies (continued)

Investments in majority-owned companies in the development stage are also recorded using the equity method on the balance sheet, but the Company's share of the investee's results of operations during the development stage are taken to a reserve which forms part of Shareholders' equity.

Equity movements that do not affect the income of the related companies are shown proportionally as a charge or credit to the account Other reserves in Shareholders' equity.

### k) Other investments

Other investments in which the Company has less than 10% of the voting stock of the investee, which are considered to be permanent are valued at cost plus price-level restatement. They are shown under the caption Other assets. Dividends from such investments are recognized as income when received.

### l) Goodwill and negative goodwill

Prior to January 1, 2004, goodwill arose from the excess of the purchase price of companies acquired over their net book value; negative goodwill arose when net book value exceeded the purchase price of companies acquired. Goodwill and negative goodwill is also accounted for in the purchase of investments accounted for by the equity method. Chilean GAAP also provides that goodwill and negative goodwill amortization may be accelerated if the proportional net income or net loss of the investee exceeds the respective straight-line amortization amount. Beginning January 1, 2004, the Company adopted Technical Bulletin No.72 of the Chilean Association of Accountants, which changes the basis for determining accounting for goodwill and negative goodwill generated in transactions after January 1, 2004, based on an allocation of the purchase price based on the fair value of the identifiable assets acquired and identifiable liabilities assumed. Both goodwill and negative goodwill are normally amortized over the maximum period of twenty years considering the expected period of return of the investments.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

### Note 2 - Summary of Significant Accounting Policies (continued)

#### m) Other non-current assets

Other non-current assets correspond principally to long-term receivables, deferred income taxes, trademarks, bond issuance cost, fixed assets held-for-sale and slow movement inventories. Trademarks are presented at their price-level restated registration value, and are amortized over the period in which they are expected to benefit the Company, as established in Technical Bulletin No. 55 of the Chilean Association of Accountants.

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### n) Bonds payable

Bonds payable are included in liabilities at their par value plus accrued price-level restatement and interest. The discount that arises from the difference between par value and the proceeds less issuance costs actually received is included in Other assets and is amortized using the straight-line method.

### o) Employee severance indemnities

Certain subsidiaries with agreements to pay severance indemnities calculate the respective liability based on a present value method (accrued cost of the benefit method), assuming real annual discount rates over an estimated remaining service period of each employee until retirement.

### p) Employee vacations

The cost of employee vacations is recognized in the financial statements on an accrual basis as employees earn the vacations.

### q) Deferred income tax

Beginning January 1, 2000, the Company records deferred income taxes in accordance with Technical Bulletin No.60 and its related amendments issued by the Chilean Association of Accountants, and with Circular No.1466 issued on January 27, 2000 by the SVS, recognizing the deferred tax effects of temporary differences between the financial and tax values of assets and liabilities, using the liability method.

Previously, deferred income taxes attributable to those temporary differences related to items that were treated differently for tax and accounting purposes were not recorded to the extent that they were considered to be offsetting and temporary in nature.

As a transitional provision, a contra asset or liability was recorded offsetting the effects of the deferred tax assets and liabilities not recorded prior to January 1, 2000. The contra asset or liabilities, defined as "complementary accounts", are being amortized to income over the estimated average reversal periods corresponding to the underlying temporary differences to which the deferred tax asset or liability relates.

### r) Revenue recognition

Revenue is recognized when goods are delivered to customers or the services are rendered. Unearned income related to sales that the Company has invoiced and collected in advance is not recognized until the related goods are delivered.

In addition to services invoiced, Hoteles Carrera recognizes as operating revenues an estimate of services provided and not invoiced through year-end. This estimate has been valued using actual rates corresponding to the period in which the services were provided. Accordingly, the cost related to this service has been included in cost of sales in the income statement.

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### Note 2 - Summary of Significant Accounting Policies (continued)

The subsidiaries in the telecommunications sector maintain a policy of recognizing revenues when the services are provided. Accordingly, revenues for each year include both services billed and services provided but unbilled at the end of the year. The unbilled services are accrued based on a calculation of the unbilled time for domestic and international telephone and data transmission services at rates in effect during the corresponding period in which the services are rendered. The related cost of such services is included in Operating costs in the Consolidated Statement of Income.

#### s) Translation of foreign currency financial statements

In accordance with BT64, the financial statements of foreign subsidiaries whose activities do not constitute an extension of the Chilean operation and which operate in countries that are exposed to significant risks, restrictions or inflation/exchange fluctuations are remeasured using the U.S. dollar as the functional currency and then translated into Chilean pesos at the year end exchange rate. Accordingly, the financial statements of the Company's subsidiaries in South America (principally Argentina, Brazil and Peru) are prepared in accordance with Chilean GAAP, with the exception of price-level restatement, which is not applied, and are then remeasured into U.S. dollars as follows:

- Monetary assets and liabilities are translated at year-end rates of exchange between the U.S. dollar and the local currency.
- All non-monetary assets and liabilities and shareholders' equity are translated at historical rates of exchange between the U.S. dollar and the local currency.
- Income and expense accounts are translated at average rates of exchange between the U.S. dollar and the local currency.
- Any exchange differences are included in the results of operations for the period.

Banco de Chile's branches in the United States of America use the U.S. dollar as the measurement currency as they are not considered an extension of their parent company and function in a country with a stable currency.

On the Parent Company's books, price-level restatements based on Chilean inflation are applied to the beginning balance of the investment account and then the participation in the net income of the subsidiary (determined as described above) is recorded. The Parent Company then compares this value to its participation in the equity of the investee as remeasured into U.S. dollars, or in the case of Banco de Chile's branches which were already in U.S. dollars and translated into Chilean pesos at the prevailing rate as of the balance sheet date. The difference is recorded as an adjustment to the investment account with a corresponding adjustment to the Cumulative Translation Adjustment account in Shareholders' equity.

In addition, as permitted by BT64, the Company records the effect of foreign exchange adjustments arising from financial instruments that hedge the exposure of foreign investments. Accordingly, the excess of foreign exchange losses over related price-level restatements is also charged to the Cumulative Translation Adjustment account.

Certain subsidiaries incorporated in the Cayman Islands prepare financial statements in U.S. dollars. These financial statements are translated to Chilean pesos at the Observed Exchange Rate at the closing date of each period. Foreign exchange gains or losses arising from the translation of these financial

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statements are included in the results of operations as part of the foreign exchange differences.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 2 - Summary of Significant Accounting Policies (continued)

t) Changes of interest when investee issues stock

When an investee increases capital through sales of additional shares, the Company's percentage ownership interest in the investee may increase or decrease depending on whether all shareholders subscribe their proportional amount. As a result, the Company's proportional carrying amount per share may vary; any differences that arise are reflected as non-operating gains or losses in the Consolidated Statements of Income in the period the change of interest transaction occurs.

u) Accumulated deficit during development stage

In accordance with Circular No.981 of the SVS, disbursements made during the organization and start-up stage that are not assignable to tangible or intangible assets are included in Shareholders' equity in the Balance Sheets under the caption Accumulated Deficit During Development Stage (see also Note 2 j)).

v) Basis of translation to U.S. dollars

The Company maintains its accounting records and prepares its financial statements in Chilean pesos. The U.S. dollar amounts disclosed in the accompanying Consolidated Financial Statements (except the footnotes) as of and for the year ended December 31, 2004 are presented solely for the convenience of the reader at the December 31, 2004 exchange rate of Ch\$557.40 per US\$1. This translation should not be construed as representing that the Chilean peso amounts actually represent or have been, or could be, converted into U.S. dollars at such rate or any other rate. All other U.S. dollar amounts included in the footnotes represent the actual dollars at the date of the transaction.

w) Financial derivative instruments

The Company maintains forward foreign exchange contracts and foreign exchange swap contracts to cover the risks of fluctuation in exchange rates between the Chilean peso, U.S. dollar and Brazilian real. The Company enters into forward foreign exchange contracts to mitigate the risk that cash flows will be adversely affected by changes in exchange rates resulting from the collection of receivables from international customers and the purchase of supplies and raw materials and also to cover U.S. dollar denominated debt.

These derivative instruments are recorded in the balance sheet at fair value as other assets or liabilities, with a credit or charge to income, respectively.

x) Compensations plans

Madeco does not record the effect of stock options as of the date that the option is granted and only recognizes the eventual capital increase once the respective options are exercised and the payment of the capital increase is

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made. This accounting treatment is in accordance with International Accounting Standard (IAS) No. 19, since there are no related standards in Chile.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

### Note 3 - Price-Level Restatement

The application of price-level restatement as described in Note 2 b) resulted in net (charges)/credits to income, the effect of which is summarized as follows:

	Credit (charge) Year ended December 31		
	2002	2003	2004
	ThCh\$	ThCh\$	ThCh\$
Property, plant and equipment, net .....	8,300,474	2,743,981	5,000,000
Inventories .....	2,208,677	2,374,527	57,000,000
Other current assets .....	457,141	186,647	42,000,000
Other assets .....	30,794,330	10,051,989	21,400,000
Other non-monetary liabilities .....	(3,214,862)	(1,233,957)	(2,970,000)
Shareholders' Equity, net .....	(20,857,921)	(6,462,777)	(15,670,000)
Income and expense accounts in terms of period-end constant Chilean pesos .....	868,221	(550,519)	(12,000,000)
Net adjustment of assets and liabilities indexed in UFs	(13,355,889)	(5,170,658)	(8,970,000)
	-----	-----	-----
Price-level restatement gain (loss), net .....	5,200,171	1,939,233	(35,000,000)
	=====	=====	=====

### Note 4 - Foreign Exchange Differences

The application of foreign exchange differences as described in Note 2 c) resulted in net (charges)/credits to income, the effect of which is summarized as follows:

	Credit (charge) Year ended December 31		
	2002	2003	2004
	ThCh\$	ThCh\$	ThCh\$
Cash and financial investment .....	4,707,901	(4,894,449)	(33,000,000)
Accounts receivable .....	(1,068,677)	981,552	(61,000,000)
Notes and accounts receivable from related companies ..	(18,015)	--	--
Other assets .....	1,323,816	(1,531,735)	60,000,000
Bank loans .....	(18,834,360)	15,917,974	(75,000,000)
Other liabilities .....	363,079	44,062	(41,000,000)
Results from financial derivative contracts .....	3,590,961	(13,068,665)	78,000,000
Results from conversion, net .....	(4,474,395)	3,560,254	1,020,000
	-----	-----	-----

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Foreign exchange differences gain (loss), net ....	(14,409,690)	1,008,993	29
	=====	=====	=====

Note 5 - Time Deposits

Time deposits are summarized as follows:

	As of December 31,	
	2003	2004
	ThCh\$	ThCh\$
Time deposits in UF.....	23,005,205	9,377,000
Time deposits in Chilean pesos.....	6,877,525	44,000,000
Time deposits in U.S. dollars.....	13,458,951	3,977,000
Time deposits in other foreign currencies.....	59,820	
	-----	-----
Total.....	43,401,501	13,787,000
	=====	=====

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 6 - Marketable Securities

Marketable securities are summarized as follows:

	As of December 31,	
	2003	2004
	ThCh\$	ThCh\$
Marketable equity securities.....	238,149	238,347
Mutual funds.....	6,066,488	412,783
Other.....	1,460	1,303
	-----	-----
Total marketable securities.....	6,306,097	652,433
	=====	=====

Note 7 - Accounts Receivable

a) Accounts receivable are summarized as follows:

As of December 31,  
 -----

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	2003	2004
	----- ThCh\$	----- ThCh\$
Trade accounts receivable.....	77,784,632	69,773,133
Notes receivable.....	11,557,901	8,467,344
Other accounts receivable.....	5,211,953	3,652,766
Allowance for doubtful accounts.....	(14,901,930)	(9,407,351)
	-----	-----
Total.....	79,652,556	72,485,892
	=====	=====

b) Changes in the allowance for doubtful accounts for the years ended December 31, 2002, 2003 and 2004 are as follows:

	As of December 31,		
	2002	2003	2004
	----- ThCh\$	----- ThCh\$	----- ThCh\$
Balance at beginning of year .....	15,253,496	14,844,321	14,901,930
Price-level restatement .....	(303,226)	(4,173)	(28,173)
Effect of devaluation of foreign currencies .....	(2,955,121)	(183,737)	(25,173)
Effect of non-consolidation of the subsidiary			
Lucchetti Peru .....	(1,153,784)	--	
Charged to expenses .....	7,321,727	2,823,598	1,228,173
Effect of sales subsidiaries .....	--	--	(55,173)
Release of provisions .....	--	--	(32,173)
Transfer to other long-term assets .....	--	--	(1,491,173)
Write-offs .....	(3,318,771)	(2,578,079)	(3,811,173)
	-----	-----	-----
Balance at end of year .....	14,844,321	14,901,930	9,401,930
	=====	=====	=====

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 8 - Inventories

a) Inventories are summarized as follows:

	As of December 31,	
	2003	2004
	----- ThCh\$	----- ThCh\$
Raw materials .....	20,248,421	20,991,173
Finished goods.....	19,005,445	19,301,173

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Work-in-process.....	11,004,717	17,05
Supplies.....	7,002,581	6,55
Other.....	6,262,630	7,92
	-----	-----
Inventories, net.....	63,523,794	71,82
	=====	=====

Inventories are presented net of the allowance for obsolescence (ThCh\$4,262,248 and ThCh\$2,919,083 in 2003 and 2004, respectively).

b) Changes in the allowance for obsolescence for the year ended December 31, 2002, 2003 and 2004 are as follows:

	As of December 31,		
	2002	2003	2004
	-----	-----	-----
	ThCh\$	ThCh\$	ThCh\$
Balance at beginning of year.....	3,279,552	4,728,666	4,262,248
Price level restatement.....	(55,649)	(46,947)	(1,000,000)
Foreign exchange rate differences.....	(397,137)	(73,861)	(5,000,000)
Effect of de-consolidation of the subsidiary			
Lucchetti Peru.....	(105,782)	--	
Transfer to long term other assets.....	(152,478)	413,031	
Effect of sales of subsidiaries.....	--	--	(36,000,000)
Release of provisions.....	--	(446,136)	(83,000,000)
Charged to expenses.....	2,459,297	189,942	
Write-offs.....	(299,137)	(502,447)	(7,000,000)
	-----	-----	-----
Balance at end of year .....	4,728,666	4,262,248	2,919,083
	=====	=====	=====

Note 9 - Other Current Assets

Other current assets are summarized as follows:

	As of December 31,	
	2003	2004
	-----	-----
	ThCh\$	ThCh\$
Securities purchased under agreements to resell.....	30,246,315	24,070,000
Recoverable income taxes, net (see Note 17 a) ).....	5,549,215	5,090,000
Prepaid expenses.....	2,642,346	93,000
Deferred income taxes, net (see Note 17 b) ).....	2,294,561	3,080,000
Property, plant and equipment held for sale, net.....	6,937,221	4,790,000
Other.....	2,143,611	1,530,000
	-----	-----
Total.....	49,813,269	39,553,000
	=====	=====

Property, plant and equipment held for sale are recorded at their net realizable

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values. The adjustments to show such property, plant and equipment at their net realizable value amounted to ThCh\$7,057,537 and ThCh\$1,935,365 as of December 31, 2003 and 2004, respectively.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 10 - Property, Plant and Equipment

Property, plant and equipment are summarized as follows:

	As of December 31,	
	2003	2004
	ThCh\$	ThCh\$
Land .....	19,919,114	14,922,889
Buildings and infrastructure .....	182,408,741	157,864,877
Accumulated depreciation .....	(59,729,508)	(54,287,447)
Subtotal buildings and infrastructure, net .....	122,679,233	103,577,430
Machinery and equipment .....	372,118,058	317,813,789
Accumulated depreciation .....	(220,874,196)	(201,198,823)
Subtotal machinery and equipment, net .....	151,243,862	116,614,966
Other property, plant and equipment:		
Leased assets .....	18,550,700	14,406,570
Construction in progress .....	3,115,890	1,258,518
Furniture and fixtures .....	9,174,749	7,636,417
Office equipment .....	3,896,023	3,548,255
Tools and others .....	2,293,001	2,094,225
Computer software .....	6,895,212	5,025,439
Computers .....	1,154,617	295,672
Materials and replacement parts .....	1,842,812	1,651,706
Other property, plant and equipment .....	5,289,868	12,333,323
Accumulated depreciation .....	(21,911,977)	(18,584,704)
Subtotal other property, plant and equipment, net ...	30,300,895	29,665,421
Revaluation from technical appraisals:		
Land .....	3,216,754	3,073,373
Buildings and infrastructure .....	10,084,875	9,389,945
Machinery and equipment .....	2,132,502	2,132,501
Accumulated depreciation .....	(5,655,636)	(5,031,398)
Subtotal revaluation from technical appraisals, net .	9,778,495	9,564,421

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Total property, plant and equipment, net .....	----- 333,921,599 =====	----- 274,345,127 =====
--	-------------------------------	-------------------------------

Depreciation expense for the years ended December 31, are summarized as follows:

	Year ended December 31,		
	----- 2002 ----- ThCh\$	----- 2003 ----- ThCh\$	----- 2004 ----- ThCh\$
Operating expenses.....	26,653,605	25,618,834	23,066,077
Administration and sales expenses.....	3,532,819	3,765,780	2,338,733
Non-operating expenses.....	3,100,792	1,845,708	2,154,985
	-----	-----	-----
Total.....	33,287,216 =====	31,230,322 =====	27,559,795 =====

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 10 - Property, Plant and Equipment (continued)

Depreciation expense included depreciation of the revaluation from technical appraisals of ThCh\$504,644, ThCh\$517,113 and ThCh\$407,931 in 2002, 2003, and 2004, respectively.

During the month of January 2002, the production activities of the Quilmes, Barracas, San Luis and Llavallol properties of Madeco's subsidiary Decker Indelqui S.A. were suspended. Property, plant and equipment involved in the temporary shutdown had a net carrying value of approximately ThCh\$25,935,400 (historic pesos).

In light of the economic situation in Argentina, Madeco wrote-down fixed assets and certain other long-term assets in the amount ThCh\$4,694,239 (historic pesos) in 2002. The charge was included in Other non-operating expenses (see Note 21).

The revaluation from technical appraisals is being amortized over the remaining lives of the respective assets.

Financing costs capitalized during construction periods amounted to ThCh\$321,012 during 2002. No financing costs were capitalized during 2003 and 2004.

Note 11 - Investments

The carrying value of investments in related companies and other companies at cost are as follows:

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	As of Dec
	----- 2003 ----- ThCh\$
Investments in related companies.....	480,506,959
Investments in other companies at cost.....	92,717
	-----
Total.....	480,599,676 =====

a) The carrying value of investment in related companies is as follows:

	Percentage owned	
	2003	2004
	----- %	----- %
Related Companies		
IRSA (1) .....	50.00%	50.00%
Banco de Chile (2) .....	20.22%	20.23%
SM Chile series "A","B","D" and "E" (2) .....	51.35%	51.35%
Entel S.A. ("Entel") .....	5.69%	5.69%
Habitaria .....	50.00%	50.00%
Other .....	Various	Various
Total .....		

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 11 - Investments (continued)

b) Proportional share of net income (losses) of equity method investment are as follows:

Company	Year ended December 31,		
	2002	2003	2004
	----- ThCh\$	----- ThCh\$	----- ThCh\$
Proportional share of net income			
IRSA (1) .....	6,989,898	16,392,236	13,912,067
Banco de Chile (2) .....	11,015,637	27,057,220	31,664,951
SM Chile series "A","B","D" and "E" (2) ...	4,951,787	11,940,661	13,946,654
Entel .....	2,419,890	3,499,331	2,695,226

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Habitaria .....	464,704	--	--
Other .....	739,786	555,229	792,652
	-----	-----	-----
Subtotal .....	26,581,702	59,444,677	63,011,550
	-----	-----	-----
Proportional share of net loss			
Habitaria .....	--	(344,621)	(4,304,543)
Other .....	(510,638)	(268,779)	(238,175)
	-----	-----	-----
Subtotal .....	(510,638)	(613,400)	(4,542,718)
	-----	-----	-----
Total .....	26,071,064	58,831,277	58,468,832
	=====	=====	=====

(1) IRSA is a joint venture holding company through which the Company's ownership interests in CCU is held.

(2) Financial Services investment.

SM Chile and Banco de Chile

On January 1, 2002, SM Chile owned a direct interest of 18.48% in Banco de Chile and indirectly held an additional 42.0% through its wholly-owned subsidiary SAOS.

As of December 31, 2002 and 2003, the Company owned 52.16% of the voting rights and was entitled to 29.15% of the dividend rights in the merged bank. As of December 31, 2004, the Company owned 53.49% of the voting rights and was entitled to 29.89% of the dividend rights in the merged bank.

The voting rights and the economic interest in Banco de Chile held by Quinenco, directly and indirectly are summarized as follows:

	2002	2003	2004
	%	%	%
Voting Rights	52.16	52.16	53.49
Economic Interest (1)	29.15	29.15	29.89

(1) The Company calculates economic interest as its share in the earnings or losses of the subsidiary through dividends, which is not equal to the Company's voting interest.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 11 - Investments (continued)

Central Bank Subordinated Debt and dividend rights

During the 1982-1983 economic crisis, the Chilean banking system experienced significant instability due to, among other things, a recession in most of the world's major economies accompanied by high international interest rates, an overvalued peso, a lack of stringent banking regulation and ineffective credit policies at most Chilean banking organizations. Because of the financial crisis,

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the Central Bank and the Chilean government had to provide assistance to most Chilean private-sector banks.

Subsequent to the 1982-1983 economic crisis, most major Chilean banks sold certain of their nonperforming loans to the Central Bank at face value on terms that included a repurchase obligation by the banks. This repurchase obligation was later exchanged for subordinated debt of the banks issued in favor of the Central Bank. Pursuant to Law 18,818 of 1989, the banks were permitted to repurchase the portfolio of non-performing loans previously sold to the Central Bank for a price equal to the economic value of such loans, provided that the bank assumed a subordinated obligation equal to the difference between the face value of the loans and the economic value paid.

The modification of the subordinated debt set forth in Law No.18,818 on November 10, 1989, suspended the dividend rights of the Series A shares of SM Chile (SM Chile is the predecessor entity of Banco de Chile, and was formerly known as Banco de Chile at the time of the banking crisis) for the period of time during which the subordinated debt with the Chilean Central Bank has not been extinguished.

In accordance with the above, the surpluses generated by SM Chile after provision of the annual installment of the subordinated debt, can only be distributed as dividends to shareholders of Series B, D and E Shares of SM Chile. Series A shares have no right to receive dividends while the subordinated debt obligation is outstanding. As a result, the equity value of these shares is calculated based on the shareholders' equity of SM Chile, excluding income.

### Dividends received

The dividends received in 2002, relate to income earned during 2001 by each of Banco de Chile and the former Banco Edwards prior to their merger on January 1, 2002, although the dividends were paid by the merged bank. The participation of the Company in Banco de Chile's total dividend distribution was equal to 17.8% of Banco de Chile's net income, before the merger and 51.17% of Banco Edwards' net income before the merger.

The dividends received in 2003, related to income earned during 2002 and was based on the participation of the Company in Banco de Chile's total dividends which in the time equaled to 29.15%.

In March 2004, the Company received dividends related to income earned during 2003 for an amount of ThCh\$38,055,109 based on the participation of the Company in Banco de Chile, which was 29.15% at that time.

### Entel

The Company accounts for this investment under the equity method as it exerts significant influence through Board of Director representation.

Note 11 - Investments (continued)

Lucchetti Peru

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Indalsa has not consolidated the subsidiary Lucchetti Peru as of December 31, 2004 and 2003 as a result of action taken by Peruvian government as detailed in Note 20 b). This action resulted in the closure of the plant and the start of a process to liquidate its assets. This decision is based on the provisions of BT64 and Resolution No.01642 of the SVS dated March 11, 2003, which authorized the non-consolidation of Lucchetti Peru. The Company has therefore used the equity method to account for this investment and based on the analysis that the Company has carried out, has recorded a provision for the full amount of the investment, leaving a balance of Ch\$1. The Company's participation in the net loss incurred during the year-ended December 31, 2004 and 2003 and the charge for impairment are included in non-operating expenses.

### Note 12 - Goodwill

Goodwill and negative goodwill are summarized as follows:

	As of December 31,	
	2003	2004
	ThCh\$	ThCh\$
Goodwill .....	335,465,742	313,286,570
Negative goodwill .....	(13,690,709)	(10,856,775)
	-----	-----
Goodwill, net .....	321,775,033	302,429,795
	=====	=====

Goodwill as of December 31 of each year arose from the purchase of the following investments:

	As of December 31,	
	2003	2004
Company	ThCh\$	ThCh\$
Banco de Chile and SM Chile Series B, D and E .....	234,679,922	220,877,965
Banco Edwards .....	70,133,125	65,656,542
Madeco and subsidiaries .....	29,687,801	25,584,758
Others .....	964,894	1,167,305
	-----	-----
Total .....	335,465,742	313,286,570
	=====	=====

The amortization of goodwill is included in non-operating expense each year (ThCh\$21,255,601, ThCh\$20,597,209, ThCh\$20,572,171 in 2002, 2003 and 2004 respectively).

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unless otherwise stated)

### Note 12 - Goodwill (continued)

Negative goodwill (net) at December 31 of each year arose from the purchase of the following investments:

Company	As of December 31,	
	2003	2004
	ThCh\$	ThCh\$
Banco de Chile y SM Chile Series A .....	452,667	425,647
VTR and subsidiaries .....	3,713,443	3,027,884
Madeco and subsidiaries .....	5,663,607	4,008,288
Entel .....	2,408,405	2,247,745
Agricola El Penon S.A .....	939,614	664,429
Other .....	512,973	482,782
	-----	-----
Total .....	13,690,709	10,856,775
	=====	=====

The amortization of negative goodwill is included in non-operating income in each year (ThCh\$1,955,617, ThCh\$24,111,396, ThCh\$2,822,157 in 2002, 2003 and 2004 respectively).

### Note 13 - Other Non-Current Assets

Other non-current assets are summarized as follows:

	As of December 31,	
	2003	2004
	ThCh\$	ThCh\$
Long-term notes and account receivable .....	2,219,853	3,121,010
Recoverable tax incentives in Argentina .....	1,055,995	480,316
Recoverable VAT in Lucchetti Peru, VTR and Comatel S.A .....	298,509	298,641
Intangibles, net .....	950,234	322,016
Bond issuance costs .....	7,047,847	12,027,578
Fixed assets held-for-sale .....	6,129,609	6,958,715
Promissory notes in judicial collection, net .....	291,275	447,124
Recoverable VAT in Argentina .....	186,449	300,887
Deferred income taxes, net (see Note 17 b)) .....	13,987,298	8,502,781
Non-current inventories, net .....	146,083	260,605
Other .....	301,881	309,089
	-----	-----
Total other non-current assets .....	32,615,033	33,028,762
	=====	=====

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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### Note 14 - Short-Term Bank Loans

Short-term bank loans are summarized as follows:

	As of December 31,	
	2003	2004
	ThCh\$	ThCh\$
Payable in:		
United States dollars.....	5,828,092	10,778,585
Other foreign currencies.....	5,770,558	5,588,567
Inflation-linked units (UFs).....	132,423	6,686
Chilean pesos (not indexed).....	7,448,646	7,273,264
	19,179,719	23,647,102
	19,179,719	23,647,102

	As of December 31,	
	2003	2004
	%	%
Year-end weighted average interest rates:		
Loans in United States dollars.....	4.59	4.08
Other foreign currencies.....	22.50	21.19
Loans in inflation-linked units (UFs).....	2.40	--
Loans in Chilean pesos (not inflation indexed).....	5.73	4.63

### Note 15 - Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities are summarized as follows:

#### a) Current liabilities

	As of December 31,	
	2003	2004
	ThCh\$	ThCh\$
Withholdings.....	2,765,439	3,027,639
Accrued employee vacation expenses.....	2,732,992	2,411,351
Unearned revenues.....	1,715,698	358,083
Restructuring expenses.....	1,038,900	969,995
Provision for anticipated losses on construction contracts.....	205,138	28,040

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Staff severance indemnities (1).....	1,869,622	1,108,536
Remuneration and consulting services.....	2,392,631	2,659,517
Project expenses and suppliers.....	2,527,260	2,211,430
Dividends payable.....	12,758,585	332,218
Advertising, promotions and corporate image.....	176,620	115,681
Employee benefits.....	596,717	360,440
Property, municipal and other taxes.....	162,169	557,496
Import and export costs.....	157,093	150,932
Telephone access charges.....	595,417	664,852
Effect of carrying derivative financial instruments at fair value.....	1,644,418	1,055,267
Provisions for pending lawsuits.....	423,170	1,518,222
Liquidation of Optel Ltda. (Brazil).....	1,929,628	430,208
Other.....	2,148,552	2,968,808
	-----	-----
Total accrued expenses and other liabilities...	35,840,049	20,928,715
	=====	=====

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 15 - Accrued and Other Liabilities (continued)

b) Long-term liabilities

	As of December 31,	
	2003	2004
	ThCh\$	ThCh\$
Provisions for contingencies (Note 20).....	4,231,851	4,979,892
Staff severance indemnities (1).....	1,450,574	1,161,330
Provisions for pending lawsuits.....	2,745,180	1,604,045
Subsidiaries with accumulated deficits.....	--	859,098
Effect of carrying derivative financial instruments at fair value .....	268,507	--
Other.....	389,845	579,044
	-----	-----
Total accrued expenses.....	9,085,957	9,183,409
	=====	=====

(1) Hoteles Carrera, Madeco and Indalsa have entered into collective bargaining agreements with their employees, under which each employee is entitled to approximately one month's remuneration for each year of service, payable upon termination of employment. These subsidiaries account for their obligation to pay these vested indemnities using a present value method applying real discount rates between 6% and 7% in 2003 and 2004, except for Hoteles Carrera which has accounted for its obligation using the current value method in accordance with Technical Bulletin No. 8 of the Chilean Association of Accountants.

