
2004 annual report
QUIÑENCO S.A.

Corporate Identification

QUI ENCO is an open stock company, which was incorporated as Forestal Qui enco S.A. by public deed on January 28, 1957 and modified by public deed on April 15, 1957, both in the Valpara so Notary Office of Mr. Carlos Calder n Cousi o. The company transferred its domicile to Santiago by a reform in its by-laws, which is set forth in public deed on March 25, 1966 granted before the Valpara so Notary Office of Mr. Rafael Luis Barahona Stahr, modified by public deed on April 13, 1966 granted before the Santiago Notary Office of Mr. Eduardo Gonz lez Abbott. An abstract of the reform was registered on page 3,787, number 1,952 of the Register of Commerce of Santiago of 1966 and published in the Official Gazette on June 11, 1966. The company changed its name to Qui enco S.A. and agreed on a new revised text of its by-laws by a reform set forth in public deed on October 11, 1996 granted before the Santiago Notary Office of Mr. Ren Benavente Cash. An abstract of this reform was registered on page 26,437 number 20,473 of the Santiago Register of Commerce of 1996, and it was published in the Official Gazette on October 29, 1996. The last modification was set forth in public deed on November 5, 2004, granted before the Santiago Notary Office of Mr. Andr s Rubio Flores. An abstract of this reform was registered on page 38,347 number 28,535 of the Santiago Register of Commerce of 2004, and it was published in the Official Gazette on November 29, 2004.

In accordance with Law N°18,046, QUI ENCO S.A. (Qui enco), an open stock company registered in the Securities Register under number 0597, is subject to regulation by the Chilean Superintendency of Securities and Insurance (SVS).

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Shareholders Services
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Investor Relations
Contact Cindi Freeman
Investor Relations Manager
Telephone: (56-2) 750-7221
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cfreeman@lq.cl

Stock Exchanges
In the United States (LQ): NYSE
10 ordinary shares = 1 ADR

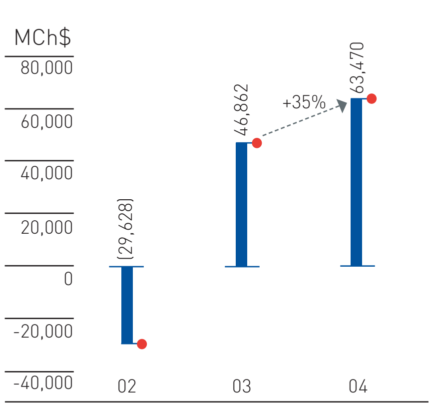
In Chile (Quinenco):
- Bolsa de Comercio de Santiago
- Bolsa de Comercio de Valpara so
- Bolsa de Valores de Chile

Auditors
Ernst & Young Ltda.
Hu rfanos 770, 5th Floor
Santiago, Chile
Telephone: (56-2) 676-1000

5 year financial highlights

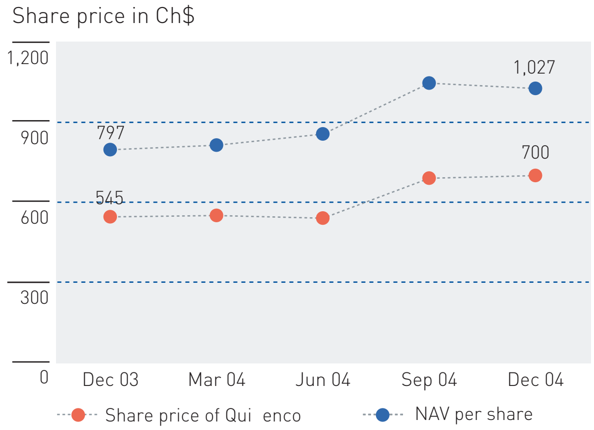
In millions of constant Ch$ as of December 31, 2004		2004	2003	2002	2001	2000
CONSOLIDATED RESULTS						
Net sales revenue	MCh$	382,511	366,314	410,268	505,470	496,655
Operating income		27,197	13,066	10,639	18,677	17,232
EBITDA		52,778	42,557	41,727	52,517	51,073
Proportionate share of net income of equity-method investments		58,469	58,831	26,071	38,656	18,427
Other non-operating losses		(56,455)	(58,650)	(138,199)	(78,611)	(59,722)
Net income (loss) for the year		23,353	38,637	(78,141)	16,538	(6,209)
FINANCIAL POSITION						
Total assets	MCh$	1,335,698	1,426,144	1,576,932	1,664,765	1,499,834
Total liabilities		592,319	677,504	842,082	846,641	687,028
Minority interest		108,333	98,768	82,109	95,828	112,494
Shareholders equity	MCh$	635,045	649,873	652,740	722,296	700,312
Current ratio (current assets/current liabilities)		1.47	1.54	0.85	1.04	1.14
Leverage (total liabilities/SH equity)		0.93	1.04	1.29	1.17	0.98
Earnings (loss) per share	Ch$	21.63	35.78	(72.37)	15.32	(5.75)
OTHER INFORMATION						
Number of shareholders		2,405	2,588	2,770	2,898	3,005
Number of shares outstanding		1,079,740,079	1,079,740,079	1,079,740,079	1,079,740,079	1,079,740,079

Net income (loss) contribution from operating companies



NAV/share price evolution

Market cap US$1,356 mln as of 12.31.2004
Nav US$1,989 mln as of 12.31.2004



Letter from the Chairman of the Board

Dear Shareholders,

It is with great pleasure that I present Quiñenco's annual report and financial statements for the year ended December 31, 2004.