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Note 16 - Long-Term Debt and Bonds Payable

a) Long-term debt

Long-term debt is summarized as follows:

	As of December 31,	
	2003	2004
	ThCh\$	ThCh\$
Long-term bank loans.....	374,195,269	229,309,822
Long-term accounts payable.....	804,550	910,800
Other long-term liabilities.....	9,431,518	7,520,873
	-----	-----
Total.....	384,431,337	237,741,495
Less: Current portion (1).....	(33,756,243)	(40,865,538)
	-----	-----
Long-term debt.....	350,675,094	196,875,957
	=====	=====

(1) The current portion of long-term debt is reflected on the balance sheet together with the short-term portion of bonds payable totaling ThCh\$49,796,034 and ThCh\$30,302,632 at December 31, 2003 and 2004, respectively.

	2003	2004
	%	%
Percentage of debt denominated in foreign currencies .	26.06%	9.30%
Percentage of debt denominated in local currency .....	73.94%	90.70%
	-----	-----
Total .....	100.00%	100.00%
	=====	=====

Year-end weighted average interest rates:

Long-term bank loans in United States dollars and others currencies.....	3.23%	4.57%
Long-term bank loans in UF.....	4.24%	2.54%
Long-term accounts payable.....	1.20%	4.16%
Other long-term liabilities.....	4.44%	2.27%

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unless otherwise stated)

Note 16 - Long-Term Debt and Bonds Payable (continued)

b) Bonds payable

Bonds have been issued by the following subsidiaries:

Subsidiary:	Original issuance in UFs -----	As of De ----- 2003 ----- ThCh\$
Compania de Telefonos de Coyhaique S.A.		
("Telcoy") (1).....	130,000	352,179
Telefonica del Sur (2).....	450,000	2,830,069
Telefonica del Sur (3).....	300,000	4,029,416
Telefonica del Sur (4).....	500,000	5,948,123
Telefonica del Sur (5).....	500,000	8,343,207
Telefonica del Sur (6).....	400,000	4,645,308
Telefonica del Sur (7).....	600,000	10,451,943
Madeco (8).....	2,500,000	34,818,816
Madeco (9).....	1,500,000	24,124,375
Madeco (10).....	1,800,000	--
Quinenco (11).....	2,000,000	35,044,819
Quinenco (12).....	4,500,000	70,965,760
LQIF (13).....	4,000,000	--
LQIF (14) .....	3,000,000	--
Total.....		201,554,015
Less: Current portion.....		(49,796,034)
Long-term portion.....		151,757,981
		=====

(1) In September 1994, Telcoy, a subsidiary of Telefonica del Sur, issued bonds under the following terms:

Amount issued	:	UF130,000 composed of 260 Series A bonds of UF500 each.
Term	:	Ten years (two years of grace and eight years of principal repayment)
Principal amortization	:	Sixteen equal semi-annual installments starting March 1, 1997. As of 2004 the entirety of this obligations has been paid.
Interest rate	:	6.25% real annual rate, calculated and paid semi-annually on the outstanding UF-denominated principal.

(2) In March 1995, Telefonica del Sur issued bonds under the following terms:

Amount issued	:	UF450,000 composed of 450 Series C bonds of UF1,000 each.
Term	:	Twelve years (two years of grace and ten years of principal repayment)
Principal amortization	:	Twenty equal semi-annual installments starting June 1, 1997. As of 2004 the entirety of this obligations has been paid.
Interest rate	:	5.8% real annual rate, calculated and paid semi-annually on the outstanding UF-denominated principal.
Advance redemption	:	Telefonica del Sur has the right to redeem the entire bond issue on

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payment date after June 1, 1997.

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QUINENCO S.A. AND SUBSIDIARIES  
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Note 16 - Long-Term Debt and Bonds Payable (continued)

(3) In March 1995, Telefonica del Sur issued bonds under the following terms:

Amount issued : UF300,000 composed of 300 Series D bonds of UF1,000 each.  
Term : Twenty-one years (three years of grace and eighteen years of principal repayment).  
Principal amortization : Thirty-six equal semi-annual installments starting June 1, 1998. As of December 31, 2004, fourteen principal installments amounting to UF 82,530 have been paid.  
Interest rate : 5.8% real annual rate, calculated and paid semi-annually on the outstanding principal.  
Advance redemption : Telefonica del Sur has the right to redeem the entire bond issue on or after the payment date after June 1, 2000.

(4) In May 1997, Telefonica del Sur issued bonds under the following terms:

Amount issued : UF500,000 composed of 500 Series E bonds of UF1,000 each,  
Term : Twelve years (three years of grace and nine years of principal repayment).  
Principal amortization : Eighteen equal semi-annual installments starting August 1, 2000. As of December 31, 2004, nine principal installments amounting to UF 218,455 have been paid.  
Interest rate : 5.8% real annual rate, calculated and paid semi-annually on the outstanding principal.  
Advance redemption : Telefonica del Sur has the right to redeem the entire bond issue on or after the payment date after August 1, 2000.

(5) In May 1997, Telefonica del Sur issued bonds under the following terms:

Amount issued : UF500,000 composed of 500 Series F bonds of UF1,000 each.  
Term : Twenty-one years (five years of grace and sixteen years of principal repayment).  
Principal amortization : Thirty-two equal semi-annual installments starting August 1, 2002. As of December 31, 2004 five principal installments amounting to UF 51,670 have been paid.  
Interest rate : 5.8% real annual rate, calculated and paid semi-annually on the outstanding principal.  
Advance redemption : Telefonica del Sur has the right to redeem the entire bond issue on or after the payment date after August 1, 2002.

(6) In April 2001, Telefonica del Sur issued bonds under the following terms:

Amount issued : UF400,000 composed of 200 Series G1 bonds of UF 500 each and 60 Series G2 bonds of UF5,000 each.  
Term : Five years (two years of grace and three years of principal repayment).  
Principal amortization : Six equal semi-annual payments starting June 1, 2003. As of December 31, 2004 three principal installments amounting to UF 266,667 have been paid.  
Interest rate : 6.00% real annual rate calculated and paid semi-annually on the outstanding principal.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 16 - Long-Term Debt and Bonds Payable (continued)

(7) In April 2001, Telefonica del Sur issued bonds under the following terms:

Amount issued : UF600,000 composed of 300 Series H1 bonds of UF1,000 each and 60 Series H2 bonds of UF 5,000 each.  
 Term : Twenty-one years (six years of grace and fifteen years of principal repayment).  
 Principal amortization : Thirty equal semi-annual payments starting June 1, 2007.  
 Interest rate : 6.00% real annual rate calculated and paid semi-annually on the outstanding principal.

(8) In April 2000, Madeco issued bonds under the following terms:

Amount issued : UF2,500,000 composed of 1,000 Series A1 bonds of UF 1,000 each and 300 Series A2 bonds of UF5,000 each.  
 Term : Fifteen years (three years of grace and twelve years of principal repayment).  
 Principal amortization : Twelve equal semi-annual installments starting June 15, 2003.  
 Interest rate : 7.25% real annual rate, calculated and paid semi-annually on the outstanding principal. As of December 31, 2004 the entirety of this obligation has been paid.  
 Advance redemption : Madeco has the right to redeem the entire bond issue on any coupon payment date after June 15, 2003.

(9) In August, 2001, Madeco issued bonds under the following terms:

Amount issued : UF1,500,000 composed of 500 Series C1 bonds of UF1,000 each and 100 Series C2 bonds of UF 10,000 each.  
 Term : Three years (five semi-annual installments of principal repayment).  
 Principal amortization : Six semi-annual installments starting November 1, 2001. As of December 31, 2004 the entirety of this obligation has been paid.  
 Interest rate : 6.20% real annual rate calculated and paid semi-annually on the outstanding principal.

(10) In December, 2004, Madeco issued bonds under the following terms:

Amount issued : UF1,800,000 composed of 360 Series D bonds of UF5,000 each.  
 Term : Seven years (fourteen semi-annual installments of principal repayment).  
 Principal amortization : Fourteen semi-annual installments starting June 10, 2005.  
 Interest rate : 5.00% real annual rate calculated and paid semi-annually on the outstanding principal.

(11) In April 2001, Quinenco issued bonds under the following terms:

Amount issued : UF2,000,000 composed of 180 Series A1 bonds of UF10,000 each and 200 Series A2 bonds of UF1,000 each.  
 Terms : Twenty-one years (five years of grace and sixteen years of principal repayment).  
 Principal amortization : Thirty-two equal semi-annual payments starting October 30, 2005.  
 Interest rate : 6.20% real annual rate calculated and paid semi-annually on the outstanding principal.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 16 - Long-Term Debt and Bonds Payable (continued)

(12) In April 2001, Quinenco issued bonds under the following terms:

Amount issued : UF4,500,000 composed of 400 Series B1 bonds of UF10,000 each and 500 bonds of UF1,000 each.  
 Terms : Eight years (three years of grace and five years of principal repayment)  
 Principal amortization : Ten equal semi-annual payments starting October 30, 2003. As of December 31, 2004 three principal installments amounting to UF1,350,000 have been paid.  
 Interest rate : 6.20% real annual rate calculated and paid semi-annually on the outstanding principal.

(13) In October 2004, LQIF issued bonds under the following terms:

Amount issued : UF4,000,000 composed of 8,000 Series A bonds of UF500 each.  
 Terms : five years and six months (3.5 years of grace and two years of principal repayment)  
 Principal amortization : Two equal annual payments starting May 15, 2009.  
 Interest rate : 3.25% real annual rate calculated and paid semi-annually on the outstanding principal.

(14) In October 2004, LQIF issued bonds under the following terms:

Amount issued : UF3,000,000 composed of 6,000 Series B bonds of UF500 each.  
 Terms : Twenty years and six months (5.5 years of grace and fifteen years of principal repayment)  
 Principal amortization : fifteen equal annual payments starting May 15, 2011.  
 Interest rate : 4.75% real annual rate calculated and paid semi-annually on the outstanding principal.

c) The scheduled principal payments on long-term debt and bonds payable at December 31, 2004 are summarized as follows:

	At December 31, 2004
	----- ThCh\$
Principal payments during the fiscal years ending December 31,	
2006.....	71,141,199
2007.....	73,212,594
2008.....	66,518,167
2009.....	70,613,017
2010 and thereafter.....	157,738,749
	-----
Total.....	439,223,726
	=====

Long-term debt and bonds payable, including the current portion, are payable in the following currencies:

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	At December 31,	
	2003	2004
	ThCh\$	ThCh\$
United States dollars.....	95,766,356	18,315,583
Inflation linked-units (UF's).....	459,760,616	488,662,316
Chilean pesos (not indexed).....	28,676,122	1,466,567
Other currencies (1).....	1,782,258	1,947,430
Total.....	585,985,352	510,391,896

(1) Other currencies include Peruvian Sols, Argentine Pesos, Brazilian Reals and Euros.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 16 - Long-Term Debt and Bonds Payable (continued)

d) Financial covenants

Quinenco and its group companies were in compliance with their financial covenants related to current bond issuances and bank loan agreements as of December 31, 2004.

d-1) Quinenco is subject to certain financial covenants, which as of December 31, 2004, are as follows:

- Maintain a ratio of unencumbered assets at book value to unsecured debt of at least 1.3:1.
- Unconsolidated financial debt to total capitalization ratio no greater than 0.45:1.
- Consolidated financial debt to total capitalization ratio no greater than 0.6:1.
- Minimum shareholders' equity of UF 33 million.
- Luksic Group to maintain control of Quinenco.
- Quinenco to maintain control of Banco de Chile (through its investment in LQIF).

d-2) Telefonica del Sur and subsidiary are subject to certain financial covenants and restrictions related to its bond issuances and bank loan agreements. The main financial covenants are as follows:

Telefonica del Sur

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- Maintain a liquidity ratio of at least 0.50:1 on both an unconsolidated and consolidated basis.
- Leverage (liabilities/shareholders' equity) no greater than 1.5:1 on both an unconsolidated and consolidated basis.
- Minimum shareholders' equity of UF2 million.
- 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 shareholders' equity.
- Maintain a ratio of unencumbered assets to unsecured debt of at least 1.3:1.

### Telcoy

- Maintain a liquidity ratio of at least 1:1.
- Leverage (liabilities/shareholders' equity) 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 shareholders' equity.
- Maintain a ratio of unencumbered assets to unsecured debt of at least 1.3:1.

- d-3) LQIF is subject to certain financial covenants and restrictions related to its bond issuance and bank loan agreements, the principal ones being:

Until LQIF has repaid the total principal and interest on the bonds in circulation to bondholders, and effective starting with its financial statements as of June 30, 2004, LQIF must maintain a debt to asset ratio no greater than 0.50:1, as measured in its quarterly unconsolidated financial statements. Starting September 30, 2005, LQIF must maintain a debt to asset ratio no greater than 0.40:1 in its quarterly unconsolidated financial statements.

For the three month period prior to the annual payment of its bond coupons, LQIF must maintain a liquid reserve greater than or equal to the amount to be paid to the bondholders on the installment date. As of the date of these financial statements, the company has requested the release of the pledge of shares for obligations which have been fully repaid to Banco Santander Santiago.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 16 - Long-Term Debt and Bonds Payable (continued)

- d-4) Madeco is subject to certain financial covenants and restrictions as of December 31, 2004, the most restrictive of which are :

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### Bonds Series D:

- Maintain a current ratio of at least 1.0:1.
- Minimum shareholders' equity equivalent to UF 7 million.
- Debt to equity ratio (third-party liabilities/Shareholder's equity plus Minority interest) may not exceed 1.8:1.
- Unencumbered assets to be at least 1.2 times the total amount of bonds outstanding.
- Quinenco must remain as the controlling entity of Madeco, with a direct or indirect shareholding of at least 40%, in accordance with clause 97 of the Capital Markets Law, notwithstanding that Quinenco must at all times directly hold at least 35% of the shares.
- Madeco must use the proceeds obtained from its businesses, new borrowings or the sale of its assets to make voluntary prepayments on its financial debts with third parties, thereby optimizing its cost of debt and maintaining a reasonable balance between different kinds of creditors. Prepayments would be made after deducting the funds needed to make payments in the ordinary course of its business and to meet its long-term financial commitments.

### Bank loans:

- Madeco is obliged to meet the following conditions with respect to the loan amendment and rescheduling agreements signed between it and its creditor banks while any amount covered by those agreements and the rescheduled promissory notes remains outstanding.
- Madeco must prepay all the rescheduled banks loans should the Luksic group cease to own, directly or indirectly, at least 50.1% of the shares with voting rights or to control Madeco (control is defined as the power to elect the majority of directors or the power to determine the result of voting on all matters requiring the absolute majority of voting right shares of Madeco or the power to directly or indirectly exercise influence over the management or policies of Madeco).

### Obligations:

- Preserve and maintain the corporate existence and legal structure of all of its Principal Subsidiaries (Alusa, Indalum S.A. ("Indalum"), Ficap and Indeco), and all their rights, properties, licenses, trademarks, permits, franchises, concessions and patents.
- Use the proceeds obtained from its businesses, new borrowings or the sale of its assets to make voluntary prepayments of its financial debts with third parties unrelated to the debtor except for Banco de Chile, and thereby try to optimize the cost of debt and maintain a reasonable balance between different kinds of creditors. The above should be performed after deducting the funds needed to meet its operating, financial and investment commitments in the ordinary course of business as well as long-term financial commitments.
- Maintain the following financial indicators based on both the consolidated and unconsolidated balance sheets:
  - Net financial debt to adjusted equity, as defined in the

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covenant and which relates to certain FECU codes, must not exceed 1.8:1 at the quarterly consolidated and unconsolidated measurement dates. Adjusted shareholders' equity, as defined in the covenant agreement, excludes losses and the negative effects resulting from the disposal of property, plant and equipment and disposable assets of Madeco and/or its subsidiaries, the disposal of subsidiaries, provisions for the valuation of disposable property, plant and equipment and assets of Madeco, and/or its subsidiaries, and provisions for the valuation of foreign investments.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 16 - Long-Term Debt and Bonds Payable (continued)

- Minimum adjusted shareholders' equity of UF 7 million as of December 31, of each year. However, starting September 30, 2005, a minimum adjusted shareholders' equity of UF 7 million must be maintained on a quarterly basis.
- Current ratio must be greater than 1:1 on the last day of each quarter on a consolidated and unconsolidated basis.
- Consolidated EBITDA (1) to consolidated financial expenses must be at least 1.5:1 between December 1, 2005 and September 30, 2006.
- Consolidated EBITDA to consolidated financial expenses must be at least 1.75:1 between December 31, 2006 and September 30, 2007.
- Consolidated EBITDA to consolidated financial expenses must be at least 2.0:1 between December 31, 2007 and September 30, 2009
- Consolidated Net Financial Debt to consolidated EBITDA must be no greater than 8.0:1 between December 31, 2005 and September 30, 2006.
- Consolidated Net Financial Debt to consolidated EBITDA must be no greater than 7.0:1 between December 31, 2006 and September 30, 2007.
- Consolidated Net Financial Debt to consolidated EBITDA must be no greater than 6.0:1 between December 31, 2007 and September 30, 2009.
- Madeco may distribute dividends only if the following conditions have been met:
  - At least four years have passed since compliance with the conditions of the rescheduled bank loan agreements (since March 4, 2003).
  - There has been no event of default or any non-compliance with covenants.

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- The ratio of consolidated Net Financial Debt to consolidated EBITDA is no greater than 4.0:1.
- The above notwithstanding the provisions of clause 69 of the Corporations Law.

(1) EBITDA as defined in the covenant-agreement

### Negative covenants:

Madeco may not make any encumbrances over its real estate or assets and those of its subsidiaries, nor over their intellectual property or any other tangible or intangible assets existing at the time of the loan rescheduling or which they acquire in the future, with certain exceptions such as (i) previously existing encumbrances, (ii) encumbrances relating to the normal course of business, (iii) financing relating to asset acquisitions, (iv) leasing, and (v) others. The company shall not merge or agree to merge, consolidate or divide its Principal Subsidiaries (Alusa, Indalum, Ficap and Indeco) except insofar as (i) the managing agent is notified of the agreements for such merger, consolidation or division, (ii) no default occurs as a result of the operation, (iii) the new entity has the same business, operation, essential assets, rights and credit ratings as Madeco or the respective Principal Subsidiary, (iv) the new company assumes all the obligations assumed by Madeco or the respective Principal Subsidiary in the loan agreement, and (v) in the case of liquidation of a Principal Subsidiary, Madeco has determined that this is in its best interest and will not substantially affect creditors' rights.

- The company shall not permit essential assets representing more than 20% of the total consolidated assets described in the consolidated accounts Code 5.10.00.00 as of December 31, 2002 to be sold, assigned, used or in any way disposed of, whether by one operation or a series of operations, to a party that is not a subsidiary of Madeco.
- The company shall not sign acts or contracts with related parties except in the ordinary course of business and under terms and conditions similar to those obtained in arms' length negotiations between unrelated parties. It shall also ensure that its subsidiaries do not sign any such contracts. Madeco may not grant financial loans to subsidiaries that together or individually exceed US\$3.5 million. The disposal of subsidiaries to related companies must be made at prevailing market conditions, according to an independent appraisal.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 16 - Long-Term Debt and Bonds Payable (continued)

- The company shall not substantially change the nature of its principal line of business or those of its Principal Subsidiaries.

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- The company shall not and shall ensure that its subsidiaries do not (i) modify or permit the modification of the conditions of any debt in a manner more favorable than existing debt of Madeco, including the modification of any bond issuance contract, loan agreement or the granting of guarantees relating to such debts, except that these debts reflect new terms and conditions prevailing in the market, and (ii) modify or permit the modification of their by-laws that would result in change in the rights of the creditors under the loan agreements.
- The company shall not grant and shall ensure that the subsidiaries do not grant guarantees to cover the obligations of third parties, with certain exceptions.
- The company shall not acquire and shall ensure that its subsidiaries do not acquire majority holdings in other companies, or minority holdings, whose cost, individually or collectively, exceeds US\$1 million, with certain exceptions.

### Repayment acceleration:

- Any creditor is authorized to demand the payment of any overdue installment or the entire debt owed in the event of a failure or delay to pay all or part of any amount due under the bank loan rescheduling agreements.
- The Majority Banks are authorized to declare the principal, interest and any other amount as due and immediately payable if any of the following events occur:
  - If Madeco does not pay any debt or obligation with respect to principal, interest, premiums or other concepts which individually or jointly exceed US\$1 million.
  - If the subsidiaries Alusa or Indalum. do not pay any debt or obligation (after three years from the effective date of the rescheduling) with respect to principal, interest, premiums or other concepts which individually or jointly exceed US\$3.5 million.
  - If the subsidiaries Ficap or Indeco do not pay any debt or obligation with respect to principal, interest, premiums or other concepts which individually or jointly exceed US\$3.5 million, and provided that a request from the creditors has been made in writing, Ficap and Indeco will be liable to pay the whole of their outstanding debt immediately.
  - If any judicial sentence rules against Madeco or any of its Principal Subsidiaries demanding the payment of US\$3 million or more, and such amounts remain unpaid.
  - If any judicial sentence rules against Madeco or any of its subsidiaries in which the result does not involve a monetary award but could still have an adverse effect on the company.
  - If Madeco does not comply with covenants or negative covenants.
  - Should for any reason Madeco cease to be included in the Securities Register of the Superintendency of Securities and Insurance.
  - Should Madeco cease to hold directly or indirectly at least 51%

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of the common voting shares of its subsidiaries Indalum, Indeco and Ficap

- The indirect subsidiary Alusa maintains a syndicated loan with Banco de Chile and Banco Estado for UF300,000 as of December 31, 2004, for which it must comply with the following covenants:
  - Maintain the following financial indicators based on its consolidated and unconsolidated financial statements: leverage (liabilities to shareholders' equity) not to exceed 0.75:1 (equity for these purposes being net of intangible assets and technical appraisals of assets).
  - Minimum shareholders' equity of UF1,765,000.
  - In the event of the disposal of the real estate properties located at Avda. Vicuna Mackenna 2935 and 2585, Alusa it must use at least 35% of the proceeds to prepay on a prorated basis the participant banks in the syndicated loan.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 16 - Long-Term Debt and Bonds Payable (continued)

- Alusa may not encumber its assets or give guarantees to creditors other than to the participant banks, without their prior written consent, unless such security is also granted in favor of the participant banks on the same terms and conditions and with equal degree of preference as to other creditors. Excluded from this prohibition is the collateral given by Alusa over assets it acquires in the future in order to cover the financing obtained for their acquisition.
- No accounts receivable with its Argentine subsidiary, Aluflex relating to non-business operations, except with the prior written consent of the participant banks. Business-related accounts receivable with Aluflex, may not exceed US\$600,000 except with the prior written consent of the participant banks.
- Alusa was in compliance with all of these covenants as of December 31, 2004.

Note 17 - Income Taxes and Other Taxes

a) Income taxes payable and receivable

Income taxes payable are summarized as follows:

AS of December 31,	
2003	2004
----- ThCh\$	----- ThCh\$

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Income taxes payable.....	(2,127,597)	(2,711,079)
Monthly income tax installments.....	1,458,366	1,803,670
Other credits against taxes.....	4,682,771	4,376,772
Others tax recoverable.....	1,535,675	1,625,709
	-----	-----
Recoverable income taxes, net (Note 9).....	5,549,215	5,095,072
	=====	=====

The income tax liability has been determined for each legal entity included in the consolidated financial statements based on enacted tax laws in each country in which the Company operates. The net credit (charge) to the results of operations for each year is summarized as follows:

	As of December 31,	
	2002	2003
	-----	-----
	ThCh\$	ThCh\$
Current year provision for income tax.....	(1,864,738)	(2,127,395)
Deferred income tax.....	2,907,112	2,154,098
Amortization of complementary accounts.....	5,130,079	221,126
Valuation allowance on deferred tax assets.....	(4,658,410)	(8,297,513)
Tax benefit from (use of) tax loss carry forwards....	(1,289,197)	5,325,246
Other.....	(78,425)	91,457
	-----	-----
Net income tax benefit (expense).....	146,421	(2,632,981)
	=====	=====

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 17 - Income Taxes and Other Taxes (continued)

b) Deferred income taxes

	Current portion		Long
	2003	2004	2003
	-----	-----	-----
	ThCh\$	ThCh\$	ThCh\$
Timing differences			
Assets			
Accrued vacation expense .....	362,964	252,450	
Amortization of intangibles assets .....	5,114	--	15,
Allowance for doubtful accounts .....	1,393,980	1,097,075	188,
Allowance for obsolescence of inventories .....	586,199	11,005	100,
Property, plant and equipment held for sale .....	--	178,005	
Property, plant and equipment under leasing .....	162,329	109,451	284,

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Accelerated depreciation of fixed assets .....	--	--	4,
Employee severance indemnities .....	1,227	--	
Tax loss carryforwards .....	2,981,538	3,620,071	36,146,
Other provisions .....	10,195,280	9,418,209	8,992,
<b>Liabilities</b>			
Fixed assets under leasing .....	(91,978)	--	(2,441,
Production costs (inventories) .....	(527,891)	--	
Accelerated depreciation of fixed assets .....	(481,136)	(737,106)	(17,339,
Employee severance indemnities .....	--	(34,878)	(658,
Other provisions .....	(351,395)	(300,700)	(562,
Subtotal .....	14,236,231	13,613,582	24,729,
Complementary accounts, net of amortization .....	(31,000)	(41,843)	2,267,
Valuation allowance .....	(11,910,670)	(10,488,377)	(13,009,
Total deferred income taxes, net .....	2,294,561	3,083,362	13,987,

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 18 - Shareholders' Equity

- a) The changes in shareholders' equity during the years 2002, 2003 and 2004 in historical amounts are summarized as follows:

	Number of shares	Paid in capital ThCh\$	Other reserves ThCh\$	Reserves Cumulative translating adjustment ThCh\$
Balances at January 1, 2002	1,079,740,079	441,499,289	12,317,349	17,073,0
Allocation of 2001 net income	--	--	--	
Payment of final dividend on 2001 net income	--	--	--	
Deficit from development period	--	--	--	
Price-level restatement of equity accounts	--	13,244,979	369,521	512,1
Proportional share of variations in equity of subsidiaries and investees	--	--	4,882,510	
Cumulative translation adjustment	--	--	--	10,993,1
Executive incentive plan	--	--	--	
Net income for the year	--	--	--	
Balances at December 31, 2002	1,079,740,079	454,744,268	17,569,380	28,578,4

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Restatement of December 31, 2002 balances to December 31, 2004 constant pesos	--	470,774,003	18,188,701	29,585,7
	=====	=====	=====	=====
Balances at January 1, 2003	1,079,740,079	454,744,268	17,569,380	28,578,4
Allocation of 2002 net income	--	--	--	--
Deficit from development period	--	--	--	--
Price-level restatement of equity accounts	--	4,547,443	175,694	285,7
Proportional share of variations in equity of subsidiaries and investees	--	--	(1,592,645)	--
Cumulative translation adjustment	--	--	--	(28,107,3
Executive incentive plan	--	--	--	--
Payment of interim dividend on 2003 net income	--	--	--	--
Net income for the year	--	--	--	--
	-----	-----	-----	-----
Balances at December 31, 2003	1,079,740,079	459,291,711	16,152,429	756,8
	=====	=====	=====	=====
Restatement of December 31, 2003 balances to December 31, 2004 constant pesos	--	470,774,003	16,556,240	775,7
	=====	=====	=====	=====
Balances at January 1, 2004	1,079,740,079	459,291,711	16,152,429	756,8
Allocation of 2003 net income	--	--	--	--
Payment of final dividend on 2003 net income	--	--	--	--
Deficit from development period	--	--	--	--
Price-level restatement of equity accounts	--	11,482,292	403,811	18,9
Proportional share of variations in equity of subsidiaries and investees	--	--	(22,878,276)	--
Cumulative translation adjustment	--	--	--	(8,801,8
Executive incentive plan	--	--	--	--
Net income for the year	--	--	--	--
	-----	-----	-----	-----
Balances at December 31, 2004	1,079,740,079	470,774,003	(6,322,036)	(8,026,0
	=====	=====	=====	=====

Retained earnings

	Retained earnings ThCh\$	Interim dividends ThCh\$	Accumulated deficit during development period ThCh\$	Net Inco (loss) f the yea ThCh\$
	-----	-----	-----	-----
Balances at January 1, 2002	198,884,829	--	(3,131,381)	15,509,3
Allocation of 2001 net income	12,378,001	--	3,131,381	(15,509,3
Payment of final dividend on 2001 net income	(6,203,753)	--	--	--
Deficit from development period	--	--	(1,382,458)	--
Price-level restatement of equity accounts	6,164,180	--	--	--
Proportional share of variations in equity of subsidiaries and				

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investees	(7,955)	--	--	
Cumulative translation adjustment	--	--	--	
Executive incentive plan	--	--	--	
Net income for the year	--	--	--	(75,480,2)
	-----	-----	-----	-----
Balances at December 31, 2002	211,215,302	--	(1,382,458)	(75,480,2)
	=====	=====	=====	=====
Restatement of December 31, 2002 balances to December 31, 2004 constant pesos	218,660,642	--	(1,431,190)	(78,140,8)
	=====	=====	=====	=====
Balances at January 1, 2003	211,215,302	--	(1,382,458)	(75,480,2)
Allocation of 2002 net income	(76,862,669)	--	1,382,458	75,480,2
Deficit from development period	--	--	(276,463)	
Price-level restatement of equity accounts	1,343,527	--	--	
Proportional share of variations in equity of subsidiaries and investees	--	--	--	
Cumulative translation adjustment	--	--	--	
Executive incentive plan	--	--	--	
Payment of interim dividend on 2003 net income	--	(12,144,323)	--	
Net income for the year	--	--	--	37,694,8
	-----	-----	-----	-----
Balances at December 31, 2003	135,696,160	(12,144,323)	(276,463)	37,694,8
	=====	=====	=====	=====
Restatement of December 31, 2003 balances to December 31, 2004 constant pesos	139,088,565	(12,447,931)	(283,375)	38,637,2
	=====	=====	=====	=====
Balances at January 1, 2004	135,696,160	(12,144,323)	(276,463)	37,694,8
Allocation of 2003 net income	25,274,060	12,144,323	276,463	(37,694,8)
Payment of final dividend on 2003 net income	(6,703,102)	--	--	
Deficit from development period	--	--	(780,742)	
Price-level restatement of equity accounts	3,849,976	--	--	
Proportional share of variations in equity of subsidiaries and investees	--	--	--	
Cumulative translation adjustment	--	--	--	
Executive incentive plan	--	--	--	
Net income for the year	--	--	--	23,352,7
	-----	-----	-----	-----
Balances at December 31, 2004	158,117,094	--	(780,742)	23,352,7
	=====	=====	=====	=====

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expresses in constant Chilean pesos of December 31, 2004,  
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Note 18 - Shareholders' Equity (continued)

- b) The Accumulated deficit during the development period for the years ended December 31, 2002, 2003 and 2004 includes the recognition of the

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proportional share of the results of operations of certain companies in the development stage, losses from which are charged directly against shareholders' equity and are not included in the statement of income.

- c) As required by Chilean Law, unless otherwise decided by the unanimous vote of the holders of all of the issued and subscribed shares, open stock corporations must distribute a cash dividend in an amount equal to at least 30% of their net income for each year, excluding amortization of negative goodwill in the Parent Company as determined in accordance with Chilean GAAP, unless and except to the extent that the Company has accumulated losses.
- d) As required by Chilean Law, paid-in capital has been modified to reflect the proportional capitalization of the price-level restatement of equity accounts.
- e) During March 2000, Quinenco established an executive incentive plan in which an aggregate loan of ThCh\$4,659,565 (historic pesos) was granted to eligible employees to acquire Quinenco's stock and the stock of some of its subsidiaries at fair market value. The loan denominated in UFs is payable in annual installments and the acquired shares are pledged to guarantee payment of the loan.
- f) There are no additional restrictions on the payment of dividends under the terms of the various loan agreements with banks and other financial institutions.
- g) The Shareholders at the Ordinary Shareholders' Meeting of April 30, 2002 approved the payment of a final dividend on net income for the year 2001 amounting to ThCh\$6,203,753 (historic pesos).
- h) On December 22, 2003, the Directors approved the payment of an interim dividend on net income for the year 2003 amounting to ThCh\$12,144,323 (historic pesos).
- i) The Shareholders at the Ordinary Shareholders' Meeting of April 30, 2004 approved the payment of a final dividend on net income for the year 2003 amounting to ThCh\$6,703,102 (historic pesos).
- j) Certain U.S. dollar-denominated obligations are designated as economic hedges covering the exposure of foreign investments as permitted by BT64. The exchange differences that arise from such obligations are charged directly against Shareholders' equity to the Cumulative translation account within Shareholders' equity. If the investment balance is lower than debt balance the difference related with exchange effect is recorded through income. The cumulative foreign exchange adjustments charged to equity were as follows:

	As of December 31,		
	2002	2003	2004
	ThCh\$	ThCh\$	ThCh\$
Foreign exchange adjustments arising from liabilities designated as hedges of foreign investments.....	10,825,896	(31,139,428)	(11,301,7

QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
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Note 19 - Foreign Currency, UF-Indexed and CPI-Restated Assets and Liabilities

- a) Balances denominated or measured in foreign currency (principally U.S. dollars) at December 31, 2003 and 2004 are included in these financial statements in thousands of Chilean peso equivalents as follows:

	At December 31,	
	2003	2004
	ThCh\$	ThCh\$
<b>Current assets:</b>		
Cash and time deposits .....	17,895,539	6,803,097
Accounts receivable, net .....	27,824,300	34,612,395
Inventories, net .....	35,922,881	30,398,559
Other current assets .....	13,587,644	6,728,711
<b>Long-term assets:</b>		
Property, plant and equipment and other non-monetary assets .....	128,644,191	109,993,982
Other non-monetary assets .....	309,597	440,914
Total assets .....	224,184,152	188,977,658
<b>Current liabilities:</b>		
Short-term bank loans and current portion of long-term liabilities .....	18,283,518	17,873,378
Accounts payable and supplier notes payable .....	12,762,127	17,093,800
Other .....	7,291,116	6,655,660
<b>Long-term liabilities</b>		
Long-term debt .....	90,863,747	18,756,787
Other .....	840,313	1,298,837
Total liabilities .....	130,040,821	61,678,462
Net asset position in foreign currencies	94,143,331	127,299,196

Certain of the U.S. dollar-denominated obligations included in the above table are designated as economic hedges covering the exposure of foreign investments as permitted by BT64. As a result, portions of the exchange losses that arise from such obligations are charged directly against Shareholders' equity to the Cumulative translation adjustment account within Shareholders' equity (see Note 18 j)).

The inventories and fixed assets and other non-monetary assets included above relate to assets of foreign investments for which the financial statements are translated to U.S. dollars in accordance with BT64, described in Note 2 s). Accordingly, there is exposure to variations in the exchange rate between the U.S. dollar and the Chilean peso, from an accounting perspective.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 19 - Foreign Currency, UF-Indexed and CPI-Restated Assets and Liabilities  
 (continued)

b) Balances denominated in UFs are included in the accompanying December 31, 2003 and 2004 financial statements as follows:

	At December 31,	
	2003	2004
	ThCh\$	ThCh\$
Current assets:		
Cash and time deposits .....	38,336,268	11,787,291
Accounts receivable, net .....	57,890,109	47,017,931
Inventories, net .....	27,600,913	41,423,412
Other current assets .....	36,225,625	32,795,972
Long-term assets:		
Property, plant and equipment and other non-monetary assets .....	1,039,997,041	1,011,015,222
Other monetary assets .....	1,910,256	2,680,096
Total assets .....	1,201,960,212	1,146,719,924
Current liabilities:		
Short-term bank loans and current portion of long-term liabilities .....	84,448,478	76,941,894
Accounts payable and supplier notes payable .....	27,383,557	11,397,604
Other .....	15,790,348	13,940,837
Long-term liabilities		
Long-term debt .....	411,594,778	420,475,677
Other .....	8,245,644	7,884,572
Total liabilities .....	547,462,805	530,640,584
Net asset position in UFs and indexed to CPI ..	654,497,407	616,079,340

Note 20 - Commitments and Contingencies

a) Pledges of shares

The Company has pledged shares of subsidiaries and equity investees to cover obligations as of December 31, 2004 as follows:

Beneficiary	Currency	Amount of securities pledge	Number of Shares	Com
-----	-----	-----	-----	-----

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ThCh\$

Banco Santander Chile	UF	42,556,034	890,293,606	SM
Banco del Estado de Chile	UF	62,382,689	155,956,721	Tel
Banco del Estado de Chile	UF	126,883,031	2,161,919,046	Mad

b) Lucchetti Peru and related extraordinary allowance

On August 22, 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 Indalsa. 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 Peru 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, Indalsa 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").

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
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Note 20 - Commitments and Contingencies (continued)

Later, following unsuccessful attempts to seek a cordial solution, in accordance with the Treaty, on December 23, 2002, Indalsa, together with Lucchetti Peru, presented a request for arbitration to the General Secretary of the International Center for the Settlement of Investment Disputes ("ICSID") to establish an arbitration tribunal to resolve the dispute.

Among other reasons, the company claims that the Peruvian authorities lacked technical and legal reasons for having this subsidiary's operating license revoked as the Peruvian authorities themselves certified that Lucchetti Peru had fully complied with environmental regulations, and that the plant was outside of the protected area. The aforementioned Peruvian authorities include 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, whose conclusions are contained in document No.188-2002 of June 7, 2002.

The actions taken by the Peruvian authorities also lacked a legal basis because, among other reasons, the Municipal Council has no legal powers to revoke operating licenses granted by another municipality, in this case Chorrillos, and because the revocation process did not allow the company the opportunity to present its comments or defense, thus depriving it of a basic right.

On January 6, 2003, Lucchetti Peru was notified by an official of the Municipality of Chorrillos to close the plant and threatened with the use of public proceedings and the national police. Consequently, the Board of Directors of Indalsa agreed to comply with the order as quickly as possible in order to protect the subsidiary's employees and installations, and to begin orderly

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liquidation of the assets of the Peruvian subsidiary.

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

As a result of these events, Indalsa proceeded to make an allowance for the entire investment and for part of the accounts receivable from its subsidiary Lucchetti Peru, of ThCh\$30,678,486 (historic pesos). The accounting treatment was in accordance with the specific provisions of Technical Bulletins Nos. 33 and 64 of the Chilean Association of Accountants, and the instructions of the SVS (in particular, Circular 150 dated January 31, 2003) which require public companies to make allowances for estimated losses in the value of their assets, especially with regard to investments in other Latin American countries.

In the opinion of the management of Indalsa, the allowance made reflected only the accounting effect of the non-recovery of the investment but did not take into account the intangible assets, such as 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 Indalsa. Such intangible assets are not reflected in the accounts nor shown in the balance sheet. Therefore, this allowance, which had to be constituted to comply with the aforementioned accounting rules, will not in any way reflect the amount of the assets and rights invested in Peru by Indalsa, and consequently the amount of damages that Indalsa may demand from the Peruvian state. Consequently, the amount of the allowance only formed a part of the total amount claimed from the Republic of Peru.

The management of Indalsa, backed by legal reports and analyses, considers that the actions carried out by the Peruvian authorities constituted an indirect expropriation of the investment made by Indalsa 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 Indalsa, the firm Herberth & Smith, Mr. Francisco Orrego Vicuna and the firm Eluchans y Cia., believe that the arbitration with the ICSID has a high likelihood of success in obtaining a just indemnity considering, among other factors, the amounts invested in Peru. Despite these opinions, and in accordance with current accounting regulations, including Technical Bulletin No. 6 of the Chilean Association of Accountants, Indalsa have not recorded the potential settlement gain that might result from the international arbitration process.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
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Note 20 - Commitments and Contingencies (continued)

On March 25, 2003, the General Secretary of the ICSID registered the arbitration request presented by Indalsa on December 23, 2002, as was anticipated and informed in the notes to the financial statements as of December 31, 2002.

On August 1, 2003, the ICSID arbitration tribunal was constituted to assess and resolve the lawsuit brought against the Republic of Peru and began its formal procedures. The arbitration tribunal consists of the following arbitrators: Mr. Thomas Buergenthal (Chairman of the tribunal, appointed by the ICSID General Secretary), Mr. Bernardo M. Cremades, named by the Republic of Peru state and Mr. Jan Paulsson appointed by Indalsa

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The first meeting of the arbitration tribunal was held on September 15, 2003 when the tribunal formally rejected the request of the Republic of Peru to suspend the arbitration proceedings. The tribunal also set forth the procedures to be followed for the lawsuit brought by Indalsa against the Republic of Peru. On December 15, 2003 the Republic of Peru requested the tribunal to rule that it had no jurisdiction over the case. Indalsa presented its counter argument to the Peruvian request on March 15, 2004, seeking its full rejection.

The proceeding established by the tribunal contemplated the presentation of a replication by the Republic of Peru on May 15 and a rejoinder by Indalsa, which was presented by the Company's lawyers on July 15, 2004.

Oral arguments were made on September 2 and 3, 2004. The tribunal issued its findings on February 7, 2005, accepting the request made by the Republic of Peru without entering into the merits of the case. The international tribunal ruled that it has no jurisdiction over arbitration proceedings between Indalsa and the Republic of Peru. Indalsa is now analyzing the various legal actions available to it within or outside the present process in order to overturn this verdict and obtain an indemnity for damages caused by the illegal actions of the Peruvian state.

### c) Civil liability

Indalsa is also involved in criminal proceedings brought in Peru against certain of its executives and shareholders.

In the opinion of the management of Indalsa and its legal advisors, the judgment should be in favor of Indalsa, however, in the case of an unfavorable judgment, the resultant liability would not be significant with respect to the financial statements as a whole.

### d) Lawsuits

In 1999, VTR appealed a judgment by the Tax Tribunal of the Santiago Center Metropolitan Regional Authority of the Chilean Internal Revenue Service that rejected on October 26, 1999, the claim made by the company against Lawsuit No. 29 of January 21, 1998 with respect to additional income tax (Clause 21 of the Tax Law) applied to a foreign currency futures contract signed on January 2, 1995 between VTR and Citibank N.A. (ThCh\$782,107 is the historic amount of tax relating to the 1996 tax year). The case is currently pending the decision of the appeals tribunal and collection of the tax has been suspended for six months starting October 28, 2004. Management does not believe that any further payments could result from this matter.

As of December 31, 2004, Madeco has lawsuits pending against it with respect to its ordinary course of business which, according to the company's legal advisers, do not represent risk of significant losses.

There are legal proceedings in Brazil against the previous owner of Ficap, a subsidiary of Madeco, dating from the time prior to Madeco's ownership starting in 1997. It is believed that total damages would amount to approximately ThR\$6,950. Madeco has personal guarantees from the previous owner of Ficap to indemnify Madeco should the Brazilian subsidiary be affected by such legal actions.

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unless otherwise stated)

### Note 20 - Commitments and Contingencies (continued)

Madeco and its subsidiary, Madeco Brasil Ltda. ("Madeco Brasil"), filed an arbitration claim in New York City before the American Arbitration Association, against Corning International Corporation ("Corning Inc.") based on the allegation that Corning Inc. had tried to terminate its agreements with Madeco relating to Optel (Brazil), a Brazilian company in which Corning Inc. and Madeco Brasil are joint owners. Corning, in turn, made a counter-claim against Madeco seeking, among other things, that Corning be allowed to terminate its agreements with Madeco

Madeco was notified of the tribunal's judgment which, amongst other issues, ruled that the investment agreement signed between the parties on June 12, 1999, and its amendments, be terminated. This meant that Madeco lost its put option to sell its shares in Optel (Brazil) to Corning Inc. at a price of US\$18 million. This did not cause any accounting effect as such options were not recorded in the Company's financial statements.

The judgment also ruled the investment agreement null and void, resulting in the loss of Madeco's right to manage the company. Finally, the judgment stated that the decision of Corning Inc. concerning the liquidation of the company must be respected. As a result, Madeco fully provided for its 50% holding in Optel (Brazil).

On March 31, 2005, the Company and Corning reached an agreement whereby Corning sold its 50% interest in Optel Ltda. to the Company for the nominal amount of R\$1, thus avoiding the liquidation of Optel Ltda. In accordance with the purchase agreement, Corning executed a binding 2-year non-competition clause not to compete in the markets where Optel Ltda. currently operates. In addition, on March 31, 2005, the Company reached an agreement with two of Optel's principal creditors to forgive US\$5.3 million of US\$7.3 million indebtedness, and the difference was down-paid to the creditors. Consequently, Optel Ltda. extinguished in full its outstanding debt obligation with its two principal lenders.

As of December 31, 2004, Armat, a subsidiary of Madeco, has lawsuits pending against it in relation to its normal course of business. The legal advisers of Armat believe there is no risk of significant losses.

As of December 31, 2004, Telefonica del Sur and its subsidiaries have the following lawsuits pending against them:

- 1) Case No. 2525-2001 in the Second Civil Court of Valdivia, with Ms. Regina Barra Arias, for damages amounting to ThCh\$553,143. The lawsuit was rejected in the first and second instances and is now pending an appeal to the Supreme Court. Telefonica del Sur has not made a provision for this case because it believes that it will not result in any significant damages.
- 2) Case No. 2166-03 in the First Civil Court of Valdivia with Mr. Andres Gonzalez Lara for damages amounting to ThCh\$388,000. The case is awaiting judgment. 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 Second Civil Court of Valdivia with Mr. Marcelo Bastidas Villaroel for damages amounting to ThCh\$1,500,000. The case is awaiting judgment. The company has not made a provision for this case because it believes that it will not result in any significant damages.
- e) Other contingencies

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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: Agricola El Penon S.A., VTR, Inversiones y Bosques S.A., Inversiones Ranquil S.A., Inversiones Punta Brava S.A., Inmobiliaria e Inversiones Hidroindustriales S.A. and LQIF. The relative loan agreements include clauses regarding the use of the funds and financial covenants that are normal for this type of agreement.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 20 - Commitments and Contingencies (continued)

Quinenco has signed option contracts with all of the above companies, except LQIF, which are exercisable between February 28, 2003 and February 28, 2006 and state:

1. Quinenco may require that the above companies sell their shares in LQIF at a price to be determined based on the purchase price of the shares and borrowing costs, plus an additional 2.0% calculated on such amounts.
2. The above companies may require Quinenco. to purchase shares of LQIF at a price to be determined based on the purchase price of the shares and borrowing costs, plus an additional 0.5% calculated on such amounts.

Telefonica del Sur and Telcoy, are in compliance with all the regulations applicable to them as telecommunications companies.

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

The following restrictions were established under negotiations carried out by Indalum, a subsidiary of Madeco, on December 29, 2003 with Banco de Chile, Banco de Credito e Inversiones, Banco Estado and Banco Security, to cover the period from that date until December 26, 2008:

Indalum must comply with the following covenants as of June 30 and December 31 of each year, on a consolidated basis:

- Debt ratio or leverage not to exceed 1.2:1.
- Minimum shareholders' equity equivalent to UF 1,630,000.
- Maintain the ownership of its property, plant and equipment necessary for the normal development of its operations and business and maintain its ownership of the subsidiary Alumco S.A..
- May not pledge, mortgage or grant any charge or right over any property, plant and equipment of Indalum or its subsidiaries except for those over assets it acquires in the future and which are granted for financing their acquisition.
- May not grant guarantees to cover the compliance of any obligation, debt, liability or commitment contracted by a person other than Indalum or its

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subsidiaries, without the prior written consent of the creditors.

- Indalum may not pay or distribute dividends that exceed 30% of the net income for each year, without the prior written consent of the creditors.
- May not grant direct financing to third parties outside of the business. This shall not include the trade accounts receivable of Indalum with its customers nor loans to the executives and personnel of Indalum or its subsidiaries.
- In the event of the disposal of the real estate located at Aysen Street 244, Macul, Vitacura Street 2726, Office 301, Vitacura, and Santa Marta Street 1313, Maipu, the sales proceeds should be used to prepay the rescheduled obligations on a prorata basis. For this calculation, the principal amount of outstanding financial loans due to Madeco shall be added to the rescheduled obligations. For this purpose, financial debt shall be defined as the sum of all loans made by Madeco, which amounted to ThCh\$4,329,888 as of December 31, 2003.
- Indalum may repay the financial loan currently owed to its parent company Madeco only if it has paid all of the amounts due to the banks and has fully complied with the covenants and negative covenants assumed under the agreement, or that the proceeds come from the sale of the properties mentioned above.
- Madeco must directly and indirectly control Indalum during the term of the agreement or have a shareholding of at least 50.1% in the company.

As of December 31, 2004, Indalum has fully complied with these restrictions.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 20 - Commitments and Contingencies (continued)

Sale of subsidiary:

On March 31, 2004, the subsidiary Indalsa signed a contract for the sale of its subsidiary Lucchetti Chile to Empresas Corpora Tresmontes S.A. ("Corpora Tresmontes") which, given the nature and complexity of the transaction, established certain commitments and guarantees in favor of each of the parties.

As a result of the transaction, a price adjustment for variations in Lucchetti Chile's working capital as of March 31, 2004 was determined by an independent accounting firm.

The share sale contract established a first sale price adjustment equivalent to the variation in working capital between December 31, 2003 and March 31, 2004. The independent accounting firm issued the report on working capital on April 30th, establishing an additional payment in favor of the sellers of Ch\$2,971 million.

The parties also agreed to create a deposit in guarantee for Ch\$1,200 million in order to cover adjustments that might arise from Lucchetti Chile's reconciliation of accounts receivable and their respective allowances as of March 31, 2004. This reconciliation process was supervised by the independent

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accounting firm and completed by June 30, 2004.

On July 6, 2004, the independent accounting firm issued its report regarding the adjustments to customer balances existing as of March 31, 2004 and found a difference in favor of Indalsa of Ch\$76 million and one of Ch\$1,124 million in favor of Corpora Tresmontes, instructing the custodian to credit the funds deposited proportionately to each of the parties. The management of Indalsa considers that the reconciliation does not accurately reflect the information provided in the process and disputes more than Ch\$704 million in invoices issued to debtors of Lucchetti Chile. In view of this information, the management of Indalsa decided to seek damages against the buyers before the arbitrator, Sergio Urrejola Monckeberg. This process is proceeding normally and is currently in the preparation stage. As mentioned in Note 21, the amount paid to the buyers is 100% provisioned for against Other non-operating expenses.

With respect to the sale of Lucchetti Chile on March 31, 2004, Quinenco agreed with Inversiones Tresmontes Ltda. and Inversiones y Servicios Corpora Ltda. that for a period of three years it would:

- Maintain either directly or through one or more of its subsidiary companies i) the ownership of shares issued by Indalsa representing at least 51% of its capital, and (ii) control of Indalsa, through the majority of votes at shareholders' meetings and election of the majority of the company's directors.
- Maintain the shareholders' equity of Indalsa, excluding trademarks, intellectual and industrial property rights and goodwill (except that with respect to Calaf at that date), for a minimal amount of ThCh\$28,000,000. In any event, Quinenco shall not be liable under this obligation should the equity of Indalsa at any time fall below the amount indicated due to i) operating and non-operating losses incurred in the business of Indalsa and its subsidiary and associate companies; ii) acquisitions or disposals of assets made on equitable conditions similar to those in the market; or iii) provisions ordered by an authority or in compliance with an applicable rule.

As of December 31, 2004, the subsidiary Madeco has received notification of income tax differences for the tax years 2001, 2002 and 2003 relating to the first category income tax, tax refunds and additional tax for a total of ThCh2,448,024 (value of the tax). Madeco's management has, through its legal advisers, begun the proceedings to counter the claims made by Chilean tax authorities.

In addition, for the 2004 tax year, Madeco is requesting a refund of ThCh\$1,545,224, which corresponds to the remainder retained by the Chilean Internal Revenue Service of the ThCh\$3,038,789 originally requested as part of a tax loss absorption.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 20 - Commitments and Contingencies (continued)

As of December 31, 2004, the indirect subsidiary Alusa has received two notifications of taxes due, No. 372 and 373, (Value of tax ThCh\$136,280) from the Chilean Internal Revenue Service ("IRS"). These notifications are pending of

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resolution.

On February 27, 2004, in accordance with the claim procedure contained in Title II of Decree Law 830 of the Tax Code, Alusa filed a complaint with the tax court (case number 10.073/2004), objecting to the notifications of taxes due from the Chilean Internal Revenue Service.

As of December 31, 2004, the subsidiary Inversiones Rio Grande S.A. has received one notification of taxes due, No. 62, (Historic value of tax ThCh\$484,329, corresponding to the 1999 tax year) from the IRS. Inversiones Rio Grande S.A. filed a complaint with the tax court, objecting to the notification of taxes due and claiming that it is not relevant.

On September 1, 2004, the Chilean Internal Revenue Service issued Resolution No. Ex. 221, by which it rejects the loss produced by the sale of shares of Lucchetti Peru to the subsidiary Lucchetti Chile in 2000, on the grounds that the loss is not "needed to produce income", "because it is not essential to the company's line of business".

Indalsa filed a complaint against the aforementioned resolution, which is currently in process, claiming that the resolution does not invalidate the existence of an economic loss with respect to this investment; therefore, neither the accumulated tax result nor the retained taxable earnings registry have been modified. Indalsa estimates that the complaint will be accepted.

The loss in question, restated for inflation as of December 31, 2004, amounts to Ch\$28,156 million; therefore, if this case is rejected, the income tax credit will decrease by Ch\$4,786 million. In the opinion of the Company's lawyer it is probable that the outcome will be favorable to the Company.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 21 - Non-Operating Income and Expenses

Non-operating income and expenses for each year are summarized as follows:

	Year ended December 31	
	2002	2003
	ThCh\$	ThCh\$
Non-operating income:		
Proportional share of net income of equity method investments (Note 11) .....	26,581,702	59,444,677
Gain on sale of other investments .....	446,245	18,255
Amortization of negative goodwill .....	1,955,617	24,111,396
Amortization of unrealized gains .....	601,694	--
Tax refunds .....	403,175	499,066
Release of purchase price accruals .....	3,379,136	--
Investment recovery .....	--	531,795
Amount received from settlement payment (1) .....	--	36,935,901
Gain on sale of Lucchetti Chile .....	--	--

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Gain on sale of brands "Alufoil" .....	--	--
Gain originated in non participation in capital increase of subsidiary .....	--	--
Other .....	1,357,208	974,080
	-----	-----
Total .....	34,724,777	122,515,170
	=====	=====
Non-operating expenses:		
Proportional share of net loss of equity method investments (Note 11) .....	510,638	613,400
Amortization of goodwill .....	21,255,601	20,597,209
Restructuring costs and severance indemnities .....	7,038,967	226,966
Loss on sales of investments, fixed assets and other .....	2,117,303	1,722,652
Directors' compensation .....	1,132,072	4,271,939
Adjustment of property, plant and equipment to net realizable value (Note 10) .....	869,897	501,395
Provision for losses on loans and recoverable taxes of foreign subsidiaries .....	2,745,062	495,213
Allowance for uncollectible debts .....	1,195,795	--
Amortization of non-recurring expenses .....	789,930	--
Labor lawsuits .....	334,488	391,502
Legal expenses for defense of Lucchetti Peru .....	2,302,901	1,430,835
Valuation allowance for fixed and other assets, Argentina ....	6,356,912	841,724
Impairment of equity investment in and account receivables with Lucchetti Peru .....	30,862,932	--
Depreciation of property, plant and equipment involved in temporary shutdown (Note 10) .....	3,100,792	1,845,708
Loss on non participation in capital increase of subsidiary ..	2,831,955	21,658,266
Purchase price accruals .....	1,281,694	--
Valuation allowance for account receivable to Lucchetti Peru .	896,970	1,217,290
Provision for liquidation of Optel .....	--	5,040,422
Loss on sale of building Hotel Carrera .....	--	4,830,847
Loss on sale of machinery Lucchetti Peru .....	--	--
Tax contingencies .....	--	--
Provision for loss on guarantee granted .....	--	--
Other .....	3,084,468	2,414,410
	-----	-----
Total .....	88,708,377	68,099,778
	=====	=====

- 1) Relates to the US \$50 million payment made to Quinenco by FHI Finance Holding International during 2003, as part of the Settlement and Release Agreement signed on January 13, 2002 between Quinenco and the companies Schorghuber Stiftung & Co. Holding K.G., Bayerische BrauHolding A.G. and FHI Finance Holding International B.V. to settle arbitration proceedings concerning the joint investment in the equity method investment CCU.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 22 - Balances and Transactions with Related Parties

Balances with related parties as of December 31 of each year are as follows:

- a) Current assets

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Notes and accounts receivable from related companies:

Company	Nature of relationship	Nature of transaction
Cobrecon S.A.	Equity method investment	Services
Transportes y Servicios Aereos S.A.	Equity method investment	Services
Blue Two Chile S.A.	Subsidiary in development stage	Services
IRSA	Equity method investment	Dividends receivable
Others related Companies	Various	Various
Total		

b) Long-Term assets

Notes and accounts receivable from related companies:

Company	Nature of relationship	Nature of transaction
Electromecanica Industrial S.A.	Related company	Services
Lucchetti Peru	Equity method investment	Current account in US\$
Others related Companies	Various	Various
Total		

c) Current Liabilities

Notes and accounts payable to related companies:

Company	Nature of relationship	Nature of transaction
Colada Continua Chilena S.A.	Equity method Investment	Sales of products and services
Other related companies	Various	Various
Total		

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The December 31, 2003 and 2004 balances maintained with Banco de Chile are included in bank loans for an amount of ThCh\$26,511,053 and ThCh\$7,722,665 respectively. Time deposits amounted to ThCh\$7,181,573 and ThCh\$11,396,490 as of December 31, 2003 and 2004, respectively.

As of December 31, 2003, the balance maintained with Andsberg Finance Corp. Ltd., a member of the Luksic Group, is included in bank loans for an amount of ThCh\$54,325,084.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 22 - Balances and Transactions with Related Parties (continued)

d) Long-Term liabilities

Company	Nature of relationship	Nature of transaction
Compania de Telecomunicaciones de Llanquihue S.A. ....	Equity method Investment	Sales of products and services
Total.....		

Significant transactions with related parties are summarized as follows:

Company	Transaction	Revenue (Expense) Debit
-----	-----	-----
		2002
		-----
		ThCh\$
Minera Los Pelambres S.A. ....	Services	332,796
Andsberg Finance Corp. Ltd. ....	Financing and interest	(4,716,221)
Banco de Chile.....	Investment income	2,062,472
Compania de Telecomunicaciones de Llanquihue S.A. ....	Services	(207,651)
Embotelladoras Chilenas Unidas S.A. ....	Sales of products and services	704,126
Almagro S.A. ....	Sales of properties	--
Inmobiliaria Adriatico S.A. ....	Sales of properties	--
Sodimac S.A. ....	Sales of products	--

In accordance with Article 89 of the Chilean Companies Act, the Company's transactions with related parties have been carried out on an "arm's length" or market basis.

QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 23 - Minority Interest

Minority interest is summarized as follows:

	As of December 31,	
	2003	2004
	ThCh\$	ThCh\$
Balance Sheet:		
Madeco and subsidiaries .....	77,920,682	87,638,091
Telefonica del Sur and subsidiaries .....	17,318,951	17,684,939
Indalsa and subsidiaries .....	1,167,898	733,559
Hoteles Carrera .....	568,733	291,540
Other .....	1,791,739	1,985,307
Total .....	98,768,003	108,333,436

	Year ended December 31,		
	2002	2003	2004
	ThCh\$	ThCh\$	ThCh\$
Income Statement:			
Madeco and subsidiaries.....	20,544,432	5,575,409	(4,111,000)
Telefonica del Sur and subsidiaries.....	(1,788,435)	(2,168,762)	(1,111,000)
Indalsa and subsidiaries.....	2,429,890	107,006	1,111,000
Hoteles Carrera.....	67,031	354,025	1,111,000
Other.....	(7,213)	43,819	(1,111,000)
Minority interest participation in net income (loss).....	21,245,705	3,911,497	(6,111,000)

QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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### Note 24 - Condensed Financial Statements

Set forth below are condensed financial statements for the significant investment in CCU held through Quinenco's 50% owned company, IRSA.

#### CCU Condensed Consolidated Balance Sheet

The condensed consolidated financial statements of CCU as of December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004 are as follows:

	As of December 31,	
	2003	2004
	ThCh\$	ThCh\$
<b>Assets</b>		
Current assets.....	205,180,256	223,228,087
Property, plant and equipment, net.....	321,649,649	301,257,865
Other assets.....	64,833,911	67,754,774
<b>Total Assets.....</b>	<b>591,663,816</b>	<b>592,240,726</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities.....	124,268,651	125,217,350
Long-term liabilities.....	142,421,543	126,216,423
Minority interest.....	39,232,734	38,703,208
Shareholders' equity.....	285,740,888	302,103,745
<b>Total Liabilities and Shareholders' Equity.....</b>	<b>591,663,816</b>	<b>592,240,726</b>

#### CCU Condensed Consolidated Statements of Income

	Year ended December 31,		
	2002	2003	2004
	ThCh\$	ThCh\$	ThCh\$
Net sales.....	358,083,243	393,665,837	420,000,000
Cost of sales.....	(176,460,767)	(193,934,033)	(202,000,000)
Administrative and selling expenses.....	(142,527,344)	(152,722,450)	(159,000,000)
Non-operating income and expenses, net.....	(7,257,805)	13,982,906	(6,000,000)
Minority interest.....	(1,296,085)	(450,481)	(1,000,000)
Income tax.....	(7,698,569)	(5,101,452)	(5,000,000)
<b>Net income.....</b>	<b>22,842,673</b>	<b>55,440,327</b>	<b>45,000,000</b>

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 24 - Condensed Financial Statements (continued)

CCU Condensed Consolidated Statements of Cash Flows

	Year ended December 31,		
	2002	2003	2004
	ThCh\$	ThCh\$	ThCh\$
<b>Cash Flows From Operating Activities</b>			
Net income .....	22,842,673	55,440,327	45,393,8
Income from sales of assets .....	(699,944)	(1,398,753)	(3,332,6
Charges to income that do not represent cash flows .	54,349,663	23,610,270	43,527,5
Changes in assets .....	(13,248,075)	(19,579,952)	(8,886,5
Changes in liabilities .....	2,503,598	6,395,480	377,3
Minority interest .....	1,296,085	450,481	1,275,1
<b>Cash flows from operating activities .....</b>	<b>67,044,000</b>	<b>64,917,853</b>	<b>78,354,6</b>
Cash flows from investing activities .....	(13,046,351)	9,353,708	(44,533,1
Cash flows from financing activities .....	(26,823,318)	(100,204,921)	(39,683,0
Price-level restatement of cash and cash equivalents	1,685,003	(1,478,517)	(1,954,0
<b>Net increase in cash and cash equivalents .....</b>	<b>28,859,334</b>	<b>(27,411,877)</b>	<b>(7,815,5</b>
Cash and cash equivalents at beginning of year .....	66,567,261	95,426,595	68,014,7
<b>Cash and cash equivalents at end of year .....</b>	<b>95,426,595</b>	<b>68,014,718</b>	<b>60,199,1</b>

The reconciliation between the equity holding in IRSA and the net assets and income of CCU is as follows:

	As of and for the year ended December 31		
	2002	2003	2004
	ThCh\$	ThCh\$	ThCh\$
<b>Balance sheet data:</b>			
Net worth of CCU .....	448,765,018	285,740,888	302,103,
Minority interest in CCU (1) .....	(172,410,037)	(109,708,930)	(115,939,
Minority interest in IRSA (2) .....	(138,225,610)	(88,208,445)	(93,222,
Other movements of balance sheet of IRSA .....	96,239	384,931	280,
<b>Investment in IRSA under equity method (Note 11)</b>	<b>138,225,610</b>	<b>88,208,444</b>	<b>93,222,</b>
<b>Income statement data:</b>			
Net income of CCU .....	22,842,673	55,440,327	45,393,
Minority interest in CCU (3) .....	(8,775,876)	(21,294,381)	(17,423,
Minority interest in IRSA (4) .....	(6,988,863)	(16,392,236)	(13,912,

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Other income and expenses of IRSA .....	(88,036)	(1,361,474)	(145,
	-----	-----	-----
Equity in net earnings of IRSA (Note 11) .....	6,989,898	16,392,236	13,912,
	=====	=====	=====
IRSA's investment in CCU .....	61.58%	61.61%	61
Quinenco's investment in IRSA .....	50.00%	50.00%	50

- (1) Corresponds to differences between the shareholders' equity of CCU and the amount recognized via the equity method in IRSA.
- (2) Corresponds to the difference between the shareholders' equity of IRSA and the amount recognized via the equity method in Quinenco.
- (3) Corresponds to difference between of the net income of CCU and the net income recognized in IRSA.
- (4) Corresponds to proportion of the net income of IRSA applicable to joint venture partner.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
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### Note 25 - Segment Reporting

Quinenco provides disclosures in accordance with Statement of Financial Accounting Standards 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131") which establishes standards for reporting information about operating segments in annual financial statements as well as related disclosures about products and services and geographic areas. Operating segments are defined as components of an enterprise about which separate financial statement information available is evaluated regularly by the chief operating decision maker in making decisions about allocating resources and assessing performance. In accordance with SFAS 131, Quinenco manages its business in five segments: Financial Services (Banco de Chile), Food and Beverage (CCU-Indalsa), Telecommunications (Telefonica del Sur), Manufacturing (Madeco), and Other. Other includes real estate and hotel administration as well as Quinenco and intermediate holding companies.

The accounting policies of each segment are the same as those as described in the "Summary of Significant Accounting Policies" (Note 2).

In addition, for Financial Services, interest revenue and expense are recognized on the accrual basis using the effective interest method. The carrying amounts of loans, investments and liabilities include accrued interest and the indexation adjustment applicable to balances that are denominated in UFs or other indexes. The effect of changes in the UF index on interest-bearing assets and liabilities are reflected in the income statement as an increase or decrease in interest revenue or expense

The Bank generally suspends the accrual of interest and indexation adjustment of principal on loans beginning on the first day that such loans are overdue and on amounts not yet due for loans on which any installments of principal or interest are 90 days overdue. Previously accrued interest remains on the Bank's books and is considered to be a part of the loan balance when determining the Allowance

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for loan losses. Payments received on overdue loans are recognized as income, after reducing the recorded balance of accrued interest receivable, if applicable, to the extent of interest earned but not recorded

Fees and expenses related to loans, as well as fees for services rendered, are deferred and recognized in income over the term of the loans to which they relate, and to the period that the services are performed.

CCU recognizes revenues relating to domestic sales of beer, soda, mineral water, juice products and wine upon delivery and physical acceptance of the product, at which time title passes to the customer. Vina San Pedro generally recognizes revenues relating to export sales of wine when the wine is shipped, which in accordance with established sales terms is when title passes to the customer.

In CCU, advertising and sales promotion costs are expensed as incurred. Inventory is stated at replacement cost, which does not exceed estimated net realizable value. Bottles and containers are reported at restated cost, net of write-offs due to breakage and allowances. Deposits received on bottles and containers in circulation are classified as long-term liabilities. The amount of these deposits is determined based on an annual inventory of the bottles and cases in the possession of customers.

Consistent with US GAAP reporting requirements of financial information reviewed by the chief operating decision maker, the following segment information presented has been determined in accordance with Chilean GAAP. In accordance with Chilean GAAP, and as described in Note 11, Investments, Lucchetti Peru was consolidated for the year ended December 31, 2002 but the balance sheet as of and subsequent to that date was not consolidated.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
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Note 25 - Segment Reporting (continued)

Segment information is presented below:

	Year ended December 31,		
	Financial Services Banco de Chile (1) ThCh\$	Food and beverage CCU ThCh\$	Indalsa ThCh\$
Statement of Income Data:			
Sales to unaffiliated customers .....	--	358,068,700	86,751,123
Intersegment sales .....	--	14,543	1,307
Total revenues .....	--	358,083,243	86,752,430
Cost of sales .....	--	(176,460,767)	(63,547,584)
Operating income before general corporate			

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expenses .....	--	181,622,476	23,204,846
General corporate expenses .....	--	(142,527,344)	(20,432,255)
<hr/>			
Operating income (loss) .....	--	39,095,132	2,772,591
Interest income .....	--	1,693,009	144,001
Non-operating income .....	--	4,816,371	215,003
Interest expense .....	--	(3,968,208)	(5,071,909)
Non-operating expense .....	--	(5,995,471)	(35,909,430)
Financial Services			
Net interest revenue and expenses .....	380,546,625	--	--
Provision for loan losses .....	(104,191,250)	--	--
Income from services, net .....	81,392,175	--	--
Other operating income, net .....	(31,621,250)	--	--
Other income and expenses, net .....	(6,116,174)	--	--
Operating expenses .....	(256,779,925)	--	--
Price-level restatement, net .....	(9,934,300)	(3,803,506)	(499,334)
Income tax .....	1,194,125	(7,698,569)	(185,888)
Minority interest .....	(1)	(1,296,085)	162
<hr/>			
Net income(loss) .....	54,490,025	22,842,673	(38,534,804)
<hr/>			

Balance Sheet Data (at December 31):			
Identifiable assets .....	8,191,551,950	500,124,103	75,779,611
Cash and cash equivalents .....	700,266,911	95,426,595	91,677
Accounts receivable from related companies .	--	2,693,860	2,978,247
Investments in related and other companies and goodwill, net .....	4,945,389	76,868,364	186,184
<hr/>			
Total assets .....	8,896,764,250	675,112,922	79,035,719
<hr/>			

Year ended December 31, 2002

	Elimination of Companies not Consolidated (2) ThCh\$	Other (3) (4) ThCh\$	Eliminations ThCh\$
<hr/>			
Statement of Income Data:			
Sales to unaffiliated customers .....	(358,068,700)	11,195,583	
Intersegment sales .....	(14,543)	(294,490)	(991,735)
<hr/>			
Total revenues .....	(358,083,243)	10,901,094	(991,735)
<hr/>			
Cost of sales .....	176,460,767	(11,055,029)	
Operating income before general corporate expenses .....	(181,622,476)	(153,935)	(991,735)
General corporate expenses .....	142,527,344	(8,743,950)	
<hr/>			
Operating income (loss) .....	(39,095,132)	(8,897,885)	(991,735)
Interest income .....	(1,693,009)	20,625,414	(17,227,771)
Non-operating income .....	(4,816,371)	33,054,161	--
Interest expense .....	3,968,208	(41,536,363)	17,227,771
Non-operating expense .....	5,995,471	(27,012,305)	
<hr/>			
Financial Services			

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Net interest revenue and expenses .....	(380,546,625)	--	
Provision for loan losses .....	104,191,250	--	
Income from services, net .....	(81,392,175)	--	
Other operating income, net .....	31,621,250	--	
Other income and expenses, net .....	6,116,174	--	
Operating expenses .....	256,779,925	--	
Price-level restatement, net .....	13,737,806	454,932	
Income tax .....	6,504,444	723,316	
Minority interest .....	1,296,086	19,316,160	
	-----		
Net income (loss) .....	(77,332,698)	(3,272,570)	(991,735)
	=====		
Balance Sheet Data (at December 31):			
Identifiable assets .....	(8,691,676,053)	57,977,227	
Cash and cash equivalents .....	(795,693,506)	86,232,967	
Accounts receivable from related companies .	(2,693,860)	1,846,902	
Investments in related and other companies and goodwill, net .....	(81,813,753)	817,976,980	
	-----		
Total assets .....	(9,571,877,172)	964,034,076	--
	=====		

- (1) Banco de Chile is an equity method investment under Chilean GAAP and is presented here as a separate segment. In order to reconcile to the consolidated financial statements, it is removed in the column, "elimination of companies not consolidated and the equity participation is added in one line in the column "other".
- (2) This column includes the elimination of CCU, Banco de Chile and Lucchetti Peru.
- (3) This column includes real estate and hotel administration as well as Quinenco and intermediate holding companies.
- (4) The net equity investments in CCU and Banco de Chile are included in the column entitled "Other" in the caption "Non-Operating income".

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expresses in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 25 - Segment Reporting (continued)

Year ended December 31,		
-----		
Financial Services	Food and beverage	
Banco de Chile (1)	CCU	Indalsa
ThCh\$	ThCh\$	ThCh\$
-----		

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Statement of Income Data:			
Sales to unaffiliated customers .....	--	393,642,638	60,593,137
Intersegment sales .....	--	23,199	1,017
		<hr/>	
Total revenues .....	--	393,665,837	60,594,154
		<hr/>	
Cost of sales .....	--	(193,934,033)	(41,824,781)
Operating income before general corporate expenses .....	--	199,731,804	18,769,373
General corporate expenses .....	--	(152,722,450)	(15,802,858)
		<hr/>	
Operating income .....	--	47,009,354	2,966,515
Interest income .....	--	2,592,232	31,857
Non-operating income .....	--	22,509,977	138,186
Interest expense .....	--	(5,802,689)	(2,961,715)
Non-operating expense .....	--	(6,609,790)	(4,223,535)
		<hr/>	
Financial Services			
Net interest revenue and expenses .....	228,019,800	--	--
Provision for loan losses .....	(38,844,700)	--	--
Income from services, net .....	100,313,200	--	--
Other operating income, net .....	99,147,000	--	--
Other income and expenses, net .....	(6,560,400)	--	--
Operating expenses .....	(229,869,900)	--	--
		<hr/>	
Price-level restatement, net .....	(4,137,000)	1,293,176	113,943
Income tax .....	(14,249,500)	(5,101,452)	1,745,869
Minority interest .....	(1,700)	(450,481)	(68)
		<hr/>	
Net income loss) .....	133,816,800	55,440,327	(2,188,948)
		<hr/>	
Balance Sheet Data (as of December 31):			
Identifiable assets .....	8,597,466,150	488,070,461	71,515,137
Cash and cash equivalents .....	878,254,850	68,014,718	8,258,687
Accounts receivable from related companies .	--	693,300	1,490,716
Investments in related and other companies and goodwill, net .....	5,428,400	34,885,337	178,752
		<hr/>	
Total assets .....	9,481,149,400	591,663,816	81,443,292
		<hr/>	

Year ended December 31, 2003

	Elimination of Companies not Consolidated (2) ThCh\$	Other (3) (4) ThCh\$	Elimination ThCh\$
	<hr/>		
Statement of Income Data:			
Sales to unaffiliated customers .....	(393,642,638)	9,572,291	
Intersegment sales .....	(23,199)	97,549	(313,
	<hr/>		
Total revenues .....	(393,665,837)	9,669,840	(313,
	<hr/>		
Cost of sales .....	193,934,033	(10,784,010)	

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Operating income before general corporate expenses .....	(199,731,804)	(1,114,170)	(313,
General corporate expenses .....	152,722,450	(9,054,607)	313,
<hr/>			
Operating income .....	(47,009,354)	(10,482,015)	313,
Interest income .....	(2,592,232)	13,733,637	(11,978,
Non-operating income .....	(22,509,977)	120,623,802	
Interest expense .....	5,802,689	(29,212,582)	11,978,
Non-operating expense .....	6,609,790	(49,815,408)	
Financial Services			
Net interest revenue and expenses .....	(228,019,800)	--	
Provision for loan losses .....	38,844,700	--	
Income from services, net .....	(100,313,200)	--	
Other operating income, net .....	(99,147,000)	--	
Other income and expenses, net .....	6,560,400	--	
Operating expenses .....	229,869,900	--	
Price-level restatement, net .....	2,843,824	1,195,762	
Income tax .....	19,350,952	(655,085)	
Minority interest .....	452,181	4,661,937	
<hr/>			
Net income (loss) .....	(189,257,127)	50,050,048	313,
<hr/>			
Balance Sheet Data (as of December 31):			
Identifiable assets .....	(9,085,536,611)	32,915,294	
Cash and cash equivalents .....	(946,269,568)	41,956,942	
Accounts receivable from related companies .	(693,300)	5,168,830	
Investments in related and other companies and goodwill, net .....	(40,313,737)	767,051,477	
<hr/>			
Total assets .....	(10,072,813,216)	847,092,543	
<hr/>			

- (1) Banco de Chile is an equity method investment under Chilean GAAP and is presented here as a separate segment. In order to reconcile to the consolidated financial statements, it is removed in the column, "elimination of companies not consolidated and the equity participation is added in one line in the column "other".
- (2) This column includes the elimination of CCU and Banco de Chile.
- (3) This column includes real estate and hotel administration as well as Quinenco and intermediate holding companies.
- (4) The net equity investments in CCU and Banco de Chile are included in the column entitled "Other" in the caption "Non-Operating income".

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Note 25 - Segment Reporting (continued)

Year ended December 31,

Financial

Food and beverage

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	Services Banco de Chile (1) ThCh\$	CCU ThCh\$	Indalsa ThCh\$
Statement of Income Data:			
Sales to unaffiliated customers .....	--	420,638,093	1,089,676
Intersegment sales .....	--	8,191	--
Total revenues .....	--	420,646,284	1,089,676
Cost of sales .....	--	(202,622,248)	--
Operating income before general corporate expenses .....	--	218,024,036	1,089,676
General corporate expenses .....	--	(159,317,105)	(1,419,075)
Operating income (loss) .....	--	58,706,931	(329,399)
Interest income .....	--	110,788	182,563
Non-operating income .....	--	4,260,392	4,368,174
Interest expense .....	--	(5,929,989)	(753,968)
Non-operating expense .....	--	(4,634,832)	(7,224,053)
Financial Services			
Net interest revenue and expenses .....	336,999,100	--	--
Provision for loan losses .....	(42,119,700)	--	--
Income from services, net .....	118,314,700	--	--
Other operating income, net .....	14,509,500	--	--
Other income and expenses, net .....	(7,626,100)	--	--
Operating expenses .....	(241,629,300)	--	--
Price-level restatement, net .....	(7,465,700)	54,366	263,333
Income tax .....	(18,353,600)	(5,898,614)	(613,445)
Minority interest .....	(1,100)	(1,275,176)	142
Net income (loss) .....	152,627,800	45,393,866	(4,106,653)
Balance Sheet Data (as of December 31):			
Identifiable assets .....	8,753,174,700	495,158,347	12,902,312
Cash and cash equivalents .....	890,616,000	60,199,133	1,812,915
Accounts receivable from related companies .	--	1,353,416	6,112,023
Investments in related and other companies and goodwill, net .....	5,412,000	35,529,830	4,216,036
Total assets .....	9,649,202,700	592,240,726	25,043,286
Year ended December 31, 2003			
Elimination of Companies not Consolidated (2)			
	ThCh\$	Other (3) (4) ThCh\$	Elimination ThCh\$
Statement of Income Data:			
Sales to unaffiliated customers .....	(420,638,093)	4,762,211	--
Intersegment sales .....	(8,191)	(71,738)	(243,891)

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Total revenues .....	(420,646,284)	4,690,473	(243,89
Cost of sales .....	202,622,248	(7,201,333)	-
Operating income before general corporate expenses .....	(218,024,036)	(2,510,860)	(243,89
General corporate expenses .....	159,317,105	(7,699,976)	243,89
Operating income (loss) .....	(58,706,931)	(10,454,734)	243,89
Interest income .....	(110,788)	9,222,453	(8,493,79
Non-operating income .....	(4,260,392)	66,848,726	-
Interest expense .....	5,929,989	(22,690,543)	8,493,79
Non-operating expense .....	4,634,832	(27,790,123)	-
Financial Services			
Net interest revenue and expenses .....	(336,999,100)	--	-
Provision for loan losses .....	42,119,700	--	-
Income from services, net .....	(118,314,700)	--	-
Other operating income, net .....	(14,509,500)	--	-
Other income and expenses, net .....	7,626,100	--	-
Operating expenses .....	241,629,300	--	-
Price-level restatement, net .....	7,411,334	194,409	-
Income tax .....	24,252,214	2,281,081	-
Minority interest .....	1,276,276	(5,768,813)	-
Net income (loss) .....	(198,021,666)	11,842,456	243,89
Balance Sheet Data (as of December 31):			
Identifiable assets .....	(9,248,333,047)	31,921,576	-
Cash and cash equivalents .....	(950,815,133)	19,539,377	-
Accounts receivable from related companies .	(1,353,416)	(2,646,267)	-
Investments in related and other companies and goodwill, net .....	(40,941,830)	781,098,621	-
Total assets .....	(10,241,443,426)	829,913,307	-

- (1) Banco de Chile is an equity method investment under Chilean GAAP and is presented here as a separate segment. In order to reconcile to the consolidated financial statements, it is removed in the column, "elimination of companies not consolidated and the equity participation is added in one line in the column "other".
- (2) This column includes the elimination of CCU and Banco de Chile.
- (3) This column includes real estate and hotel administration as well as Quinenco and intermediate holding companies.
- (4) The net equity investments in CCU and Banco de Chile are included in the column entitled "Other" in the caption "Non-Operating income".

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(expressed in constant Chilean pesos of  
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Note 25 - Segment Reporting (continued)

Depreciation for each of the segments is as follows:

Segment	Year ended December 31,		
	2002	2003	2004
	ThCh\$	ThCh\$	ThCh\$
Financial Services			
Banco de Chile .....	16,805,788	14,107,305	12,591,500
Food and Beverage			
CCU .....	44,534,170	41,165,102	39,448,381
Indalsa .....	3,919,121	3,009,801	79,512
Telecommunications			
Telefonica del Sur .....	10,949,697	13,014,169	13,015,692
Manufacturing			
Madeco .....	13,236,388	11,349,292	10,784,938
Other (1) .....	2,081,218	2,011,352	1,524,668
Elimination of non-consolidated companies (2)	(58,239,166)	(53,426,699)	(49,884,896)
Total depreciation .....	33,267,216	31,230,322	27,559,795

(1) Includes real estate and hotel administration as well as Quinenco and intermediate holding companies.

(2) Includes the elimination of non-consolidated companies CCU and Banco de Chile.

Capital expenditures, comprised of additions to property, plant and equipment, for each of the segments were as follows:

Segment:	Year ended December 31,		
	2002	2003	2004
	ThCh\$	ThCh\$	ThCh\$
Financial Services			
Banco de Chile .....	12,419,823	6,975,400	12,309,700
Food and Beverage			
CCU .....	20,988,181	25,392,292	31,879,907
Indalsa .....	1,864,160	333,156	3,527,807
Telecommunications			
Telefonica del Sur .....	14,839,924	7,422,225	8,888,583
Manufacturing			
Madeco .....	6,626,459	3,565,790	6,437,183
Other (1) .....	39,830	1,056,208	170,124
Elimination of non-consolidated companies (2)	(33,408,004)	(32,367,692)	(44,189,607)

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Total capital expenditures .....	23,370,373	12,377,379	19,023,697
	=====	=====	=====

- (1) Includes real estate and hotel administration as well as Quinenco and intermediate holding companies.
- (2) Includes the elimination of non-consolidated companies CCU and Banco de Chile.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of  
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Note 25 - Segment Reporting (continued)

Property, plant and equipment for each of the segments were as follows:

	Years ended December 31,	
	2003	2004
	----- ThCh\$	----- ThCh\$
Segment:		
Financial Services		
Banco de Chile .....	130,948,800	132,670,200
Food and Beverage		
CCU .....	321,649,649	301,257,865
Indalsa .....	37,384,250	2,742,309
Telecommunications		
Telefonica del Sur .....	107,384,058	101,835,677
Manufacturing		
Madeco .....	166,828,462	150,266,924
Other (1) .....	22,324,829	19,500,217
Elimination of non-consolidated companies (2)	(452,598,449)	(433,928,065)
	-----	-----
Total property, plant and equipment ....	333,921,599	274,345,127
	=====	=====

- (1) Includes real estate and hotel administration as well as Quinenco and intermediate holding companies.
- (2) Includes the elimination of CCU and Banco de Chile.

Sales, which relate to non-Financial Service companies, detailed by major geographic areas, were as follows:

Sales (1)	Years ended December 31,		
	2002	2003	2004
	----- ThCh\$	----- ThCh\$	----- ThCh\$
Chile .....	626,644,949	625,492,222	624,691,273
Argentina .....	41,641,757	56,753,185	65,721,069
Peru .....	26,494,582	25,417,406	40,823,629

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Brazil .....	73,570,178	52,316,936	71,913,209
Sub-total .....	768,351,466	759,979,749	803,149,180
Elimination of non-consolidated companies (2)	(358,083,243)	(393,665,837)	(420,638,093)
	-----	-----	-----
Total .....	410,268,223	366,313,912	382,511,087
	=====	=====	=====

(1) The table above does not include Banco de Chile.

(2) Includes the elimination of CCU.

Note 26 - Subsequent Event

On March 7, 2005, Quinenco informed the SVS about the following:

Quinenco, through its subsidiary Inversiones Rio Azul S.A., Consorcio Financiero S.A. and Parque Arauco S.A. (the Offerors), agreed to make a public offer (the "Offer") to buy shares issued by Empresas Almacenes Paris S.A. ("Paris"), subject to the regulations in Title XXV of Law 18,045.

The purpose of the Offer is to acquire 164,000,000 shares in Paris, representing 27.3333% of the subscribed and fully paid capital of that company. Provided that the Offer is accepted, Quinenco, - through its subsidiary Inversiones Rio Azul, Consorcio Financiero S.A. and Parque Arauco S.A. will become the shareholders of 20.0816%, 20.0816% and 10%, respectively, of the subscribed and paid shares of Paris.

The Offer is subject to the condition that at least 164,000,000 shares, equivalent to 27.3333% of the subscribed and paid capital of Paris are offered for sale, in accordance with the terms of the Offer. However, if the number of shares offered for sale as of the Offer's expiration date is less than 27.3333%, the Offerors have the right to reduce the number of shares required to carry out the purchase, so that the Offer can be accepted.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of  
 December 31, 2004, unless otherwise stated)

Note 26 - Subsequent Event (continued)

The Offer price will be Ch\$900 per share of Paris, payable in pesos without interest or indexation, on the second business day following the published notification of the outcome. This price represents a premium of 15.2404% over the market share price of Paris, which, by legal definition, is Ch\$780.9578. The shares will be acquired on April 9, 2005.

The Offer will have a term of 30 days, commencing at 0:00 hours on March 8, 2005 and ending at 24:00 hours on April 6, 2005. The Offerors reserve the right to extend the term of the offer, in accordance with the law.

The total amount of the Offer is Ch\$147,600,000,000, which will be financed using the Companies' own resources and, if necessary, funds provided by shareholders.

On March 16, 2005, Quinenco informed the SVS about the following:

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Inversiones Rio Azul S.A., a subsidiary of Quinenco and Consorcio Financiero S.A. - after having recognized and analyzed the new pricing conditions offered by Cencosud S.A. in its public offer (the "Offer") to acquire 100% of the shares of Paris, which were reported to the market on the same date - considers that the new conditions of the Offer are acceptable and beneficial to the shareholders of Paris, which is why the subsidiary has decided not to improve the terms of its competitive public offer, which was made on March 7, 2005.

On March 31, 2005, the Company and Corning reached an agreement whereby Corning sold its 50% interest in Optel Ltda. to the Company for the nominal amount of R\$1, thus avoiding the liquidation of Optel Ltda. In accordance with the purchase agreement, Corning executed a binding 2-year non-competition clause not to compete in the markets where Optel Ltda. currently operates. In addition, on March 31, 2005, the Company reached an agreement with two of Optel's principal creditors to forgive US\$5.3 million of US\$7.3 million indebtedness, and the difference was down-paid to the creditors. Consequently, Optel Ltda. extinguished in full its outstanding debt obligation with its two principal lenders.

Management is unaware of any other significant subsequent events that have occurred after December 31, 2004, and which may affect the Company's financial position or the interpretation of these consolidated financial statements.

Accounting principles generally accepted in Chile (Chilean GAAP) vary in certain important respects from accounting principles generally accepted in the United States of America (US GAAP). Such differences involve certain methods for measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP.

The principal differences between Chilean GAAP and US GAAP are described below together with explanations, where appropriate, of the method used in the determination of the adjustments that affect net income and total shareholders' equity. Under Chilean GAAP, banking operations are not generally consolidated with non-financial businesses primarily due to the dissimilarity of both the nature of the businesses and the related accounting policies. However, under US GAAP consolidation of the Company's banking operations would be required under Statement of Financial Accounting Standards 94 ("SFAS 94"), which deals with the consolidation of all majority-owned subsidiaries. As a result, where appropriate, adjustments to US GAAP of the Company's banking operations are disclosed on a gross basis with a separate adjustment for taxes, providing separate disclosure for items that would impact several balance sheet accounts under US GAAP separated between the Company's banking operations and non-financial businesses. Additional disclosure required under US GAAP of the consolidation of majority owned subsidiaries is provided in part II of this note. This information has been presented on a Chilean GAAP basis. References below to "the Bank" are to the merged Banco de Chile and Banco Edwards. References below to "SFAS" are to United States Statements of Financial Accounting Standards and references to "FASB" are to the Financial Accounting Standards Board.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 27 - Differences Between Chilean and United States Generally Accepted  
Accounting Principles (continued)

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### I. Differences in measurement methods

The principal methods applied in the preparation of the accompanying financial statements, which have resulted in amounts which differ from those that would have otherwise been determined under US GAAP, are as follows:

#### (a) Inflation accounting

Chilean accounting principles require that financial statements be restated to reflect the full effects of the loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The method, described in Note 2 b), is based on a model which permits the calculation of net inflation gains or losses caused by the holding of monetary assets and liabilities exposed to changes in the purchasing power of the local currency by restating all non-monetary accounts in the financial statements. The model prescribes that the historical cost of such accounts be restated for general price-level changes between the date of origin of each item and the year-end.

Although the cumulative inflation rate in Chile as measured by the Consumer Price Index for the three-year period ended December 31, 2004 was approximately 6.6%, the inclusion of price-level adjustments in the accompanying financial statements is considered appropriate under the prolonged inflationary conditions that have affected the Chilean economy in the past. Accordingly, the effect of price-level changes is not eliminated in the reconciliation to US GAAP.

#### (b) Deferred income taxes

Under Chilean GAAP, until December 31, 1999, deferred income taxes were recorded based on non-recurring timing differences between the recognition of income and expense items for financial statement and tax purposes. Accordingly, there was an orientation toward the income statement focusing on differences in the timing of recognition of revenues and expenses in pre-tax accounting income and taxable income. At the time, Chilean GAAP also permitted not providing for deferred income taxes where a deferred tax asset or liability was either offsetting or not expected to be realized.

Beginning January 1, 2000, the Company recorded income taxes in accordance with Technical Bulletin No.60 and its related amendments issued by the Chilean Association of Accountants, recognizing, using the liability method, the deferred tax effects of temporary differences between the financial and tax values of assets and liabilities. As a transitional provision, a contra (referred to as "complementary") asset or liability has been recorded offsetting the effects of the deferred tax assets and liabilities not recorded prior to January 1, 2000. Such complementary assets or liabilities are being amortized to income over the estimated average reversal periods corresponding to the underlying temporary differences to which the deferred tax asset or liability relates.

Under US GAAP, companies must account for deferred taxes in accordance with SFAS 109 Accounting for income taxes ("SFAS 109"), which requires an asset and liability approach for financial accounting and reporting of income taxes, under the following basic principles:

- A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and tax loss carry forwards.
- The measurement of deferred tax liabilities and assets is based on the provisions of the enacted tax law. The effects of future changes in tax laws or rates are not anticipated.

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- The measurement of deferred tax assets are reduced by a valuation allowance if based on the weight of available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized.

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QUINENCO S.A. AND SUBSIDIARIES  
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Note 27 - Differences Between Chilean and United States Generally Accepted  
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Temporary differences are defined as any difference between the financial reporting basis and the tax basis of an asset and liability that at some future date will reverse, thereby resulting in taxable income or expense. Temporary differences ordinarily become taxable or deductible when the related asset is recovered or the related liability is settled. A deferred tax liability or asset represents the amount of taxes payable or refundable in future years as a result of temporary differences at the end of the current year.

For the years ended December 31, 2002, 2003 and 2004 the principal difference between Chilean GAAP and US GAAP relates to the amortization of the contra asset and liability recorded as a transitional provision for unrecorded deferred taxes as of January 1, 2000.

To the extent that the US GAAP adjustments generate temporary differences (i.e. that they will reverse in the future) between the tax basis and the US GAAP basis of assets and liabilities then an adjusting entry to record the appropriate deferred tax impact must be made. For the years ended December 31, 2002, 2003 and 2004, the purchase accounting adjustments, staff severance indemnities, derivatives, the impairment of property, plant and equipment, investment securities and certain adjustments relating to the restructuring provisions generated temporary differences and therefore the deferred income tax effect of such adjustments has been recorded.

The effect of differences in accounting for deferred taxes on net income and shareholders' equity is included in paragraph I (bb) below and certain disclosures required under SFAS 109 are set forth under paragraph II c) below.

(c) Minimum dividend

As required by the Chilean Companies Act, unless otherwise decided by the unanimous vote of the issued and subscribed shares, an open stock corporation must distribute a cash dividend in an amount equal to at least 30% of the company's net income less negative goodwill amortization in the parent company for each year as determined in accordance with Chilean GAAP. Since the payment of the 30% dividend out of each year's income is a legal requirement in Chile, provision has been made in the accompanying US GAAP reconciliation in I (bb) below to recognize this effect as of December 31, 2004. In addition no provision was made for the year ended December 31, 2003 as the Company paid an interim dividend greater than 30% of income as of year end. The effects of the accounting for the minimum dividend are shown in the paragraph I (bb) below.

(d) Reversal of the revaluation of property, plant and equipment

As mentioned in Note 2 i), certain property, plant and equipment are reported in the financial statements at amounts determined in accordance with a technical

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appraisal. Revaluation of property, plant and equipment is an accounting principle that is not generally accepted in the United States. The effects of the reversal of this revaluation, as well as of the related accumulated depreciation and depreciation expense for each year is shown in paragraph I (bb) below as follows:

- (d-1) Reversal of the revaluation of property, plant and equipment.
- (d-2) Reversal of the accumulated depreciation of the revalued property, plant and equipment.

(e) Investment securities

e-1) Non-Financial Services

Under Chilean GAAP, investments in other companies reported in the financial statements are valued at the lower of restated cost or market value. Unrealized losses on such investments are reflected in the statements of income.

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QUINENCO S.A. AND SUBSIDIARIES  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

Under US GAAP, SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, requires that debt and equity securities be classified in accordance with the Company's intent and ability to hold the security, as follows:

- Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are reported at amortized cost.
- Debt and equity securities that are bought and held by the Company, principally for the purpose of selling them in the near term, are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.
- Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity net of the deferred income tax effects.

The Company held a 5.69% ownership interest in Entel at December 31, 2002, 2003 and 2004. Under Chilean GAAP, the Company has recorded its equity participation in the net income of Entel under the equity method and has recorded goodwill and negative goodwill arising from the various acquisitions of shares. Under US GAAP, these investments would be classified as available-for-sale marketable securities and held at fair value. The effect of the differences in the accounting method is included in paragraph I (bb) below as follows:

- (e-1-1) The effects of recording the investments in other companies classified as available-for-sale under US GAAP at their fair value

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(e-1-2) The reversal of the equity method participation in the net income of Entel.

(e-1-3) The reversal of negative goodwill and accumulated amortization recorded on certain acquisitions of Entel shares.

### e-2) Financial Services

Under Chilean GAAP, the Company's banking operations classify investments as either trading securities or permanent securities. Trading securities are reported at fair value, with unrealized gains and losses included in earnings. Permanent securities are stated at fair market value with unrealized gains and losses included in a separate component of shareholders' equity, with realized gains and losses included in other operating results. Investments with a secondary market are carried at market value, and all other financial investments are carried at acquisition cost plus accrued interest and UF indexation adjustments.

Under US GAAP, based upon the criteria above, the Company's banking operations have determined that under US GAAP, their investments should be classified as "trading", "available-for-sale" and "held-to-maturity". Consequently, investments classified as permanent are considered to be "available-for-sale" and all other investments are considered to be "trading", with the exception of certain Central Bank securities and other investments, maintained by banking branches in the United States of America, some of which are classified as "held-to-maturity". The effect of eliminating the market value adjustment for the held to maturity securities is included in the reconciliation of consolidated net income and shareholders' equity in paragraph I (bb) above.

### (f) Employee severance indemnities

For Chilean GAAP purposes, the Company accrues for severance indemnities when rights to such benefits have been formally guaranteed to employee groups. Those obligations are based on the present value of the liability determined at the end of each year based on the current salary and number of years of service to date of each employee. The Company uses a real discount rate and a projected employee service life based on probable tenure for vested employees. The real annual discount rate does not include a projection of inflation and accordingly, future salary increases are also excluded from the calculation of the obligation, because all such future increases are expected to approximate the increase in inflation over a long-term period.

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QUINENCO S.A. AND SUBSIDIARIES  
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### Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

For US GAAP purposes, the severance indemnities described above are determined based on the vested benefits to which the employees are entitled if they separate immediately (settlement basis) in accordance with Emerging Issue Task Force ("EITF") 88-1 Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan. The effect of differences in the accounting for employee severance indemnities is included in paragraph I (bb) below as follows:

(f-1) The effect of recognizing the short-term portion of the

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additional liability.

(f-2) The effect of recognizing the long-term portion of the additional liability.

(g) Deficit during development stage

For Chilean GAAP purposes, investments in majority-owned subsidiaries in the development stage are recorded by the equity method and the investor's proportional share of the subsidiary's results of operations are taken to a reserve which forms part of the investor's shareholders' equity. For US GAAP purposes, majority-owned subsidiaries in the development stage are consolidated and the results of their operations charged directly to income. The effect of differences in accounting methods is included in paragraph I (bb) below.

(h) Advertising costs

During 1998, Indalsa (formerly Empresa Lucchetti) capitalized corporate image advertising costs incurred in connection with obtaining a municipal license for the construction of its plant in Lima, Peru. During 1999, Indalsa started amortizing the capitalized advertising costs. For US GAAP purposes, those costs cannot be capitalized and were charged to income. In the year ended December 31, 2002, under Chilean GAAP, all such costs were written-off as part of the provision for the closure of the plant in Peru and subsequently, there is no longer a difference in shareholders' equity between Chilean GAAP and US GAAP as of December 31, 2003 and 2004. The adjustment to reverse the write-down of previously capitalized costs taken in the year ended December 31, 2002 under Chilean GAAP has been included within discontinued operations, included in paragraph I (bb) below.

(i) Restructuring costs

During 1999, the Company began restructuring a portion of its operations. As part of this process, certain operating plants were either closed or transferred and merged with other plants. At December 31, 1999, some steps related to this process were not complete and accordingly, the Company recorded provisions for the estimated costs to completion. The estimated costs related to employee benefits, such as staff severance indemnities and termination benefits, and costs associated with the relocation of plant facilities. During 2000 and 2001, other subsidiaries of the Company also implemented restructuring plans.

The recognition of liabilities related to a restructuring process under US GAAP is prescribed by SFAS 146 "Accounting for Costs Associated with Exit or Disposal Activities", effective for disposal activities after December 31, 2002, and EITF 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), applicable prior to the application of SFAS 146. In order to recognize a liability for employee termination benefits and other restructuring costs under both EITF 94-3 and SFAS 146, prior to the date of the financial statements, certain specific conditions must be met or exist.

At December 31, 2002, 2003 and 2004, some of the required conditions had not been met or did not exist with respect to the restructuring process of the Company and certain of its subsidiaries; therefore, an adjustment to reverse a portion of the restructuring provisions was included in the reconciliation to US GAAP in each of those years. The adjustment to reverse the restructuring provisions in each of the three years ended December 31, 2004 is included in paragraph I (bb) below.

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QUINENCO S.A. AND SUBSIDIARIES  
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Note 27 - Differences Between Chilean and United States Generally Accepted  
Accounting Principles (continued)

### (j) Goodwill

Under Chilean GAAP, prior to the implementation of BT 72, which is mandatory for periods beginning after December 31, 2003, the excess of cost over the net book value of a purchased company was recorded as goodwill and amortized to income over a maximum period of twenty years. Amortization of goodwill may be accelerated if the acquiring company generates sufficient income to absorb the additional amortization in any given year.

Under US GAAP, assets acquired and liabilities assumed are recorded at their estimated fair values, and the excess of the purchase price over the estimated fair value of the net identifiable assets and liabilities acquired are recorded as goodwill. Prior to July 1, 2001 under US GAAP, the Company amortized goodwill on a straight-line basis over the estimated useful lives of the assets, ranging from 20 to 40 years. For US GAAP purposes, the Company adopted SFAS 142, as of January 1, 2002. SFAS 142 applies to all goodwill and identified intangible assets acquired in a business combination. Under this standard, all goodwill and indefinite-lived intangible assets, including that acquired before initial application of the standard, are not amortized, but must be tested for impairment on a segmental basis at least annually.

Under Chilean GAAP, goodwill is amortized over the estimated period of return of the investment made, which may not exceed 20 years. Impairment tests are only performed if there is evidence of impairment.

On 2003, the Company performed its annual impairment test under SFAS 142, as a result of that test, the Company booked an amount of ThCh\$6,086,450 as of December 31, 2003, related to goodwill impairment in its subsidiary Madeco, specifically related to its Ficap plant in Brazil. In 2004 the impairment test did not result in any write off.

Additionally, in July and October 2004, the Company's subsidiary Madeco increased its capital as part of its financial restructuring plan. The Company, however, did not participate in these capital increases, which resulted in a decline of Quinenco's interest held in Madeco from 55.22% to 51.23%, as of December 31, 2003 and 2004, respectively. The non-concurrence to the July 2004 increase generated a gain which under Chilean GAAP was offset by an extraordinary amortization of goodwill. As indicated above, under Chilean GAAP this extraordinary amortization is accepted, however for US GAAP needs to be reversed.

The effect of differences in accounting methods for goodwill is included in paragraph I (bb) below.

### (k) Negative goodwill

Under Chilean GAAP, prior to the implementation of BT 72, negative goodwill was calculated as the excess of the net book value over the purchase price of companies acquired. Negative goodwill is capitalized as a credit to the balance sheet and amortized over a period not exceeding 20 years.

Under US GAAP, prior to the adoption of SFAS 142, negative goodwill was considered as a reduction of the long-term non-monetary assets (excluding long-term investments in marketable securities) of the acquired company, and if

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a credit remained after reducing those assets to zero, negative goodwill was recorded on the balance sheet and amortized over the period of expected benefit. However, in the period of adoption, SFAS 142 requires that unamortized negative goodwill be written off and the resulting gain be recognized as an effect of a change in accounting principle. Quinenco adopted SFAS 142 in 2002. The effect of writing-off negative goodwill not allocated to non-monetary assets as recorded under US GAAP in 2002 and the subsequent reversal of negative goodwill amortization recorded under Chilean GAAP in 2004 is set-forth in paragraph I (bb) below.

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QUINENCO S.A. AND SUBSIDIARIES  
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Additionally, during 2003, Madeco completed a capital increase in several stages as part of its financial restructuring. Quinenco subscribed to the first stage of the capital increase in March, however did not subscribe to the second and third share issues in June and August. Under Chilean GAAP Quinenco treated the capital increase as three separate transactions as described below:

- In March 2003, Quinenco recognized negative goodwill arising from the increase in its participation in Madeco from 53.41% to 84.30%.
- In June and August 2003, Quinenco recognized non-operating losses corresponding to the dilution in its participation in Madeco from 84.30% to 55.22% and at the same time accelerated the amortization of negative goodwill in an equal proportion to the loss. In overall terms, there was no net effect on income.
- The remaining negative goodwill balance was amortized on a straight line basis over 20 years.

Under US GAAP, Quinenco has treated the succession of transactions as a single pre-planned event resulting in the acquisition of an additional 1.8% of Madeco. Under US GAAP the share purchase has been accounted for as a step acquisition in accordance with SFAS 141 recording assets acquired and liabilities assumed at their estimated fair values, and the excess of the allocated purchase price over the estimated fair value of the net identifiable assets and liabilities acquired recorded as goodwill. To the extent that the fair values of the net assets acquired is higher than the purchase price, the resulting amount is referred to as negative goodwill, which would be considered as a reduction of the long-term non-monetary assets acquired.

This different accounting treatment under US GAAP resulted in the determination of negative goodwill which has been allocated to long-term non-monetary assets. This allocation results in lower carrying values of property, plant and equipment under US GAAP and therefore a lower subsequent depreciation and the reversal of the effects of negative goodwill amortization recorded under Chilean GAAP.

Additionally, in July and October 2004, the Company's subsidiary Madeco increased its capital as part of its financial restructuring plan. The Company, however, did not participate in these capital increases, which resulted in a decline of Quinenco's interest held in Madeco from 55.22% to 51.23%, as of

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December 31, 2003 and 2004, respectively. The non-concurrence to the October 2004 increase generated a loss which under Chilean GAAP was offset by an extraordinary amortization of negative goodwill. As indicated above, under Chilean GAAP this extraordinary amortization is accepted, however for US GAAP this needs to be reversed.

The effects of the US GAAP adjustments related to negative goodwill are included in paragraph I (bb) below as follows:

- (k-1) The write-off of negative goodwill as a cumulative change in accounting principle.
- (k-2) The reversal of negative goodwill amortization on negative goodwill already written off under US GAAP.
- (k-3) The allocation of negative goodwill to the property, plant and equipment in Madeco
- (k-4) The depreciation of long-term non-monetary assets in Madeco.

(k-1) Result from non-concurrence in subsidiary's capital increase

On July and October 2004, the Company's subsidiary Madeco increased its capital as part of its financial restructuring plan. The Company, however, did not participate in these capital increases, which resulted in a decline of Quinenco's interest held in Madeco from 55.22% to 51.23%, as of December 31, 2003 and 2004, respectively, and recording of a net loss during 2004. This net loss was calculated using the company shareholder equity determined under Chilean GAAP. For US GAAP purpose the Company shareholders equity determined under US GAAP has to be used in this calculation

The effect of the differences in the basis of calculation is included in paragraph I (bb) below.

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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

(1) Revenue recognition

Under Chilean GAAP revenue is recognized at the time that goods are shipped. Revenue, which the Company has billed and collected in advance, is deferred until the related goods are shipped. Under US GAAP and in accordance with SEC Staff Accounting Bulletin ("SAB") 104, revenue is realized or realizable and earned when persuasive evidence of an arrangement exists, the seller's price is fixed or determinable, collectibility is reasonably assured and delivery has occurred. Delivery is considered to have occurred when the customer has taken title and the customer assumes risks and rewards of ownership of the products. The Company's subsidiary, Madeco, recorded revenue on certain export sales, whose terms are CIF, for which delivery had not occurred under US GAAP, in 2002. Following the issuance of BT 71 this US GAAP difference reversed in 2003 and the US GAAP adjustment to shareholders' equity as of December 31, 2004 is zero.

The effect of the differences in the accounting method is included in paragraph

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I (bb) below.

(m) Executive incentive plan

During 2000, Quinenco established an executive incentive plan for eligible employees. Under the plan, Quinenco granted a loan to employees to acquire shares of the Company's stock and the stock of some of its subsidiaries at fair market value. Under both Chilean and US GAAP, the aggregate loan was deducted from equity. However, under US GAAP, the dividends paid to employees under the plan should be treated as compensation cost and the monetary correction should be credited to paid-in capital. The effect of the differences in accounting for executive incentive plans is included in paragraph I (bb) below.

(n) Effects of US GAAP adjustments in equity investees

Under Chilean GAAP, when an investment accounted for by the equity method is acquired, the proportionate net book value of the investee company is recorded as an investment and the difference between the cost of the investment and the proportionate net book value of the investee is recorded as goodwill. The goodwill is then amortized to income over a maximum period of twenty years. The investment account is adjusted to recognize the investor's share of the earnings or losses of the investee determined under Chilean GAAP subsequent to the date of the purchase.

Under US GAAP, in accordance with Accounting Principles Board Opinion ("APB") 18, the Equity Method for accounting for Investments in Common Stock, the carrying amount of an investment accounted for under the equity method is initially recorded at cost and shown as a single amount in the balance sheet of the investor. It is adjusted to recognize the investor's share of the earnings or losses of the investee determined under US GAAP subsequent to the date of investment. The investment reflects adjustments similar to those made in preparing consolidated financial statements, including adjustments to eliminate intercompany gains and losses and to account for the differences, if any, between the investor's cost and the underlying equity in net assets of the investee at the date of investment. The investment is also adjusted to reflect the investor's share of changes in the investee capital accounts.

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Note 27 - Differences Between Chilean and United States Generally Accepted  
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The differences between recognizing the investor's share of the earnings of investees under Chilean GAAP and under US GAAP for the Company's investments in CCU, in which the Company had a 30.81% economic interest at December 31, 2004 is included in paragraph I (bb) below. The significant differences between Chilean and US GAAP relate to the following:

- (n-1) Revaluations of property, plant and equipment
- (n-2) Inventory valuation
- (n-3) Fixed assets held for sale
- (n-4) Deferred income taxes
- (n-5) Investment securities
- (n-6) Goodwill
- (n-7) Minimum dividend

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- (n-8) Trademarks
- (n-9) Staff severance indemnities
- (n-10) Capitalization of interest
- (n-11) Comprehensive income
- (n-12) Investment in Vina Dassault San Pedro S.A.

### (o) Impairment of fixed assets in Madeco

For the year ended December 31, 2001, Madeco recorded a provision for impairment related to property, plant and equipment to be held and used in Argentina. Under Chilean GAAP during the year ended December 31, 2002, Madeco reassessed this impairment provision based on an improvement in the economic situation in Argentina and reversed ThCh\$6,861,108 related to this provision. Under US GAAP, SFAS 144 does not allow the reversal of impairment losses for such assets. Therefore, the income relating to the release of the provision has been included in the reconciliation to US GAAP for the year ended December 31, 2002 in paragraph I (bb) below. In the years ended December 31, 2003 and 2004, the Company has reversed the depreciation of the incremental value of these fixed assets as they are recorded under Chilean GAAP.

### (p) Derivatives

#### (p-1) Accounting under SFAS 133

The Company engages in derivative activity for hedging purposes. These derivatives are considered accounting hedges under Chilean GAAP. Under Chilean GAAP the accounting treatment of hedging activity is similar to the accounting treatment of fair value hedges and cash flow hedges under SFAS 133 Accounting for Derivative Instruments and Hedging Activities. The documentation and hedge effectiveness requirements under Chilean GAAP though are not as burdensome as under SFAS 133. Under SFAS 133 to qualify for hedge accounting strict requirements need to be met, including hedge documentation and effectiveness tests. The Company does not have the documentation and hedge effectiveness requirements to qualify for hedge accounting. Therefore, all derivative instruments have been accounted at fair value with changes in fair value recognized in earnings for US GAAP purposes.

The Company has designated under Chilean GAAP certain non-derivative financial instruments as hedges of the foreign currency exposure of net investments in foreign operations. The gain or loss on the non-derivative financial instrument that is designated as a hedge is reported as a translation adjustment to the extent it is effective as a hedge, any ineffectiveness is recorded in earnings. This accounting treatment is consistent with SFAS 133.

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#### Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

SFAS 133 also requires that certain embedded derivatives be separated and reported on the balance sheet at fair value and be subject to the same rules as other derivative instruments. Current Chilean accounting rules do not consider the existence of derivative instruments embedded in other contracts and therefore they are not reflected in the financial statements under Chilean GAAP.

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The effects of the adjustment with respect to derivatives for the years ended December 31, 2002, 2003 and 2004 is included in the net income and shareholders' equity reconciliation to US GAAP under paragraph I (bb) below.

### (p-2) Non-Financial Services

In its non-financial services operations, the Company maintains forward foreign exchange contracts and foreign exchange swap contracts to cover the risks of fluctuation in foreign exchange between the US dollar and the Chilean peso and the US dollar and the Brazilian real.

Under Chilean GAAP, these foreign forward exchange contracts and swaps exchange rate contracts have been recorded on the balance sheet using an estimate of forward exchange rates as of the balance sheet date, with gains and losses included in earnings as Other non-operating income and expense. The initial discount or premium is amortized over the life of the contract as interest expense.

### (p-2) Non-Financial Services (continued)

Under US GAAP, contracts that are designated by the management as hedges of future cash flow or forecasted transactions in Chilean GAAP do not meet the conditions to be considered as true accounting hedges. For the years ended December 31, 2002, 2003 and 2004 such contracts were valued in accordance with SFAS 133 as described above.

### (p-3) Financial Services

In terms of the Company's banking operations, the use of derivatives in Chile is regulated by the Chilean Central Bank, which requires that all foreign exchange forward contracts be made only in US dollars and other major foreign currencies. Currently, Chilean banks are permitted to use foreign exchange forward contracts (covering either foreign currencies against the US dollar, the UF against the Chilean peso or the UF and the Chilean peso against the US dollar), forward rate agreements and interest rate swaps.

The Company's banking operations enter into derivative transactions for their own account and to meet customers' risk management needs. Generally, the Company's banking operations enter into forward contracts in US dollars against the Chilean peso or the UF, however, occasionally, forward contracts are also made in other currencies, but only when the Company's banking operations act as intermediary. During the years ended December 31, 2003 and 2004, the Company's banking operations entered into interest rate and foreign currency swap agreements as a means of hedging their short-term deposits against long-term loans.

Under Chilean GAAP, the accounting for derivative transactions in the Company's banking operations is established by the SBIF. The Company's banking operations account for forward contracts between foreign currencies and US dollars at fair value with realized and unrealized gains and losses on these instruments recognized in other income. Forward contracts between the US dollar and the Chilean peso for the UF are valued at the closing spot exchange rate of each balance sheet date, with the initial discount or premium being amortized over the life of the contract in accordance with Chilean hedge accounting criteria. Under Chilean GAAP the Company's banking operations generally record differences between interest income and interest expense on interest rate swap transactions in net income in the period that such differences originate. Such contracts were recorded in accordance with SFAS 133 as described above.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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December 31, 2004, unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted  
Accounting Principles (continued)

While the Company's banking operations use derivatives for the purpose of mitigating their global interest and foreign currency risks, these operations do not meet the requirements to qualify for hedge accounting under US GAAP. Therefore changes in the respective fair values of all derivative instruments are reported in earnings when they occur.

The effects of the adjustments with respect to foreign exchange and interest rate swap transaction contracts on the income and net equity of the Company are included in paragraph I (bb) below.

(q) Fair value of Financial Service assets and liabilities acquired in business combinations

Under Chilean GAAP, prior to the implementation of BT 72, assets acquired and liabilities assumed in a business combination are recorded at their carrying value, and the excess of the purchased price over the carrying value are recorded as goodwill. Under US GAAP, in a business combination accounted for under the purchase method of accounting, the acquired company's identifiable assets and liabilities are adjusted to give effect to the purchase price paid by the acquiring company. If, after the assets and liabilities of the acquired company have been adjusted to their fair value at the acquisition date, the purchase price exceeds the amount of such fair value, the excess is recorded as goodwill.

Two significant business combinations have taken place, which affect these financial statements; on March 27, 2001 Quinenco purchased a controlling stake in Banco de Chile and on January 1, 2002, Banco de Chile merged with Banco Edwards. Under the accounting treatment that is applicable under US GAAP for the merger of the two banks, to the extent that Banco de Chile shares or cash (in the case of fractional shares) were exchanged for Banco Edwards shares held by parties other than LQIF a wholly owned subsidiary of Quinenco, purchase accounting has been used to record the transaction. As a result and due to the fact that Quinenco consolidates with Banco de Chile, the adjustment to fair value of the assets and liabilities of Banco Edwards of that portion not held by LQIF, at the time of the merger has been included in the reconciliation to US GAAP, net of amortization and depreciation where applicable.

The fair value increments of the assets and liabilities of Banco de Chile and Banco Edwards at the time of the business combinations have been calculated based on appropriate market values and using estimates and modeling techniques where the asset or liability makes reference to future cash flows. In a business combination accounted for by the purchase method involving the acquisition of a banking or thrift institution, intangible assets acquired that can be separately identified are assigned a portion of the total cost of the acquired enterprise if the fair values of those assets can be reliably determined. The identified intangible assets shall be amortized over the estimated lives of those existing relationships. The adjustments to fair value arising from the acquisitions of Banco de Chile and Banco Edwards and their subsequent merger relate to the following assets and liabilities:

(q-1) Core deposits, brand and other intangibles

In determining the fair value of the assets and liabilities of Banco de Chile

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and Banco Edwards, the Company has considered the value of its long-term customer relationships (core deposit intangibles) in estimating the fair value of its deposits. In addition, independent valuations were carried out to assess the value of the brand names and other intangible assets. The effect of recording such assets at their fair value and their subsequent amortization is recorded in paragraph I (bb) below as follows:

- (q-1-1) The effect of recording the initial fair value of core deposits, brand and other intangibles.
- (q-1-2) The effect of recording their subsequent amortization.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

(q-2) Fair value of bank premises and equipment

In determining the fair value of the assets and liabilities of Banco de Chile and Banco Edwards, the Company has considered the fair value of the Banks' tangible assets such as the Head Office and other owned branches. The effect of recording such assets at their fair value and their subsequent amortization is recorded in paragraph I (bb) below as follows:

- (q-2-1) The effect of recording the initial fair value of bank premises and equipment.
- (q-2-2) The effect of recording their subsequent amortization.

(q-3) Fair value of loans

In determining the fair value of the assets and liabilities of Banco de Chile and Banco Edwards, the Company has considered the fair value of the Company's banking operations' loan portfolios based on future cash flows and using market based discount rates. The effect of recording the loan portfolio at fair value and their subsequent amortization is recorded in paragraph I (bb) below.

(q-4) Fair value of subordinated debt obligation

In determining the fair value of the assets and liabilities of Banco de Chile the Company has considered the fair value of the subordinated debt arising from the economic crisis in 1982-1983. At that time Banco de Chile sold certain of its non-performing loans to the Chilean Central Bank at face value on terms that included a repurchase obligation. The repurchase obligation was later exchanged for subordinated debt of each participating bank issued in favor of the Central Bank. In 1996, a reorganization took place by which Banco de Chile was converted to a holding company named SM Chile 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 Central Bank subordinated debt. SM Chile then created a second wholly owned subsidiary, SAOS, that pursuant to a prior agreement with the Central Bank, assumed a new repayment obligation in favor of the Central Bank which replaced the Central Bank subordinated debt in its entirety.

Under Chilean GAAP, as explained in Note 2 a), the Company is not required to record Banco de Chile's subordinated debt obligation on its books and as a

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result it was not considered in the determination of goodwill under Chilean GAAP. Under US GAAP, the Company records the subordinated debt obligation at fair value in connection with the purchase accounting for the acquisition of the bank. As described in paragraph (cc), interest repayments are recorded using an effective rate of 6.37%. The effect of recording the subordinated debt at fair value is recorded in paragraph I (bb) below.

### (q-5) Fair value of other financial assets and liabilities

In determining the fair value of the assets and liabilities of Banco de Chile and Banco Edwards, the Company has considered the value of its other financial assets and liabilities such as financial investments, mortgage finance bonds and deposits. The effect of recording such assets and liabilities and their subsequent adjustment to interest yield is recorded in paragraph I (bb) below as follows:

- (q-5-1) The effect of recording other interest bearing liabilities at fair value.
- (q-5-2) The effect of recording other liabilities at fair value.
- (q-5-3) The effect of recording other assets at fair value.
- (q-5-4) The effect of recording deposits at fair value.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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### Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

#### (r) Loan origination fees and costs

Under Chilean GAAP, in accordance with regulations issued by the SBIF, beginning January 1, 2001, the Company's banking operations began to defer and amortize certain loan fee income and loan origination costs, over the term of loans to which they relate, and the period that the services are performed. In prior years, the Company's banking operations recognized origination fees on credit card loans, lines of credit and letters of credit when collected and recorded the related direct costs when incurred.

Under SFAS 91, "Accounting for Nonrefundable Fees and Costs Associated with Origination of Acquiring Loans and Initial Direct Costs of Leases", loan origination fees and certain direct loan origination costs should be recognized over the term of the related loan as an adjustment to yield. As of December 31, 2002, the accounting treatment applied under Chilean GAAP is considered similar to US GAAP and therefore this difference has reversed. The effect of accounting for net loan origination fees in accordance with US GAAP is included in the reconciliation of consolidated net income in paragraph I (bb) below.

#### (s) Investments in other companies

Banco de Chile participates in shared service companies with other banks in the Chilean financial system, through equity investments each of which represents an ownership interest of less than 20% in a particular company. Under Chilean GAAP, these investments have been accounted for under the equity method. As these investments are long-term in nature and are not traded, under US GAAP these investments would generally be accounted for at cost less any non-temporary impairment in value. The effect of recording these assets in accordance with US

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GAAP is included in the reconciliation of consolidated net income and shareholders' equity in paragraph I (bb) below.

### (t) Assets received in lieu of payment

Under Chilean GAAP, assets received in lieu of payment by the Company's banking operations are carried at cost and have been restated for price-level changes, less a global valuation allowance if the total of the market value of those assets is lower than the carrying amount. Market value is determined based on appraiser valuations, as required by the SBIF. If the asset is not sold within one year, then recorded asset amounts must be written-off on at least a straight-line basis over the following 18-month period.

Under US GAAP, assets received in lieu of payment are initially recorded at fair value less any estimated costs to sell at the date of foreclosure, on an individual asset basis. The effect of recording these assets in accordance with US GAAP is included in the reconciliation of consolidated net income and shareholders' equity in paragraph I (bb) below.

### (u) Mortgage finance bonds

Under Chilean GAAP, other financial investments include mortgage finance bonds issued by the Company's banking operations and held for future sale. Effective October 31, 2002 the Company's banking operations modified their accounting treatment of financial investments in mortgage finance bonds issued by the Company's banking operations in accordance with the instructions of the SBIF, reducing from assets the amount recorded for mortgage finance bonds issued by the Company's banking operations, including a market value adjustment, and from liabilities, the respective mortgage finance bond obligation. Under US GAAP, this accounting treatment has always been applied.

In addition, as under US GAAP mortgage finance bonds are offset against the corresponding liability for periods before 2002, the market value adjustment applied under Chilean GAAP before the accounting change would not have been made under US GAAP.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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### Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

The effects of this difference between Chilean and US GAAP have been included in the reconciliation to US GAAP in paragraph I (bb) below.

### (v) Allowance for loan losses

The following note relates to the Company's banking operations and amounts stated are rounded to millions of Chilean pesos.

#### 1) Allowance for loan losses

Under Chilean GAAP, the allowance for loan losses is calculated according to specific guidelines set out by the rules of the Superintendency of Banks. Under US GAAP allowances for loan losses should be in amounts adequate to cover inherent losses in the loan portfolio at the respective balance sheet dates. The

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Company's banking operations have estimated their required reserve under US GAAP in the following manner:

- Allowances for commercial loans and leasing operations classified in loan risk category A1, A2, A3 and B (A and B under regulations in effect until January 1, 2004), which were not considered impaired under SFAS 114, Accounting by Creditors for Impairment of a Loan, were analyzed and adjusted, if necessary, to reflect the estimated losses not identified based on individual credit analysis. The estimations were performed using historical loan data, in order to estimate the inherent losses in the Company's banking operations' loan portfolio, using patterns and trends based upon historical changes in loan classifications ("migration analysis").
- In addition, specific allowances were determined for loans on the following basis:
  - i) Commercial loans and leasing operations greater than UF5,000 (approximately MCh\$87), which were considered impaired in accordance with the criteria established by SFAS 114, were valued at the present value of the expected future cash flows discounted at the loan's effective contractual interest rate, or at market rates in the case of those loans that were considered to be collateral dependent.
  - ii) Allowances for commercial loans and leasing operations which were under UF5,000 (approximately MCh\$87) (i.e. those loans which were not considered in the above SFAS 114 analysis), were calculated using the weighted average loan provision, by loan classification, as determined in i).
  - iii) Allowance for loan losses for mortgage and consumer loans were determined based on historical loan charge-offs, after considering the recoverability of the underlying collateral.

Based on the preceding estimation process the Company's banking operations computed their allowance for loan losses under US GAAP, and compared this estimate with the reported allowance determined in accordance with the guidelines established by the Superintendency of Banks. The additional loan loss allowance (voluntary allowances under previous regulations) was deducted from the reserve requirements under US GAAP to arrive at a cumulative US GAAP adjustment, as follows:

	As of December 31,	
	-----	-----
	2003	2004
	MCh\$	MCh\$
US GAAP loan loss reserve .....	154,242	115,789
Less: Chilean GAAP loan loss allowance as required by the SBIF (1)	(162,867)	(134,030)
Chilean GAAP voluntary loan loss allowance .....	(21,071)	--
Chilean GAAP additional loan loss allowance .....	--	(19,712)
	-----	-----
US GAAP adjustment .....	(29,696)	(37,953)
	=====	=====

(1) A reclassification of MCh\$(63) was made to the 2003 Chilean GAAP amounts in order to conform with the 2004 presentation.

QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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 December 31, 2004, unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

(v) Allowance for loan losses (continued)

The effects of adopting SFAS 114 are included in the reconciliation included in paragraph (bb) below.

2) Recognition of income

As of December 31, 2002, 2003 and 2004 the recorded investment in loans for which impairment had been recognized in accordance with SFAS 114 totaled MCh\$426,551, MCh\$331,087 and MCh\$400,288, respectively, with a corresponding valuation allowance of MCh\$165,635 MCh\$125,431 and MCh\$94,376, respectively. For the years ended December 31, 2002, 2003 and 2004 the average recorded investment in impaired loans was MCh\$407,725, MCh\$350,523 and MCh\$457,244 respectively. For the year ended December 31, 2004, the Company's banking operations recognized interest on impaired loans of MCh\$26,262. Comparative information for the year ended December 31, 2002 and 2003 are not available. The Company's banking operations recognize interest on impaired loans on an accrual basis, except for past due loans for which the Company's banking operations recognize interest on a cash basis, as described in paragraph (h) above. As of December 31, 2003 and 2004, the Company's banking operations had made provisions against all loans which it considered to be impaired.

3) Loan loss recoveries

Under US GAAP recoveries of loans previously charged-off are added to the allowance when received; under Chilean GAAP such recoveries are recognized as other income.

The following presents an analysis under US GAAP of the changes in the allowance for loan losses during the periods presented.

	2002 MCh\$	2003 MCh\$
Allowance for loan losses in accordance with US GAAP, as of January 1, Price-level restatement (1) .....	200,255	201,474
Charge-offs .....	(6,660)	(2,817)
Loan loss recoveries .....	(114,856)	(98,535)
Allowances for loan losses established .....	12,334	26,026
Allowances for loan losses released .....	135,747	29,585
	(25,346)	(1,491)
	-----	-----
Balances as of December 31, .....	201,474	154,242
	=====	=====

(1) Reflects the effect of inflation and exchange rate changes of branches abroad on the allowance for loan losses under Chilean GAAP at the beginning of each period, adjusted to constant pesos of December 31, 2004.

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### 4) Charge-offs

Under Chilean GAAP the Company's banking operations charge-off loans when collection efforts have been exhausted. Under the rules and regulations established by the Superintendency of Banks, charge-offs must be made within the following maximum prescribed limits:

- 24 months after a loan is past due (3 months after past due for consumer loans) for loans without collateral;
- 36 months after a loan is past due for loans with collateral.

Under US GAAP, loans should be written-off in the period that they are deemed uncollectible. The Company's banking operations believe that the charge-off policies it applies in accordance with Chilean GAAP are substantially the same as those required under US GAAP, and therefore that differences are not significant to the presentation of its financial statements.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

(w) Gain from exchange of shares in merger

Banco de Chile and Banco Edwards merged effective January 1, 2002 by way of a share exchange. As a result of this transaction, the Company's participation in the carrying values of the banks changed. To the extent that there was a dilution of the Company's participation in the banks, as a result of the issuance of shares by Banco de Chile, a gain was recorded under US GAAP equivalent to the proportionate share of the banks' equity immediately before and immediately after the transaction. No such gain was recorded under Chilean GAAP. The effect of recording the gain has been included in paragraph I (bb) below.

(x) Minority interest

The effects on the minority interest of the US GAAP adjustments in subsidiaries that are not wholly-owned by the Company have been reflected in Minority interest and are included in paragraph I (bb) below.

(y) Interest on Subordinated Debt

Through acquisitions the Company has assumed a portion of the subordinated debt obligation owed to the Chilean Central Bank by the predecessor company of Banco de Chile relating to the economic crisis in Chile during 1982 - 1983. The Company's indirect subsidiary Sociedad Administradora de la Obligacion Subordinada S.A., or SAOS, is solely responsible for this Central Bank indebtedness and there is no recourse to either the Company's banking operations or its immediate parent company SM Chile. The Central Bank indebtedness has a term of 40 years providing for equal annual installments and a pledge of certain Banco de Chile shares as collateral for such debt. The Central Bank indebtedness bears interest at a rate of 5.0% per year and is denominated in UF.

In exchange for originally assuming the Central Bank indebtedness, SAOS received

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shares of Banco de Chile, which serve as collateral for the Central Bank indebtedness. Dividends received from Banco de Chile are the sole source of SAOS's revenue, which it must apply to repay the Central Bank indebtedness. However, under SAOS's agreement with the Central Bank regarding SAOS's Central Bank indebtedness, Banco de Chile has no obligation to distribute dividends to shareholders. To the extent dividend revenues are not sufficient to pay the amount due on any installment; SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. In the event the cumulative deficit balance exceeds an amount equal to 20% of the total capital of Banco de Chile, SAOS would be required by the Central Bank to sell a sufficient number of shares of the stock owned by SAOS to pay the entire deficit amount accumulated.

Under Chilean GAAP, the charge made against income is limited to the amount of dividends that will be paid by Banco de Chile the following April without consideration as to whether such amount represents sufficient to cover the installment due, capital or interest repayments. Any capital and interest payments are charged to the income statement of SM Chile. Instead dividends and consequently the subordinated debt provision are recorded based on the net income of the operations of Banco de Chile.

Under US GAAP, long-term liabilities meeting the definition described in Concepts Statement 6, including the subordinated debt obligation, must be recorded on the balance sheet and accrue interest. To the extent that the subordinated debt obligation was assumed as part of the consideration paid for the acquisition of the Bank based on fair values, the resulting discount on the liability should be reported in the balance sheet as a direct deduction from the face amount of the obligation. Under US GAAP any repayments of principal serve to reduce the liability and are not be included in net income for the period, while interest repayments are recorded based on the effective interest rate at the date of acquisition.

The effects of accounting for interest expense on the subordinated debt obligation under US GAAP is shown in paragraph I (bb) below.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

(z) Elimination of discontinued operations

As of December 31, 2003 and 2004, the Company considered its operations in Luchetti Chile and Lucchetti Peru as discontinued according to the following:

Lucchetti Chile

As of December 31, 2003 the Company was in negotiations with a third party to sell its subsidiary in the food and beverage operating segment, Lucchetti Chile. As of that date, the group of assets to be disposed of was considered as discontinued, as the following conditions had been met in accordance with SFAS 144 Accounting for the Impairment or Disposal of Long Lived Assets.

- Management had the authority to approve the disposal and was

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committed to the plan to carry out the disposal of its Chilean operations;

- The operations were available for immediate sale in their present condition subject only to terms that are usual and customary for such sales;
- A buyer had been identified and other actions required to complete the plan to sell the operations had been initiated;
- The sale of the operations has subsequently been completed;
- The sale of the operations was at a price that is reasonable in relation to its fair value.

Accordingly, Lucchetti Chile has been considered as "discontinued" and an assessment was made of the difference between the purchase price and the book value of the subsidiary. Under Chilean GAAP, as the purchase price was higher than the carrying value, no provision has been made, as of December 31, 2003, for the difference between the final purchase price and the book value at the date of the sale. Under US GAAP, no adjustment has been made to reduce the subsidiary to its fair value less selling costs.

Lucchetti Chile was sold in March 2004.

Lucchetti Peru

As of December 31, 2003 the Company had been forced to abandon the operations of its overseas subsidiary Lucchetti Peru due to the government action described in Note 20 b). Accordingly, Lucchetti Peru has been considered as abandoned and therefore disclosed as discontinued operations as of December 31, 2003 and 2004, respectively. As of December 31, 2002 Lucchetti Chile had not taken a decision to abandon these operations and therefore they were not considered as discontinued as of this date.

The relevant disclosures relating to such operations for both current and prior periods have been included in paragraph II (j) below. The effect of restating discontinued operations is included in the net income reconciliation to US GAAP under paragraph I (bb) below.

(aa) Recoverable taxes in Madeco

Under Chilean GAAP as of December 31, 2003, Madeco accrued 100% of the recoverable tax asset it had recorded arising from an income tax refund application made to the Chilean Internal Revenue Service ("IRS"). The tax refund was under review by the IRS and as of the date of issue of the Chilean GAAP financial statements, its recoverability was uncertain.

In June 2004, the IRS authorized the partial payment of the tax refund and accordingly this portion of the provision has been reversed.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

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(bb) Effects of conforming to US GAAP

The adjustments to reported net income required to conform with US GAAP are as follows (parenthetical references are to Note 27 part I):

	Year end	
	2002	2001
	ThCh\$	ThCh\$
Net income (loss) as shown in the Chilean GAAP financial statements .	(78,140,889)	38,110,100
<b>NON-FINANCIAL SERVICES</b>		
Deferred income taxes (paragraph b) .....	(3,195,787)	1,110,000
Reversal of depreciation of the revaluation of property, plant and equipment (paragraph d).....	206,071	9,000
Reversal of effects for investment in Entel (paragraph e-1-2) .....	164,150	(3,000)
Employee severance indemnities (paragraph f) .....	2,285,829	(1,000)
Deficit during development stage (paragraph g) .....	(1,431,190)	-
Advertising costs (paragraph h) .....	537,471	-
Restructuring costs (paragraph i) .....	(2,452,466)	-
Goodwill (paragraph j)		
Impairment of goodwill.....	--	(6,000)
Reversal of goodwill amortization .....	2,836,414	2,000
Negative goodwill (paragraph k) .....	--	(2,000)
Reversal of revenue recognition (paragraph l) .....	(666,184)	-
Executive incentive plan (paragraph m) .....	(34,347)	-
Net effects of US GAAP adjustments in equity investees (paragraph n) .....	(868,565)	-
Impairment of fixed assets in Madeco (paragraph o) .....	(6,929,720)	-
Derivatives (paragraph p-1, p-2) .....	426,572	-
Elimination of discontinued operations (paragraph z) .....	36,103,257	2,000
Allowance for recoverable taxes in Madeco (paragraph aa) .....	--	1,000
Result from non-concurrence in subsidiary's capital increase (paragraph k-1) .....	--	-
<b>FINANCIAL SERVICES</b>		
Deferred income taxes (paragraph b) .....	8,105,305	(2,000)
Investment securities (paragraph e-2).....	(7,559,396)	-
Employee severance indemnities (paragraph f).....	4,608,933	-
Goodwill (paragraph j) .....	18,313,929	18,000
Derivatives (paragraph p-1, p-3) .....	8,865,881	3,000
Core deposits, brand and other intangibles (paragraph q-1) .....	(21,316,508)	(17,000)
Fair value of bank premises and equipment (paragraph q-2) .....	(237,590)	-
Fair value of loans (paragraph q-3) .....	10,381,684	-
Fair value of other financial assets and liabilities (paragraph q-5) .....	(15,527,942)	4,000
Loan origination fees and costs (paragraph r) .....	(1,051,814)	-
Investments in other companies (paragraph s) .....	(329,209)	-
Assets received in lieu of payment (paragraph t) .....	(1,782,701)	-
Mortgage finance bonds (paragraph u) .....	(1,833,426)	1,000
Allowance for loan losses (paragraph v) .....	(18,490,600)	7,000
Gain from exchange of shares in merger (paragraph w) .....	98,484	-
Fair value amortization and interest on subordinated debt (paragraph y, q-4) .....	(13,671,392)	19,000
Net effects of US GAAP adjustments on minority interest (paragraph x) .....	27,035,043	(15,000)
Income (loss) from continuing operations in accordance with US GAAP before cumulative effect of change in accounting		

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principle and discontinued operations .....	(55,550,703)	63
	=====	=====

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

(bb) Effects of conforming to US GAAP, continued

	2002	
	-----	-----
	ThCh\$	Th
Net income (loss) from continuing operations under US GAAP before cumulative effect of change in accounting principle and discontinued operations.....	(55,550,703)	63
Cumulative effect of change in accounting principle, net of taxes ...	6,118,069	
	-----	-----
Net income (loss) from continuing operations under US GAAP.....	(49,432,634)	63
(Loss) income from discontinued operations, net of taxes and minority interest.....	(35,734,167)	(2)
	-----	-----
Net income (loss) under US GAAP.....	(85,166,801)	60
Other comprehensive income, net of tax:		
Foreign currency translation adjustment.....	11,246,696	(27)
Net unrealized (losses) gains on securities, net of tax (paragraph e)	(5,398,754)	3
	-----	-----
Other comprehensive income.....	5,847,942	(23)
	-----	-----
Comprehensive (loss) income under US GAAP.....	(79,318,859)	36
	=====	=====

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

The adjustments required to conform net equity amounts to US GAAP are as follows:

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	-----	20
	-----	ThC
Net equity as shown in the Chilean GAAP financial statements.....		649
NON-FINANCIAL SERVICES		
Deferred income taxes (paragraph b).....		(11)
Reversal of the revaluation Property, plant and Equipment (d-1).....		(2)
Accumulated depreciation (d-2).....		
Available-for-sale securities, net of deferred income taxes (paragraph e-1-1) .....		50
Reversal of effects for investment in Entel (paragraph e-1) Reversal of equity method participation in net income of Entel (e-1-2) .....		(34)
Reversal of negative goodwill, net (e-1-3).....		2
Minimum dividend.....		
Employee severance indemnities (paragraph f) Short-term (f-1).....		(2)
Long-term (f-2).....		(1)
Restructuring costs (paragraph i).....		1
Goodwill (paragraph j) Goodwill.....		(6)
Accumulated amortization.....		5
Negative goodwill (paragraph k) Negative goodwill (k-1).....		6
Negative goodwill amortization (k-2).....		
Property, plant and equipment (k-3).....		(1)
Accumulated depreciation (k-4).....		
Net effects of US GAAP adjustments in equity investees (paragraph n)		
Impairment of fixed assets in Madeco (paragraph o) Property, plant and equipment (paragraph o) .....		(6)
Allowance for recoverable taxes in Madeco (paragraph aa).....		1
Result from non-concurrence in subsidiary's capital increase (paragraph k-1) .....		
FINANCIAL SERVICES		
Deferred income taxes (paragraph b).....		14
Investment securities (paragraph e-2).....		
Employee severance indemnities (paragraph f).....		(3)
Goodwill (paragraph j).....		261
Derivatives (paragraph p-1, p-3).....		7
Core deposits, brand and other intangibles (paragraph q-1).....		
Fair value of intangibles (q-1-1).....		209
Amortization of intangibles (q-1-2).....		(53)
Fair value of bank premises and equipment (paragraph q-2) Fair value of premises and equipment (q-2-1).....		11
Amortization of fair value of premises and equipment (q-2-2).....		
Fair value of loans (paragraph q-3).....		(2)
Fair value of subordinated debt obligation (paragraph q-4, y) Fair value of subordinated debt obligation (q-4-1, y) .....		(229)
Fair value of other financial assets and liabilities (paragraph q-5) Fair value of other interest bearing liabilities (q-5-1) .....		(38)
Fair value of other liabilities (q-5-2) .....		(1)
Fair value of other assets (q-5-3) .....		
Fair value of deposits (q-5-4) .....		
Investments in other companies (paragraph s).....		
Assets received in lieu of payment (paragraph t).....		1
Mortgage finance bonds issued by the Bank (paragraph u) .....		
Allowance for loan losses (paragraph v) .....		29

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Net effects of US GAAP adjustments on minority interest (paragraph x) ..	(192)
Net equity in accordance with US GAAP.....	664

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted  
 Accounting Principles (continued)

The changes in net shareholders' equity accounts determined under US GAAP are summarized as follows:

Balance as of January 1, 2002.....	
Accrued minimum dividend at December 31, 2001.....	
Dividends paid.....	
Executive incentive plan.....	
Other comprehensive income, net of tax:	
Net change in unrealized gains and losses on available-for-sale-securities, net	
of deferred income taxes.....	
Cumulative translation adjustment.....	
Net loss for the year.....	
Balance as of December 31, 2002.....	
Interim dividends paid.....	
Executive incentive plan.....	
Other comprehensive income, net of tax:	
Net change in unrealized gains and losses on available-for-sale-securities, net	
of deferred income taxes.....	
Cumulative translation adjustment.....	
Net income for the year.....	
Balance as of December 31, 2003,.....	
Definitive dividend paid related to prior year.....	
Accrued minimum dividend at year end.....	
Executive incentive plan.....	
Decrease in participation in Banco de Chile.....	
Other comprehensive income, net of tax:	
Net change in unrealized gains and losses on available-for-sale-securities, net	
of deferred income taxes.....	
Cumulative translation adjustment.....	
Net income for the year.....	
Balance as of December 31, 2004.....	

QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

II. Additional US GAAP Disclosures

a) Consolidation of subsidiaries

As indicated in Note 2 a), banking and insurance operations are not generally consolidated with non-financial businesses in Chile primarily due to the dissimilarity of both the nature of the businesses, the related accounting policies and the fact that they do not use a classified balance sheet. The information presented below, which is presented using a US GAAP presentation and amounts determined in accordance with US GAAP, shows the consolidation of those subsidiaries which under SFAS 94, "Consolidation of All Majority-Owned Subsidiaries," the Company is required to consolidate.

The condensed consolidated balance sheet, income statement and reconciliation of cash flows set forth below consolidate those entities consolidated for Chilean GAAP purposes (see Note 2 a)) plus the following:

As of December 31, 2002, 2003 and 2004, and for the years then ended:

- SM Chile - a 51.35% owned banking subsidiary, through which the Company owns 31.94% of Banco de Chile subsequent to the merger with Banco Edwards. Also included is the 20.22% direct interest that the Company owns in Banco de Chile subsequent to the merger with Banco Edwards.
- Banchile - a 66.30% owned insurance company
- Lucchetti Peru- a 93.69% owned food manufacturing company. Under Chilean GAAP and in accordance with discussions held with the SVS, Lucchetti Peru's balance sheet was not consolidated as of December 31, 2003 and 2004, due to the closure of its plant in Lima and the ending of its operations in Peru. Under US GAAP the operations are considered as abandoned and disclosed as discontinued operations, therefore the assets and liabilities have been consolidated as of December 31, 2003 and 2004 and then re-classified as short-term in accordance with SFAS 144.

QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

The following are balance sheets of the Company using amounts determined in accordance with US GAAP:

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	As of Decemb	
	2003	
	ThCh\$	
Assets:		
Non-Financial Services:		
Current assets		
Cash and time deposits.....	44,872,832	
Marketable securities.....	56,458,671	
Accounts and notes receivable, net.....	81,405,206	
Inventories.....	63,758,912	
Other current assets.....	115,738,707	
	-----	
Total current assets.....	362,234,328	
	-----	
Net property, plant and equipment.....	304,227,065	
Other assets:		
Investments in and advances to related companies.....	103,217,596	
Goodwill, net.....	30,125,324	
Other non-current assets.....	33,759,683	
	-----	
Total other assets.....	167,102,603	
	-----	
Total non-financial services assets.....	833,563,996	
	-----	
Financial Services:		
Cash and due from banks.....	488,447,406	
Investments.....	1,901,978,746	1
Loans, net.....	5,854,345,471	6
Premises and equipment.....	167,705,410	
Goodwill, net.....	566,365,823	
Other assets.....	503,963,324	
	-----	
Total financial services assets.....	9,482,806,180	9
	-----	
Total assets.....	10,316,370,176	10
	=====	==

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expresses in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

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The following are balance sheets of the Company using amounts determined in accordance with US GAAP:

	As of December 31,	
	2003	
	ThCh\$	
Liabilities and Shareholders' Equity:		
Non-Financial Services:		
Current liabilities		
Debt payable within one year.....	137,892,404	
Accounts and notes payable.....	26,057,184	
Accrued and other liabilities.....	47,976,420	
Total current liabilities.....	211,926,008	
Long-term liabilities:		
Long term debt.....	437,285,694	
Other liabilities.....	37,667,393	
Total long-term liabilities.....	474,953,087	
Total non-financial services liabilities.....	686,879,095	
Financial Services:		
Deposits.....	4,976,187,375	5
Short-term borrowings.....	401,336,704	
Investments sold under agreements to repurchase.....	437,409,521	
Other liabilities.....	452,706,167	
Long-term debt.....	2,489,916,091	2
Total financial services liabilities.....	8,757,555,858	8
Minority interest.....	207,771,071	
Shareholders' equity.....	664,164,152	
Total liabilities and shareholders' equity.....	10,316,370,176	10

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expresses in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

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The condensed consolidated statements of income for the years ended December 31 under US GAAP and classified in accordance with US GAAP are presented as follows:

	2002	Yea
	-----	-----
	ThCh\$	
<b>Non-Financial Services</b>		
Operating results:		
Net sales.....	322,849,609	
Cost of sales.....	(251,205,732)	
Administrative and selling expenses.....	(96,761,515)	
	-----	-----
Operating income.....	(25,117,638)	
	-----	-----
Non-Operating results:		
Interest income.....	3,658,195	
Non-operating income.....	13,440,651	
Interest expense.....	(47,443,374)	
Non-operating expense.....	(2,764,942)	
Price-level restatement gain (loss), net.....	(8,710,346)	
	-----	-----
Non-operating results.....	(41,819,816)	
	-----	-----
(Loss) from non-financial services before income taxes and minority interest.....	(66,937,454)	
	-----	-----
<b>Financial Services</b>		
Total interest income.....	734,871,952	
Total interest expense.....	(355,149,175)	
Net interest income.....	379,722,777	
Provision for loan losses.....	(110,348,129)	
Net interest income after provision for loan losses.....	269,374,648	
Other income.....	42,069,281	
Other expenses.....	(336,869,159)	
	-----	-----
Income (loss) from financial services before Income taxes and minority interest.....	(25,425,230)	
	-----	-----
Income (loss) before income taxes.....	(92,362,684)	
Income taxes.....	6,319,645	
	-----	-----
Income (loss) before minority interest.....	(86,043,039)	
Minority interest.....	30,492,336	
	-----	-----
Income (loss) from continuing operations before cumulative change in accounting principle.....	(55,550,703)	
Cumulative change in accounting principles, net of taxes.....	6,118,069	
	-----	-----
Income (loss) from continuing operations.....	(49,432,634)	
Income (loss) from discontinued operations, net of taxes and minority interest.....	(35,734,167)	
	-----	-----

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Net (loss) income..... (85,166,801)  
 =====

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted  
 Accounting Principles (continued)

The effect of consolidating the banking and insurance operations as required  
 under US GAAP, but using amounts calculated in accordance with Chilean GAAP for  
 the years ended December 31, 2002, 2003 and 2004 is as follows:

	Year en
	-----
	2002
	-----
	ThCh\$
	-----
Cash provided by (used in) operating activities reported under Chilean GAAP .....	31,064,733
Cash provided by (used in) operating activities Blue Two S.A. (1) .....	--
Cash provided by (used in) operating activities Lucchetti Peru .....	--
Effect of combination of banking and insurance operations .....	432,858,770
	-----
Cash provided by (used in) operating activities reported under US GAAP .	463,923,503
Cash provided by (used in) investing activities reported under Chilean GAAP .....	908,378
Cash provided by (used in) investing activities Blue Two S.A. (1) .....	--
Cash provided (used in) investing activities Lucchetti Peru .....	--
Effect of combination of banking and insurance operations .....	(259,361,808)
	-----
Cash provided by (used in) investing activities reported under US GAAP .	(258,453,430)
Cash provided by (used in) financing activities reported under Chilean GAAP .....	5,310,996
Cash provided by (used in) financing activities Blue Two S.A. (1) .....	--
Cash provided by (used in) financing activities Lucchetti Peru .....	--
Effect of combination of banking and insurance operations .....	(269,466,270)
	-----
Cash provided by (used in) financing activities reported under US GAAP .	(264,155,274)
Effect of exchange rate differences on cash and cash equivalents under Chilean GAAP .....	2,662,648
Effect of exchange rate differences on cash and cash equivalents Blue Two S.A. (1) .....	--
Effect of exchange rate differences on cash and cash equivalents Lucchetti Peru .....	--
Effect of combination of banking and insurance operations .....	(26,754,998)
	-----

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Effect of exchange rate differences on cash and cash equivalents under US GAAP .....	(24,092,350)
Net change in cash and cash equivalents under Chilean GAAP .....	39,946,755
Net change in cash and cash equivalents Blue Two S.A. (1) .....	--
Net change in cash and cash equivalents Lucchetti Peru S.A. ....	--
Effect of combination of banking and insurance operations .....	(122,724,306)
Net change in cash and cash equivalents under US GAAP .....	(82,777,551)

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

	2002 ThCh\$	Yea
Cash and cash equivalents at beginning of year under Chilean GAAP .....	56,421,741	
Cash and cash equivalents at the beginning of the year Blue Two S.A. (1)	--	
Cash and cash equivalents at the beginning of the year Lucchetti Peru ..	--	
Effect of combination of banking and insurance operations .....	823,769,903	
Cash and cash equivalents at beginning of year under US GAAP	880,191,644	
Cash and cash equivalents at end of year under Chilean GAAP .....	96,368,496	
Cash and cash equivalents at the end of the year Blue Two S.A. (1) .....	--	
Cash and cash equivalents at the end of the year Lucchetti Peru .....	--	
Effect of combination of banking and insurance operations .....	701,045,597	
Cash and cash equivalents at end of year under US GAAP .....	797,414,093	

(1) In 2004, the company Blue Two S.A. was consolidated for the first time under US GAAP.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

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### II. Additional disclosure requirements

As of December 31 2002, 2003 and 2004, cash and cash equivalents were composed as follows:

	2002	As of
	ThCh\$	
Cash.....	5,993,795	
Non-interest bearing cash and due from banks.....	618,772,235	
Interbank deposits interest bearing.....	81,494,675	
Time deposits.....	2,020,585	
Mutual funds.....	6,967,304	
Securities purchased under agreements to resell.....	82,165,499	
	-----	
Total .....	797,414,093	
	=====	

#### b) Earnings per share

The following disclosure of earnings per share information is not generally required for presentation in financial statements under Chilean accounting principles but is required under US GAAP:

	Years ended De	
	(Expressed in singl	
	2002	2003
	Ch\$	Ch\$
Basic and diluted earnings (loss) per share under Chilean GAAP.....	(72.37)	35.78
Basic and diluted earnings (loss) per share under US GAAP:		
Basic and diluted earnings (loss) per share from continuing operations before cumulative effect of changes in accounting principles and discontinued operations.....	(51.45)	58.44
Effect of accounting change on earnings per share.....	5.67	--
Basic and diluted earnings (loss) per share from discontinued operations.....	(33.10)	(2.41)
Basic and diluted earnings (loss) per share under US GAAP.....	(78.88)	56.03
Dividends paid per share.....	5.96	11.49
Weighted average number of shares of common stock outstanding.....	1,079,740,07	1,079,740,079

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted  
 Accounting Principles (continued)

### II. Additional disclosure requirements (continued)

The earnings (loss) per share data shown above is determined by dividing net income for both Chilean GAAP and US GAAP purposes by the weighted average number of shares of common stock outstanding during each year. For the years presented the Company did not have convertible securities outstanding. Dividends paid per share represents dividends paid on prior years' income, calculated in accordance with Chilean GAAP.

#### c) Income tax

The provision for income taxes charged to the results of operations under US GAAP was as follows:

	2002	Yea
	-----	-----
	ThCh\$	
Current tax expense.....	(10,562,787)	
Deferred income tax benefit (expense).....	14,228,606	
Reassessment of previous year's tax.....	(3,349,034)	
Net change in tax loss carryforwards.....	(1,358,559)	
Changes in valuation allowance.....	(7,843,563)	
Deferred tax effect of US GAAP adjustments.....	15,420,355	
Other.....	(521,510)	
	-----	
Total benefit (provision) under US GAAP .....	6,013,508	
	=====	==

Substantially all of the income tax provision in each year arises from Chilean sources. The total benefit (provision) includes income taxes related to the discontinued operation Lucchetti.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted  
 Accounting Principles (continued)

### II. Additional disclosure requirements (continued)

Deferred tax assets (liabilities) are summarized as follows:

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	Year ended Dece
	----- 2003 ----- ThCh\$
Accounts receivable.....	1,582,167
Inventories.....	686,202
Tax loss carryforwards.....	53,296,312
Vacation provision.....	1,742,614
Leasing equipment.....	8,729,925
Provision fixed assets held for sale.....	1,874,725
Obligation with repurchase agreements.....	43,126,875
Allowance for loan losses.....	18,563,775
Charge-offs from financial investment.....	339,275
Accrued interests and readjustments from risky loan portfolio.....	1,984,400
Accruals interest and readjustments from past due loans.....	827,175
Personnel provisions.....	1,541,600
Staff severance indemnities.....	1,341,024
Fair value adjustments.....	20,096,321
Provision for impairment in Brazil.....	--
Other.....	23,121,236
	-----
Total deferred tax assets.....	178,853,626
	-----
Depreciation.....	(23,254,588)
Inventories.....	(527,891)
Property, plant and equipment under leasing contract.....	(2,086,525)
Property, plant and equipment.....	--
Investments.....	(4,773,745)
Investment with repurchase agreements.....	(42,602,075)
Transitory assets.....	(1,139,800)
Other.....	(3,955,792)
	-----
Total deferred tax liabilities.....	(78,340,416)
Deferred tax assets valuation allowance.....	(36,869,431)
	-----
Total net deferred tax assets.....	63,643,779
	=====

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expresses in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

II. Additional disclosure requirements (continued)

Deferred tax assets (liabilities) provided by non-financial and financial services are composed as follows:

Non-financial services:

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	As of December	
	Deferred tax assets	
	Short-term	Long-term
	ThCh\$	ThCh\$
Timing differences		
Accrued vacation expense .....	252,450	--
Allowance for doubtful accounts .....	1,097,075	2,001,925
Allowance for obsolescence of inventories .....	11,005	--
Investments .....	--	--
Fixed assets held for sale .....	178,005	117,072
Fixed assets under leasing .....	109,451	215,731
Production costs (inventories) .....	--	--
Accelerated depreciation of fixed assets .....	--	336
Employee severance indemnities .....	--	748,611
Provision for impairment .....	7,888,668	--
Tax loss carryforwards .....	3,863,964	38,572,400
Other provisions .....	1,533,627	6,326,252
Total .....	14,934,245	47,982,327
Valuation allowance .....	(10,488,377)	(22,649,889)
Total deferred income taxes .....	4,445,868	25,332,438

Non-financial services:

	As of December	
	Deferred tax assets	
	Short-term	Long-term
	ThCh\$	ThCh\$
Timing differences		
Accrued vacation expense.....	362,964	--
Amortization of intangibles assets .....	5,114	15,557
Allowance for doubtful accounts .....	1,393,980	188,188
Allowance for obsolescence of inventories .....	586,199	100,003
Fixed assets under leasing .....	162,329	284,654
Production costs (inventories) .....	--	--
Accelerated depreciation of fixed assets .....	--	4,229
Employee severance indemnities .....	1,227	645,416
Investments .....	--	--
Tax loss carryforwards .....	228,900	53,067,412
Other provisions .....	3,382,724	9,680,627
Total .....	6,123,437	63,986,086
Valuation allowance .....	(10,818)	(36,858,614)
Total deferred income taxes .....	6,112,619	27,127,472

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted  
 Accounting Principles (continued)

II. Additional disclosure requirements (continued)

Financial services:

	As of Decem
	-----
	2003
	ThCh\$
	-----
Deferred tax assets	
Accrued interests and readjustments from risky loan portfolio.....	1,984,400
Accruals interest and readjustments from past due loans.....	827,175
Assets at fair value.....	1,874,725
Leasing equipment.....	8,729,925
Obligation with repurchase agreements.....	43,126,875
Allowance for loan losses.....	18,563,775
Fair value adjustments, net.....	20,096,321
Other personnel related provision.....	1,541,600
Provision for employee vacations.....	1,379,650
Staff severance indemnities.....	1,353,000
Other.....	9,924,050
	-----
Total deferred tax assets.....	109,401,496
	-----
Deferred tax liabilities	
Property, plant and equipment.....	(5,438,650)
Fixed assets in transit.....	(1,139,800)
Investments with repurchase agreements.....	(42,602,075)
Other.....	(1,291,500)
	-----
Total deferred tax liabilities.....	(50,472,025)
	-----
Net deferred tax.....	58,929,471
	=====

Non-financial services: The provision for income taxes differs from the amount of income tax determined by applying the applicable Chilean statutory income tax rate of 17 % for 2004 to pretax accounting income on a US GAAP basis as a result of the following differences:

	Year ended December 31	
	-----	-----
	2002	2003
	-----	-----

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	ThCh\$	ThCh\$
At statutory Chilean tax rate.....	11,701,366	(9,734,936)
Increase (decrease) in rates resulting from:		
Price-level restatement not accepted for tax purposes.....	5,089,442	1,132,447
Nontaxable income.....	12,335,298	10,975,762
Nondeductible expenses.....	(17,791,677)	(21,369,429)
Change in valuation allowances.....	(7,843,563)	2,078,749
Local taxes.....	(572,225)	382,499
Differences in tax rates in foreign jurisdictions.....	763,290	(258,077)
Change in Chilean statutory tax rate .....	2,142,968	565,800
Other.....	188,609	109,793
	-----	-----
At effective tax rates.....	6,013,508	(16,117,392)
	=====	=====

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

II. Additional disclosure requirements (continued)

In accordance with Chilean law, the Company and each of its subsidiaries compute and pay tax on a separate return basis and not on a consolidated basis.

The Argentine income tax rate was 35% for 2002, 2003 and 2004, in accordance with currently enacted tax legislation. The applicable Peruvian tax rate was 27% in 2002, 2003, and 34.1% in 2004, respectively.

Quinenco and its subsidiaries possess tax loss carryforwards which resulted in deferred tax assets of ThCh\$53,296,312 and ThCh\$ 42,436,364 of December 31 2003 and 2004, respectively. The tax losses relating to the Chilean and Brazil subsidiaries have no expiration date. Argentina tax losses may be applied against taxable income for a period of five years.

Tax loss carryforward and expiration date by country as of December 31, 2004, are as follows:

	2004 ThCh\$	Expiration Date
	-----	-----
Argentina.....	29,056,517	2005-2009
Brazil (1).....	10,267,630	Do not expire
Chile (1).....	180,743,756	Do not expire
	-----	
Total.....	220,067,903	
	=====	

d) Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments as of December 31, 2003 and 2004 where an estimation of fair value is practicable.

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Cash and cash equivalents: Cash and time deposits and marketable securities that are considered to be cash equivalents are stated at their carrying amount, which is equivalent to fair value.

Other marketable securities: The fair value of other marketable securities is based on the quoted market prices of the common stock or other securities held.

Other current assets: The fair value of deposits in guarantee included within other current assets was estimated using the interest rate currently available for deposits of similar duration. Other current assets are stated at carrying amount, which is equivalent to fair value.

Investments in other companies: The fair value of common stocks in other companies is based on quoted market prices.

Other assets: The fair value of long-term accounts receivable included within other assets was estimated using the interest rate that the Company would pay for similar credit.

Short and long-term debt and bonds payable: The fair value of short and long-term debt and bonds payable was based on rates currently available to the Company for debt with similar terms and similar remaining maturities.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

II. Additional disclosure requirements (continued)

Loans in the Company's financial services sector: For performing loans with fixed rates and an original maturity of greater than one year, the fair values were calculated by discounting contractual cash flows, using the Company's banking operations' current origination rates for loans with similar terms and similar risk characteristics. For loans where the management of the Company's banking operations believes that the amounts outstanding will not be paid in accordance with contractual terms, the estimated cash flows arising from the liquidation of collateralized assets and other expected flows have been discounted at an estimated discount rate commensurate with the risk in the collection of these amounts.

Interest bearing liabilities in the Company's financial services sector: For interest-bearing liabilities with an original contractual maturity, of greater than one year, the fair values are calculated by discounting contractual cash flows at current market origination rates with similar terms.

Derivative Instruments: The estimated fair value of foreign exchange forward contracts was determined using quoted market prices of financial instruments with similar characteristics. The fair value of interest rate swaps represents the estimated amount the Company's banking operations would expect to receive or pay to terminate the contracts or agreements, taking into account current interest rates. As no quoted market prices are available for the interest rate swap and forward exchange rate instruments held by the Company's banking operations, such estimates have been estimated using modeling and other

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valuation techniques.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

II. Additional disclosure requirements (continued)

The estimated fair values of the Company's financial instruments are as follows:

	As of December	
	2003	
	US GAAP Book value ThCh\$	Fair value ThCh\$
	Non-Financial Se	
Cash.....	6,524,209	6,524,209
Time deposits.....	38,348,623	38,348,623
Marketable securities.....	56,458,671	56,458,671
Accounts and notes receivable, net.....	81,405,206	81,405,206
Securities purchased under agreements to resell....	30,246,315	30,246,315
Long term receivables.....	2,219,853	2,219,853
Accounts payable and suppliers notes payables.....	(25,562,021)	(25,562,021)
Notes and accounts payables to related companies...	(495,163)	(495,163)
Short-term bank borrowings.....	(87,359,510)	(88,527,969)
Derivatives.....	(1,644,417)	(1,644,417)
Bonds payable.....	(202,290,876)	(204,283,766)
Long-term bank borrowings.....	(285,527,713)	(264,495,929)
Other long-term debt.....	(10,236,068)	(10,236,068)
	Financial Serv	
Cash and due from banks.....	488,447,406	488,447,406
Interest bearing deposits in other banks.....	188,299,675	188,299,675
Term federal funds .....	73,732,000	73,732,000
Accounts receivable under spot foreign exchange transactions.....	40,126,700	40,126,700
Financial investments.....	1,673,552,371	1,673,552,371
Loans, net .....	5,854,345,471	6,054,381,644
Deposits.....	(4,976,187,375)	(5,041,615,932)
Accounts payable under spot foreign exchange transactions.....	(48,205,750)	(48,205,750)
Investments under agreements to repurchase.....	(437,409,521)	(437,409,521)
Short-term and long-term borrowings.....	(2,485,970,247)	(2,562,855,924)
Derivative instruments.....	(2,260,125)	(2,260,125)

QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

II. Additional disclosure requirements (continued)

e) Investment securities

The following are required disclosures for investments classified as available-for-sale securities, using amounts determined in accordance with US GAAP.

e-1) Non-financial services

Realized gains and losses are determined using the proceeds from sales less the cost of the investment identified to be sold. Gross gains and losses realized on the sale of available-for-sale securities for the years ended December 31, 2002, 2003 and 2004 are as follows:

	Cost	Gr Unrea Ga
	----- ThCh\$	----- Th
Securities available-for-sale at December 31, 2002.....	22,316,898	2
Securities available-for-sale at December 31, 2003.....	22,285,545	2
Securities available-for-sale at December 31, 2004.....	67,692,433	7

Information on sales of available-for-sale securities during the three years in the period ended December 31, 2004 is as follows:

	2002	20
	----- ThCh\$	----- Th
Proceeds from sales.....	--	
Gross realized gains.....	--	
Gross realized losses.....	--	

The Company has no securities that are considered to be trading securities or debt securities to be held to maturity. The cost of available-for-sale securities is determined using the average cost method.

e-2) Financial services

	Year ended December 31, 2002
	----- 2002 ----- ThCh\$
Proceeds on sales.....	13,185,979
Gross realized gains.....	1,541,487
Gross realized losses.....	2,070,500

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

e) Investment securities (continued)

(1) The cost and estimated market value of securities available for sale as of December 31, 2003 and 2004 are as follows:

	Year ended December 31, 2004		
	Cost	Gross Unrealized Gains	Unrealized (Losses)
	----- ThCh\$	----- ThCh\$	----- (L)
Available-for-sale Instruments:			
Foreign private sector debt securities .....	9,585,000	--	
U.S. Government securities .....	11,182,000	2,000	
Chilean private sector debt securities .....	6,455,000	93,000	
Total .....	27,222,000	95,000	
	=====	=====	=====

	Year ended December 31, 2003		
	Cost	Gross Unrealized Gains	Unrealized (Losses)
	----- ThCh\$	----- ThCh\$	----- (L)
Available-for-sale Instruments:			
Foreign private sector debt securities .....	--	--	

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U.S. Government securities .....	12,250,800	4,100
Chilean private sector debt securities .....	8,851,900	328,000
	-----	-----
Total .....	21,102,700	332,100
	=====	=====

The contractual maturities of available-for-sale securities held by financial service companies are as follows:

	As of December 31, 2004	
	Within one year	After one year but within five years
	ThCh\$	ThCh\$
Available-for-sale Instruments:		
U.S. Government debt securities .....	11,184,000	--
Foreign private sector debt securities .....	5,606,000	3,979,000
Chilean private sector debt securities .....	4,731,000	1,817,000
	-----	-----
Estimated fair value .....	21,521,000	5,796,000
	=====	=====

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

e) Investment securities (continued)

(2) The following disclosures, in addition to those required under Chilean GAAP, are required disclosures for investments classified as held-to-maturity in accordance with SFAS 115:

	Year ended December 31, 2004	
	Amortized Cost	Gross Unrealized Gains (Losses)
	ThCh\$	ThCh\$
Held-to-maturity Instruments:		
U.S. government debt securities .....	16,819,000	(2,000)
	-----	-----

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Total .....	16,819,000	(2,000)	
Year ended December 31,			
2003			
	Amortized Cost	Gross Unrealized Gains (Losses)	Esti
	ThCh\$	ThCh\$	
Held-to-maturity Instruments:			
U.S. government debt securities .....	21,542,425	4,100	
Total .....	21,542,425	4,100	

The contractual maturities of securities classified by the Company's banking operations as held-to-maturity are as follows:

	December 31, 2004		
	Within one year	After one year but within five years	Aft
	ThCh\$	ThCh\$	
Held-to-maturity Instruments:			
U.S. government debt securities .....	16,817,000	--	
Estimated fair value .....	16,817,000	--	

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

f) Reclassification differences between Chilean GAAP and US GAAP

Certain non-operating income and expenses under Chilean GAAP would be considered operating income and expenses under US GAAP for the years ended December 31, 2002, 2003 and 2004 as follows:

2002

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	-----	-----
	ThCh\$	
Non-operating income under Chilean GAAP .....	34,724,777	1
Less:		
Amortization of negative goodwill .....	1,955,617	
Amortization of unrealized gain .....	601,694	
Release of purchase price accruals .....	3,379,136	
Tax refund .....	403,175	
	-----	-----
Non-operating income as classified under US GAAP, but calculated in accordance with Chilean GAAP .....	28,385,155	=====
	-----	-----
Non-operating expenses under Chilean GAAP .....	88,708,377	
Less:		
Amortization of goodwill.....	21,255,601	
Restructuring costs and severance indemnities .....	7,038,967	
Losses on sales of investments, fixed assets and other .....	2,117,303	
Adjustment of market value of shares .....	35,199	
Provision for losses on loans and recoverable taxes of foreign subsidiaries .....	2,745,063	
Financial consulting and other expenses for sale of Argentine Subsidiary .....	--	
Directors' compensation .....	1,132,071	
Adjustment of property, plant and equipment to net realizable value (Note 10) .....	869,897	
Allowance for uncollectible debts .....	1,195,795	
Labor lawsuits .....	334,488	
Loss on sale of machinery of Lucchetti Peru .....	--	
Legal expenses for defense of Lucchetti Peru .....	2,302,901	
Valuation allowance for fixed and other assets Argentina .....	6,356,912	
Provision for loss on guarantee granted .....	--	
Impairment of equity investment in and account receivable with Lucchetti Peru .....	31,759,903	
Depreciation of property, plant and equipment involved in temporary shutdown (see Note 10) .....	3,100,792	
Adjustment to sales price of a business .....	1,281,694	
Loss in sale of building Hotel Carrerra .....	--	
	-----	-----
Non-operating expense as classified under US GAAP, but calculated in accordance with Chilean GAAP.....	7,181,791	=====
	-----	-----

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
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Note 27 - Differences Between Chilean and United States Generally Accepted  
Accounting Principles (continued)

g) Loan covenants

The Company and its subsidiaries were in compliance with their covenants as of  
December 31, 2003 and 2004.

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### h) Goodwill

The net US GAAP balance of goodwill as of December 31, 2003 and 2004 was ThCh\$596,491,147 and ThCh\$595,978,698 respectively.

The changes in the carrying amount of goodwill on a segment basis for the years ended December 31, 2003 and 2004 are as follows:

	Financial services ThCh\$	Foods & beverage ThCh\$	Manufacturing ThCh\$	Te
	-----	-----	-----	-----
Balance as of January 1, 2003	566,365,823	90,984	42,422,070	
Impairment losses	--	--	(7,567,867)	
Goodwill acquired during the year	--	316,818	15,029	
Cumulative translation adjustment			(5,760,905)	
	-----	-----	-----	
Balance as of December 31, 2003,	566,365,823	407,802	29,108,327	
Goodwill acquired during the year	--	--	--	
Impairment losses	--	--	--	
Cumulative translation adjustment	--	--	(512,449)	
	-----	-----	-----	
Balance as of December 31, 2004	566,365,823	407,802	28,595,878	
	=====	=====	=====	

### i) Insurance Operations

The Company participates in certain insurance brokerage and other operations. There are no material differences in the accounting for these operations between Chilean GAAP and US GAAP.

### j) Discontinued operations

In October of 2001, the FASB issued SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets which is effective for fiscal years beginning after December 15, 2001. SFAS 144 establishes accounting and reporting standards for the impairment and disposal of long-lived assets and discontinued operations. The Company adopted SFAS 144 in 2002. All prior year reporting periods have been restated to reflect the adoption. The application of this statement resulted in the classification, and separate financial presentation of certain entities as discontinued operations, the results of which are not included in continuing operations.

In 2003 the Company committed to a plan to dispose of the equity participation it held in the consolidated subsidiary, Lucchetti Chile In addition, Indalsa's operations in Peru are considered as discontinued as of December 31, 2003 as they were effectively abandoned due to the court case discussed in Note 20 b). There was an impairment of assets related to these discontinued operations in the year ended December 31, 2002 which resulted in a loss of ThCh\$ 31,759,903.

This subsidiary was reported as part of the Food and Beverage operating segment. It was accounted for as discontinued operations in accordance with SFAS 144 and, accordingly, amounts in the reconciliation of net income to US GAAP and the additional disclosure notes required under US GAAP for all periods shown, reflect discontinued accounting.

QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
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Note 27 - Differences Between Chilean and United States Generally Accepted  
 Accounting Principles (continued)

j) Discontinued operations (continued)

The major classes of discontinued combined assets and combined liabilities  
 included in the US GAAP Quinenco S.A. consolidated Balance Sheet are as follows:

	At December, 31	
	2003	2004
	ThCh\$	ThCh\$
Assets:		
Cash .....	4,003,958	19,325
Account receivable, net .....	17,025,683	--
Other current assets .....	17,226,699	133,307
Property, plant and equipment, net .....	48,269,684	13,705,187
Intangibles .....	611,852	306,564
Other assets .....	12,103,438	3,245,201
Total assets of discontinued operations.....	99,241,314	17,409,584
	=====	=====
Liabilities:		
Current liabilities .....	25,168,140	334,773
Long term liabilities .....	47,498,778	5,308,529
Total liabilities of discontinued operations .....	72,666,918	5,643,302
Minority interest .....	1,086,893	--
Quinenco's investment in discontinued operations (1)....	25,487,503	--
	=====	=====

(1) As of December 31, 2003, Lucchetti Chile and Lucchetti Peru were considered as discontinued operations. As result of the sale of Luchetti Chile, as of December 31, 2004, only Lucchetti Peru is considered as discontinued. Under Chilean GAAP, the amount of Quinenco's investment in discontinued operation in Lucchetti Peru is ThCh\$0 as a result of the provision made in previous years.

The following major classes of revenues and expenses are included in the US GAAP Quinenco consolidated Income Statement, presented net of taxes as discontinued operations, are as follows:

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	Year Ended December 31,	
	2002	2003
	ThCh\$	ThCh\$
Sales.....	86,752,430	60,593,136
Costs of sales.....	(63,547,584)	(41,824,478)
Gross profit.....	23,204,846	18,768,658
Administrative and selling expenses.....	(51,687,076)	(17,552,755)
Operating income.....	(28,482,230)	1,215,903
Non operating loss.....	(9,352,485)	(5,683,975)
Gain on sale of subsidiary (1) .....	--	--
(Loss) gain before taxes and minority interest .....	(37,834,715)	(4,468,072)
Income tax.....	(306,139)	1,750,001
Minority interest.....	2,406,687	110,879
Net loss for the year.....	(35,734,167)	(2,607,192)

(1) Lucchetti Chile was sold in March 2004, generating a gain on sale of ThCh\$4,069,786.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expresses in constant Chilean pesos of December 31, 2004,  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

k) Comprehensive income

In accordance with US GAAP, the Company reports a measure of all changes in shareholders' equity that result from transactions and other economic events of the period other than transactions with owners ("comprehensive income"). Comprehensive income is the total of net income and other non-owner equity transactions that result in changes in net shareholders' equity. Comprehensive income is as follows:

	Before tax amount	Tax (expense) or benefit	Ne
	ThCh\$	ThCh\$	
Balance as of December 31, 2002 .....	(27,878,092)	(3,539,465)	
Translation adjustment .....	(27,220,392)	--	
Unrealized gains and losses on available-for-sale securities .....	4,422,003	(1,126,070)	

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Balance as of December 31, 2003 .....	(50,676,481)	(4,665,535)
Translation adjustment .....	(6,507,665)	--
Unrealized gains and losses on available-for-sale securities .....	23,726,085	(4,033,435)
Balance as of December 31, 2004.....	(33,458,061)	(8,698,970)

The gains and losses on debt classified as a net investment hedge covering the exposure of foreign investments as permitted by SFAS 133 and presented in other comprehensive income are as follows:

	2002 ThCh\$	2003 ThCh\$
Gain (loss) on debt classified as net investment hedge	16,583,368	(41,965,325)

1) Restrictions which limit the payment of dividends by the registrant

As stated in Note 15, the Company has subsidiaries that must abide by certain financial ratios and covenants that require minimum equity levels or that contain other characteristics that restrict the transfer of assets to the parent company. The amounts of Quinenco's proportionate share of restricted net assets in consolidated subsidiaries as of December 31, 2004 are as follows:

Subsidiary	Proportionate Share of Restricted Net Assets ThCh\$
Telefonica del Sur .....	35,800,295
Madeco .....	62,222,983
LQIF.....	396,370,305
Banco de Chile .....	155,845,255
Telcoy .....	404,971
Alusa .....	11,894,334
Indalum .....	14,339,122

The amount of consolidated retained earnings which represents undistributed earnings of investments accounted for under the equity method as of December 31, 2004 is ThCh\$ 22,879,875.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

m) Contingent Liabilities

Indirect guarantees for non-financial services are as follows:

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Creditor of Guarantee	Name	Type of collateral	Pledged Assets	Balances pending payment	
			Book value	2003	2004
			ThCh\$	ThCh\$	ThCh\$
Banco Santander Santiago	Alufoil	Property	--	240,603	--
Banco Security	Alufoil	Fixed assets	--	1,304,086	--
Banco de Chile	Alufoil	Fixed assets	--	65,795	--
Area Se/Bco. Santos	Ficap	--	--	--	1,564,19
Sudameris	Ficap	--	--	58,491	1,17
Sudameris	Ficap	--	--	54,708	--
Safra	Ficap	--	--	109,426	51,44
Safra	Ficap	--	--	415,266	490,98
Safra	Ficap	--	--	93,724	--
Aguas Andinas S.A.	Madeco	Note	20,000	--	20,00
Casa de Moneda de Chile	Madeco	Note	702	--	70
Cia. Americana de Multiservicios	Madeco	Note	24,638	--	24,63
Cia. Americana de Multiservicios	Madeco	Note	246,254	--	246,25
Cia. de Telecomunicaciones de Chile.	Madeco	Note	258,203	--	258,20
Cia. General de Electricidad	Madeco	Note	42,468	--	42,46
Corporacion Nacional del Cobre	Madeco	Note	4,174	4,199	4,17
Codelco Division Norte	Madeco	Note	--	255,412	--
Enami	Madeco	Note	500	--	50
Emel S.A.	Madeco	Note	5,000	--	5,00
The Treasury Department	Armat	Note	53,216	--	53,21
The Treasury Department	Armat.	Note	56,245	--	56,24
Banco Boston	Ingewall	Note	--	438,224	458,13
Banco del Estado de Chile	Penon	General	--	19,148,697	19,101,73
Banco de Estado de Chile	VTR	General	--	13,055,930	4,862,26
Banco Santander Chile	LQIF	General	--	18,826,855	--
Credit Lyonnais	LQIF	General	--	4,597,968	--
Banco del Estado de Chile	Punta Brava	General	--	17,311,385	17,264,69
Banco del Estado de Chile	Ranquil.	General	--	17,644,021	17,591,18
Banco del Estado de Chile	Hidroindustriales	General	--	16,937,094	16,887,93
Banco del Estado de Chile	Bosques	General	--	16,843,941	16,793,91

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

m) Contingent Liabilities(continued)

Indirect guarantees for non-financial services are as follows (continued):

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Creditor of Guarantee	Name	Type of guarantee	Pledged Assets		Balances pending payment	
			Book value		2003	2004
Banco del Estado de Chile	Penon	Shares	17,119,396		--	19,101,737
Banco del Estadp de Chile	VTR	Shares	11,672,312		--	4,862,260
Banco del Estado de Chile	Punta Brava	Shares	10,427,265		--	11,634,694
Banco del Estado de Chile	Ranquil	Shares	15,734,498		--	17,591,182
Banco del Estado de Chile	Hidroindustriales	Shares	11,314,361			12,624,512
Banco del Estado de Chile	Bosques	Shares	10,894,157			12,155,651
Banco del Estado de Chile	Penon	Shares	--	19,077,300		--
Banco del Estado de Chile	Ranquil	Shares	--	17,534,021		--
Banco del Estado de Chile	Hidroindustriales	Shares	--	12,608,361		--
Banco del Estado de Chile	VTR	Shares	--	13,007,250		--
Banco del Estado de Chile	Bosques	Shares	--	12,140,100		--
Banco del Estado de Chile	Punta Brava	Shares	--	11,619,810		--
Banco Santander Chile	LQIF	Shares	24,891,315	18,779,780		--
Banco BBVA	LQIF	Shares	--	28,442,520		--
Deutsche Bank	LQIF	Shares		11,685,984		
Credit Lyonnais	LQIF	Shares	--	4,564,838		--
Banco del Estado de Chile	Punta Brava	Shares	10,949,057	5,584,446		17,264,690
Banco del Estado de Chile	Hidroindustriales	Shares	9,387,480	4,228,930		16,887,934
Banco del Estado de Chile	Bosques	Shares	9,759,079	4,600,734		16,739,919
Banco del Estado de Chile	Penon	Shares	5,489,687	--		19,101,737
Banco del Estado de Chile	Ranquil	Shares	5,017,158	--		17,591,182

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

m) Contingent Liabilities (continued)

The following relates to the Company's banking operations and amounts stated are rounded to millions of Chilean pesos.

The Company's banking operations have contingent liabilities which consist of open and unused letters of credit, together with guarantees granted in Chilean pesos, UF and foreign currencies (principally U.S. dollars). Under US GAAP these transactions represent off-balance sheet activities. The following is a summary of instruments that are considered financial guarantees in accordance with FIN 45:

	Year ended December 31, 2004	As of December 31, 2004
	-----	-----
	Fees MCh\$	Contract amount MCh\$
Standby letters of credits .....	232	23,737

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Foreign office guarantees .....	51	15,355
Performance bonds .....	2,950	347,843
	-----	-----
Total .....	3,233	386,935
	=====	=====

Guarantees in the form of performance bonds are issued in connection with agreements made by customers to counterparties. If the customer fails to comply with the agreement, the counterparty may enforce the performance bond as a remedy. Credit risk arises from the possibility that the customer may not be able to repay the Bank for performance bonds. To mitigate credit risk, the Bank generally determines the need for specific covenant, guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer's creditworthiness.

Guarantees expiration periods are as follows:

	Due within 1 year	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due a ye
	-----	-----	-----	-----
	MCh\$	MCh\$	MCh\$	MO
Standby letters of credits ....	12,521	10,956	78	
Foreign office guarantees .....	15,355	--	--	
Performance bonds .....	221,812	96,309	28,322	
	-----	-----	-----	-----
Total .....	249,688	107,265	28,400	
	=====	=====	=====	=====

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

n) Other Interest Bearing Liabilities

The following note relates to the Company's banking operations and amounts stated are rounded to millions of Chilean pesos.

The Company's banking operations long-term and short-term borrowings are summarized below. In accordance with the guidelines established by the SBIF, the Company's banking operations do not present a classified balance sheet. Borrowings are described as short-term when they have original maturities of less than one year or are due on demand. All other borrowings are described as long-term, including the amounts due within one year on such borrowings.

As of December 31, 2003		
	-----	-----
	Long-term	Short-term
		Total

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	MCh\$	MCh\$	MCh\$
Central Bank Credit lines for renegotiation of loans .	3,049	--	3,049
Other Central Bank borrowings .....	--	25,529	25,529
Mortgage finance bonds .....	1,078,722	--	1,078,722
Bonds .....	3,205	--	3,205
Subordinated bonds .....	277,977	--	277,977
Borrowings from domestic financial institutions .....	106	51,023	51,129
Foreign borrowings .....	462,132	273,784	735,916
Investments under agreements to repurchase .....	--	437,410	437,410
Other obligations .....	10,092	50,998	61,090
	-----	-----	-----
Total other interest bearing liabilities .....	1,835,283	838,744	2,674,027
	=====	=====	=====

(1) Mortgage finance bonds

These bonds are used to finance the granting of mortgage loans. The outstanding principal amounts of the bonds are amortized on a quarterly basis. The range of maturities of these bonds is between five and twenty years. The bonds are linked to the UF index and carry a weighted average annual rate of interest of 5.9% as of December 31, 2004.

The maturities of outstanding mortgage bond amounts as of December 31, 2004 are as follows:

	As of December 31, 2004
	-----
	MCh\$
Due within 1 year .....	79,647
Due after 1 year but within 2 years .....	71,034
Due after 2 years but within 3 years .....	71,525
Due after 3 years but within 4 years .....	69,640
Due after 4 years but within 5 years .....	68,004
Due after 5 years .....	463,622
	-----
Total mortgage finance bonds .....	823,472
	=====

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted  
 Accounting Principles (continued)

o) Fees and income from services

The following note relates to the Company's banking operations and amounts stated are rounded to millions of Chilean pesos.

The Company's banking operations' fees and income from services and non-operating income and expenses for the years ended December 31, 2002, 2003 and 2004 are summarized as follows:

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	Years ended		
	2002	2003	
	Income MCh\$	Expenses MCh\$	Income MCh\$
Fees and income from services			
Contingent fees .....	3,359	--	3,344
Demand deposits .....	9,326	--	5,031
Debit card and ATM .....	12,282	(2,666)	15,678
Mutual funds .....	13,619	(1,371)	15,029
Insurance .....	7,032	(738)	10,752
Stock brokerage .....	4,162	(446)	10,160
Collection of overdue loans .....	6,558	--	8,837
Collection and payment of services .....	5,891	--	7,358
Credit lines .....	5,158	--	5,659
Financial services .....	1,977	--	5,484
Income and expense from goods received in lieu of payment .....	3,035	(1,774)	4,284
Letters of credit guarantees, collaterals and other contingent loans .....	1,786	--	1,780
Collection services .....	2,675	--	2,946
Foreign trade and currency exchange .....	2,300	--	3,340
Prepayment of loans .....	1,238	--	2,018
Leasing .....	1,727	(496)	1,678
Custody and trust services .....	609	--	934
Factoring .....	305	(4)	753
Sales force expenses .....	--	(8,767)	--
Teller services expenses .....	--	(2,834)	--
Cobranding expenses .....	--	(3,149)	--
Other .....	2,190	(1,479)	4,281
<b>Total .....</b>	<b>85,229</b>	<b>(23,724)</b>	<b>109,346</b>

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

p) Non-operating income and expense

The following note relates to the Company's banking operations and amounts stated are rounded to millions of Chilean pesos.

The Company's banking operations' non-operating income and expenses for the years ended December 31, 2002, 2003 and 2004 are summarized as follows:

Years

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	2002		2003	
	Income MCh\$	Expenses MCh\$	Income MCh\$	Expenses MCh\$
Non-operating income and expenses				
Rental income .....	2,757	--	2,618	--
Recoveries of expenses .....	885	--	439	--
Gains on sales of assets received in lieu of payment ....	988	--	1,122	--
Income from correspondent banks .....	599	--	965	--
Income from sale of fixed assets .....	537	--	464	--
Securities in companies and shares .....	305	--	19	--
Miscellaneous gains on exchange .....	--	--	--	--
Overestimated provision .....	--	--	--	--
Amortization of intangibles .....	--	(21,316)	--	(1,316)
Charge-offs and provision of assets received in lieu of payment .....	--	(8,582)	--	(8,582)
Charge-offs and provision related to fixed assets .....	--	(4,519)	--	(4,519)
Administration and credit card contracts .....	--	(3,149)	--	(3,149)
Charge-offs of transaction in process related to the merger .....	--	(2,087)	--	(2,087)
Asset received in lieu of payment .....	--	(1,782)	--	(1,782)
Charge-offs .....	--	(1,348)	--	(1,348)
Legal contingencies provision .....	--	(997)	--	(997)
Delivery services of bank products .....	--	(660)	--	(660)
Indemnity for termination of rental contracts .....	--	(603)	--	(603)
Merger expenses .....	--	(1,276)	--	(1,276)
Income (losses) attributable to investments in other companies .....	--	(1,334)	--	(1,334)
Other .....	544	(2,184)	663	(1,521)
<b>Total .....</b>	<b>6,615</b>	<b>(49,837)</b>	<b>6,290</b>	<b>(49,837)</b>

q) Stock Option Plan

At the Extraordinary Meeting of Shareholders held on November 14, 2002, the shareholders of Madeco approved the Madeco stock option plan, which was adopted by the Madeco's Board of Directors on January 28, 2003. The 2003 Incentive Plan authorizes the issuance of up to 493,334,000 shares of the Company's Common Stock upon the exercises of stock options.

On April 24, 2003, the Company granted stock options to certain employees in the total amount of 182,147,724 shares. These options were granted at fair market value on the grant date. The options vested and become exercisable on the period comprised between September 30, 2004 to November 30, 2004, with an exercise price of Ch\$24. As of December 31, 2004, these options were executed by its holders.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted  
 Accounting Principles (continued)

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r) Lease commitments:

The Company's subsidiary Madeco leases certain property under long-term non-cancelable leases, which are accounted for as capital leases. The related future minimum lease payments as of December 31, 2004 were as follows:

	As of December 31, 2004 ThCh\$
2005 .....	905,554
2006 .....	833,724
2007 .....	565,505
2008 .....	480,357
2009 .....	493,864
Thereafter .....	3,566,626
	-----
Total.....	6,845,630
	=====

Operating lease and related future minimum payments as of December 31, 2004 are presented as follows:

	As of December 31, 2004 ThCh\$
2005 .....	153,707
2006 .....	106,694
2007 .....	103,642
2008 .....	--
2009 .....	--
Thereafter .....	--
	-----
Total.....	364,043
	=====

The Company's subsidiary SM Chile schedules cash flow from lease receivables as follows:

Maturity	As of December 31, 2004		
	Total Receivable	Unearned Income	Net lease Receivable
	MCh\$	MCh\$	MCh\$
2005 .....	108,447	(17,152)	91,295
2006 .....	77,945	(13,035)	64,910
2007 .....	58,970	(9,730)	49,240
2008 .....	42,880	(7,336)	35,544
2009 .....	35,533	(5,413)	30,120
Thereafter.....	85,489	(12,745)	72,744
	-----	-----	-----
Total leasing contracts.....	409,264	(65,411)	343,853
	=====	=====	=====

QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted  
Accounting Principles (continued)

r) Lease commitments (continued)

Leased assets consist principally of real estate, industrial machinery, vehicle, and computer equipment. The allowance for uncollectible lease receivable was MCh\$5,861 as of December 31, 2004 (MCh\$8,480 as of December 31, 2003), which forms part of the allowance for loan losses.

The rental expense on premises of the Company's subsidiary SM Chile was MCh\$7,338, MCh\$7,172 and MCh\$7,080 for the years ended December 31, 2002, 2003 and 2004, respectively.

s) Advertising costs

The Company's subsidiary Madeco, expenses advertising costs when the related advertising has been published or aired. Advertising expenses amounted to ThCh\$249,083, ThCh\$526,462 and ThCh\$505,644 for the years ended December 31, 2002, 2003 and 2004, respectively.

t) Recent accounting pronouncements

Other-Than-Temporary Impairments of Certain Investments

On September 30, 2004, the FASB voted unanimously to delay the effective date of EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments." The delay applies to both debt and equity securities and specifically applies to impairments caused by interest rate and sector spreads. In addition, the provisions of EITF 03-1 that have been delayed relate to the requirements that a company declare its intent to hold the security to recovery and designate a recovery period in order to avoid recognizing an other-than-temporary impairment charge through earnings.

The FASB will be issuing implementation guidance related to this topic. Once issued, the Company Banking operations will evaluate the impact of adopting EITF 03-1.

Conditional Asset Retirement Obligations

In March 2005 the Financial Accounting Standards Board ("FASB") published FASB Interpretation 47, "Accounting for Conditional Asset Retirement Obligations". Interpretation 47 will result in (a) more consistent recognition of liabilities relating to asset retirement obligations, (b) more information about expected future cash outflows associated with those obligations and (c) more information about investments in long-lived assets because additional asset retirement costs will be recognized as part of the carrying amounts of the assets.

Interpretation 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though

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uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. Interpretation 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

Interpretation 47 is effective for fiscal years ending after December 15, 2005. The Company is in process of analyzing the impact of the Interpretation on its results of operations and financial position.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

t) Recent accounting pronouncements (continued)

### Stock Based Compensations

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS 123, "Accounting for Stock-Based Compensation," ("SFAS 123") and supersedes APB Opinion No, 25, "Accounting for Stock Issued to Employees". SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition.

The Company is required to adopt SFAS 123R in the year beginning January 1, 2006. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. The Company is evaluating the requirements of SFAS 123R and the method to be use when adopting SFAS 123R. The impact on the Company consolidated results of operations and earnings per share has not been determined yet.

In February 2004, the International Accounting Standards Board ("IASB"), issued International Financial Reporting Standard (IFRS) 2, Share-based Payment. IFRS 2 requires that all entities recognize an expense for all employee services received in share-based payment transactions, using a fair-value-based method that is similar in most respects to the fair-value-based method established in Statement 123 and the improvements made to it by this Statement. The Company is in the process of analyzing the impact of the IFRS on its results of operations and financial position.

### Inventory Costs

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The FASB issued Statement of Financial Accounting Standards No.151 (SFAS 151), "Inventory Costs - an amendment of ARB No. 43, Chapter 4", which clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as a current period expense. In addition, SFAS 151 requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after 15 June 2005. The Company is in process of analyzing the impact of this Statement on its results of operations and financial position.

u) Concentration of credit risk

u1) Non-financial services

Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash investments and trade accounts receivable. The Company maintains cash and cash equivalents, marketable securities, and certain other financial instruments with various financial institutions. These financial institutions are located in Chile and other parts of the world, and the Company's policy is designed to limit exposure to any institution, the Company performs periodic evaluations of the relative credit standing of these financial institutions as part of the Company's investment strategy.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of entities comprising the Company's customer base being located in Chile, Argentina, Brazil and Peru; and no customer has outstanding receivables of more than 10%. The Company does not require collateral or security for its accounts receivable.

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
unless otherwise stated)

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

u) Concentration of credit risk (continued)

u2) Financial services

In order to manage any credit risk associated with its derivative products, the Company's banking subsidiary grants lines of credit to transaction counterparties, in accordance with its credit policies, for each derivative transaction. The counterparty risk exposure is a function of the type of derivative, the term to maturity of the transaction and the volatility of the risk factors that affect the derivative's market value, which are managed by the Company's banking subsidiary on an on-going basis as market conditions warrant.

Guarantees in the form of performance bonds, stand by letters of credit and foreign office guarantees are issued in connection with agreements made by customers to counterparties. If the customer fails to comply with the agreement, the counterparty may enforce the performance bond as a remedy. Credit risk arises from the possibility that the customer may not be able to repay the Bank for performance bonds. To mitigate credit risk, the Bank generally determines the need for specific covenant, guarantee and collateral requirements on a

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case-by-case basis, depending on the nature of the financial instrument and the customer's creditworthiness.

### v) Sale and leaseback transactions

Leaseback transactions as of December 31, 2004 are detailed as follows:

On March 30, 2001, the Company's indirect subsidiary Alusa, entered into a sale and leaseback contract on the Quilicura assets with Corpbanca in connection with restructuring its liabilities. The leaseback contract is repayable over 15 years and the following are the main features of the contract:

Seller	:	Alusa
Purchaser	:	Corpbanca
Assets involved	:	Buildings and plant located in Quilicura
Purchase price	:	UF 414,597
Final value of contract	:	UF 641,265
Number of installments	:	180 months
Contract period	:	From March 30, 2001 to March 30, 2016
Interest rate	:	2.7% semiannual (variable)

This transaction had no effect on results.

On July 30, 2002, the Company's indirect subsidiary Alusa, entered into a sale and leaseback contract on a Rotomec laminating machine, with Banco Security in connection with restructuring its liabilities. The leaseback contract is repayable over 36 months and the main features of the contract are as follows:

Seller	:	Alusa
Purchaser	:	Banco Security
Assets involved	:	Rotomec laminating machine
Purchase price	:	UF 8,335.08
Final value of contract	:	UF 9,203.00
Number of installments	:	36 months
Contract period	:	From July 30, 2002 to July 30, 2005
Interest rate	:	9.23% annual

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QUINENCO S.A. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
(expressed in constant Chilean pesos of December 31, 2004,  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

### v) Sale and leaseback transactions (continued)

This transaction resulted in a loss of ThCh\$15,937 (historic pesos) on the sale of the assets which was recognized in its entirety in the income statement.

On June 11, 2004, the Company's indirect subsidiary Alusa, signed an agreement for the Totani Bagging Machine model BH-60HV LLSC. Said transaction was agreed with Banco del Estado for a 36-month term and its purpose was restructuring the Company's liabilities, with these characteristics:

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Selling company : Alusa  
 Buying company : Banco del Estado  
 Goods involved : Totani Bagging Machine model BH-60HV LLSC  
 Purchase price : UF 244.780  
 Nominal value of contract : UF 264.643  
 Number of installments : 36 months  
 Term of the agreement : From November 28, 2003 to December 28, 2006  
 Interest rate : 5.00% annual

This transaction resulted in a gain of Th\$4,563 on sale of plan and equipment, which was recognized in the income statement.

On December 1, 2004, the Company's indirect subsidiary Alusa, signed an agreement for a Cone Machine. This transaction was carried out with Banco del Estado for a 36-month term and its purpose was restructuring the Company's liabilities and on May 11, 2004 that contract was novated with the following characteristics:

Selling company : Alusa  
 Buying company : Banco del Estado  
 Goods involved : Cone Machine  
 Purchase price : UF 2.736,49  
 Nominal value of contract : UF 2.883,25  
 Number of installments : 36 months  
 Term of the agreement : From November 28, 2003 to December 28, 2006  
 Interest rate : 7.05% annual

This transaction had no effect on results.

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QUINENCO S.A. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)  
 (expressed in constant Chilean pesos of December 31, 2004,  
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Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles (continued)

(w) Stock option plan in Madeco

The options exercise period was from September 30, 2004 to November 30, 2004, assuming the employee continued service to that date, with an exercise price of 24 Chilean pesos per share.

At an Extraordinary Shareholders' Meeting held on December 22, 2004, it was agreed to modify the placement value of remaining 311,186,276 shares destined to such compensation plans, setting a price of Ch\$60 per share.

A summary of stock option activity for the Plan is as follows:

	For the Year Ended December 31,	
	2003	2004
	Number	Number
Authorized at beginning of period	493,334,000	493,334,000

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Cancelled during the period	--	--
Exercised during the period	--	182,147,724
Authorized at end of period	493,334,000	311,186,276

The Company applies Accounting Principles Board Opinion No.25 when accounting for stock options, and no compensation cost is recognized for grants made to employees when the grant price is greater than or equal to the market price of a common share on the date of grant. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, net loss would have been increased to the proforma amounts indicated below:

	----- Proforma net loss for the years ended December 31, 2003 ----- ThCh\$
Net loss attributable to common shareholders, as reported .....	(20,152,183)
Add: Stock based employee compensation expense included in reported net loss, net of tax related effects .....	--
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect .....	(3,913,766)
Proforma net loss .....	(24,065,949)
Loss per share .....	(7.05)
As reported .....	(8.43)

The per share weighted-average fair value of stock options granted during 2003 was ThCh\$25.89. Such amount was determined using the Black-Scholes option pricing model with the following weighted-average assumptions: 2003 - expected dividend yield of 0%, risk-free rate of 18 months, volatility of 27.16%.

(x) Employees collective bargaining agreements

As of December 31, 2004 approximately 67.28% of the Company's employees are covered by collective bargaining agreements. Of the employees covered by collective agreements, a 30.83% of them the collective agreements will expire into one year.

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QUINENCO S.A. AND SUBSIDIARIES  
 SCHEDULE 1- CONDENSED FINANCIAL INFORMATION OF QUINENCO S.A.  
 ("QUINENCO INDIVIDUAL")  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Schedule I - Condensed financial information of Quinenco S.A. ("Quinenco Individual")

1) Condensed balance sheets of Quinenco Individual under US GAAP as of December 31, 2003 and 2004 are as follows:

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	As of December, 31	
	2003	2004
	ThCh\$	ThCh\$
<b>Assets:</b>		
Current assets		
Cash and time deposits .....	11,926,634	422,831
Other current assets .....	20,227,193	13,039,853
<b>Total current assets .....</b>	<b>32,153,827</b>	<b>13,462,684</b>
 Net property, plant and equipment .....	 6,320,289	 4,969,552
 <b>Other assets:</b>		
Investments in and advances to related companies ...	552,843,382	550,133,400
Other non-current assets .....	208,646,056	232,691,238
<b>Total other assets .....</b>	<b>761,489,438</b>	<b>782,824,638</b>
 <b>Total assets .....</b>	 <b>799,963,554</b>	 <b>801,256,874</b>
 <b>Liabilities and Shareholders' Equity:</b>		
Current liabilities .....	32,306,842	33,137,578
Long-term liabilities .....	103,492,560	86,816,173
 Shareholders' equity		
Common stock .....	470,774,004	470,774,003
Reserves .....	193,390,148	210,529,120
	664,164,152	681,303,123
 <b>Total liabilities and shareholders' equity....</b>	 <b>799,963,554</b>	 <b>801,256,874</b>

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QUINENCO S.A. AND SUBSIDIARIES  
 SCHEDULE 1- CONDENSED FINANCIAL INFORMATION OF QUINENCO S.A,  
 ("QUINENCO INDIVIDUAL")  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Schedule I - Condensed financial information of Quinenco S.A. ("Quinenco Individual") (continued)

2) Condensed income statements of Quinenco Individual under US GAAP for the years ended December 31, 2002, 2003 and 2004 are as follows:

Year ended December, 31

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	2002	2003	2004
	ThCh\$	ThCh\$	ThCh\$
Operating results:			
Net sales .....	--	--	--
Cost of sales .....	--	--	--
Administrative and selling expenses .....	(4,548,957)	(5,497,403)	(4,893,206)
Other operating results .....	5,210,888	743,449	--
Operating income .....	661,931	(4,753,954)	(4,893,206)
Non-Operating results:			
Non-operating income and expenses, net .....	227,715	34,441,487	(551,588)
Income taxes .....	68,432	(182,374)	(2,611,463)
Equity participation in income (loss) of related companies, net .....	(91,086,211)	30,986,942	46,735,602
Income (loss) before cumulative change in accounting principle .....	(90,128,133)	60,492,101	38,679,345
Cumulative change in accounting principle .....	4,961,332	--	--
Net (loss) income .....	(85,166,801)	60,492,101	38,679,345

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QUINENCO S.A. AND SUBSIDIARIES  
 SCHEDULE 1- CONDENSED FINANCIAL INFORMATION OF QUINENCO S.A.  
 ("QUINENCO INDIVIDUAL")  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Schedule I - Condensed financial information of Quinenco S.A. ("Quinenco Individual") (continued)

3) Condensed statements of cash flows of Quinenco Individual under US GAAP for the years ended December 31, 2002, 2003 and 2004 are as follows:

	Year ended December	
	2002	2003
	ThCh\$	ThCh\$
Net cash provided by operating activities	1,757,019	49,076,991
Cash flows from financing activities:		
Proceeds from loans obtained from related companies .....	--	44,040,773
Proceeds from bond issuances .....	--	--
Dividends paid .....	(6,584,602)	(20,086,000)
Payment of debt .....	(191,266)	(16,330,077)
Payment of bonds .....	(6,991,547)	(11,229,308)
Payment of loans obtained from related companies .....	(36,836,987)	--
Other disbursements for financing .....	(24,117)	(53,801)

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Net cash provided by (used in) financing activities .....	(50,628,519)	16,407,501
Cash flows from investing activities:		
Proceeds from sales of property, plant and equipment .....	--	47,216
Proceeds from sales of permanent investments .....	--	16,046,895
Payments received on loans to related companies .....	348,362,920	--
Other receipts from investments .....	21,884,151	38,343,803
Additions to property, plant and equipment .....	(7,724)	(571,499)
Long-term investments .....	(284,142,282)	(44,460,705)
Other loans granted to related companies .....	--	(104,288,474)
Other investment disbursements .....	(207,340)	--
Net cash provided by (used in) investing activities .....	85,889,725	(94,882,764)
Net cash flow for the year .....	37,018,225	(29,398,272)
Effect of price-level restatement on cash and cash equivalents .	248,839	(4,071,012)
Effect of exchange rate differences in cash and cash equivalents	3,487	(6,188)
Net (decrease) increase in cash and cash equivalents .....	37,270,551	(33,475,472)
Cash and cash equivalents beginning of year .....	24,822,329	62,092,880
Cash and cash equivalents end of year .....	62,092,880	28,617,408

- 4) The following table presents long-term bank debt payable as of December 31, 2003 and 2004:

		As of December 31, 2004				
Financial institution	Currency	After 1 year	After 2 years	After 3	After 5	After 10
		but within 2 years	but within 3 years	years but within 5 years	years but within 10 years	
		ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Banco Credito e Inversiones .	UF	--	--	--	--	--
Total .....		--	--	--	--	--

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QUINENCO S.A. AND SUBSIDIARIES  
 SCHEDULE 1- CONDENSED FINANCIAL INFORMATION OF QUINENCO S.A.  
 ("QUINENCO INDIVIDUAL")  
 (expressed in constant Chilean pesos of December 31, 2004,  
 unless otherwise stated)

Schedule I - Condensed financial information of Quinenco S.A.  
 ("Quinenco Individual") (continued)

- 5) The following table presents bonds payable as of December 31, 2003 and 2004:

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Series	Face value outstanding	Currency	Interest rate	Maturity	
			%		----- 200 ----- ThC
A	62,500	UF	6.2	30/04/2021	
B	900,000	UF	6.2	30/04/2008	16, -----
Total current portion					16, =====
A	1,937,500	UF	6.2	30/04/2021	34, -----
B	2,250,000	UF	6.2	30/04/2008	54, -----
Total long-term portion					89, =====

6) The following table presents a schedule of debt maturity in each of the next five years and thereafter as of December 31, 2004:

	As of December 31, 2004
	----- ThCh\$
2005.....	22,697,662
2006.....	17,749,976
2007.....	17,749,976
2008.....	9,957,304
2009.....	2,164,631
Thereafter .....	24,893,259
	-----
Total .....	95,212,808
	=====

7) The following table presents the dividends received by Quinenco Individual in the years ended December 31, 2002, 2003 and 2004:

	Year ended December 31,		
	----- 2002	----- 2003	----- 2004
	----- ThCh\$	----- ThCh\$	----- ThCh\$
Dividends received .....	6,853,966	59,561,846	8,478,854