To our satisfaction, we can report that our long-term strategy, built around the strategic management of investments and assets, proved successful in 2004. Quiñenco strengthened its position among the most important players in the financial services, food and beverage, telecommunications and manufacturing sectors. Our sustained efforts to create shareholder value are reflected not only in the results reported during the period, but also by the 28% rise in the share price.

In 2004, the Chilean economy expanded at growth rates not seen since 1997, and Quiñenco was ready to make the most of this favorable environment. It is not surprising then that we find Banco de Chile ranking first in profitability in the local financial system; Compañías Cervecerías Unidas leading the beverage sector; Telefónica del Sur holding its ground as an important actor in telecommunications thanks to its ability to continuously develop new products and services; and Madeco, the copper products manufacturer, making a noteworthy recovery after a deep restructuring.

In line with our constant search for investment opportunities, we bought a stake in Almacenes París during the year, at a favorable price. At the same time, we decided to sell Lucchetti Chile after having received an attractive offer.

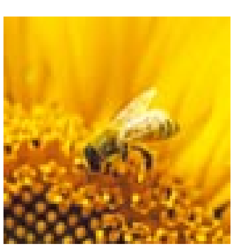
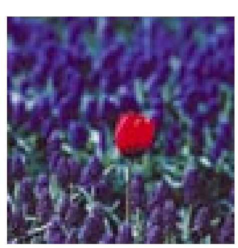
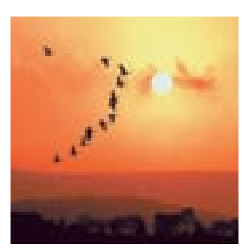
Net profits at Quiñenco in 2004 amounted to Ch$23,353 million. Although this figure represents a decline compared to the 2003 result of Ch$38,637 million, it is important to note that 2003 net income included a Ch$36,936 million one-time settlement payment arising from arbitration with Paulaner. Stripping this out, what we have is an excellent 2004 performance by group companies, which increased their total contribution to Quiñenco's net results by 35%.

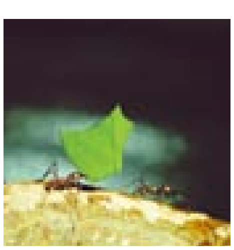
With these results came a further strengthening of Quiñenco's financial structure – with debt down by 12% – as well as a substantial improvement in the investment portfolio and efficiency gains across business units.

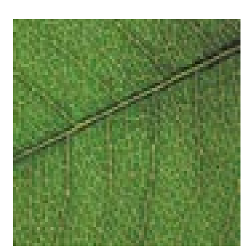
Two years after concluding its merger with Banco Edwards, Banco de Chile set another profit record in 2004 of Ch$152,628 million, an increase of approximately 14% compared to 2003, which itself had been the highest on record. What is more, the continuous progress the bank has made in achieving operating efficiencies, growing its loan portfolio and fine-tuning its commission structure have all served to help convert Banco de Chile into the most profitable bank in the country with a return on capital and reserves over 29%.

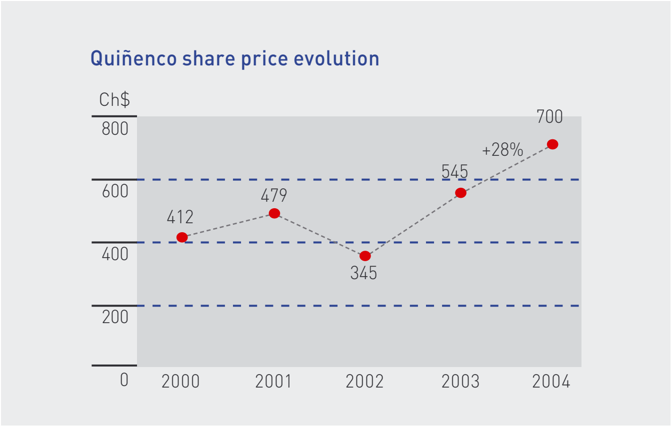
I want to also address the fact that Banco de Chile is currently providing banking authorities in the United States with all the assistance required in their investigation into its two US branches and will strive to make changes in its operating and technology bases.

CCU did well in 2004, posting record sales, operating profits and cash flow for the year. Profitability improved in all of its business areas, and the company pushed further into diverse market segments, helped by a series of product launches. These efforts are clearly reflected in the high market shares achieved.







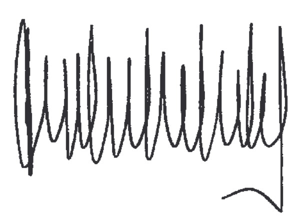
At the beginning of 2004, CCU cemented its entry into the ready-to-eat food category through the acquisition of Calaf. By using the 90,000-strong distribution network of its soft drinks business, the company intends to capitalize on the complementary nature of these product lines.

Growth at Telefónica del Sur was driven by broadband internet business which, thanks to constant innovation and the use of the latest technology, has become an industry reference for this type of activity in the south of Chile. For proof of this, one needs to look no further than the 91% surge in the number of clients during the year. The development of internet and other non-traditional services is key to maintaining a competitive edge and dynamism in this industry, and Telefónica del Sur continues to redouble its efforts to keep abreast of technology in a modern age.

A series of operational revamps has helped Madeco, which produces copper-based products, to report profits of Ch$8,512 million and so reverse the trend of the past five years. It is hoped that the improvement in sales, productivity and efficiency resulting from the restructuring becomes the prevailing trend.

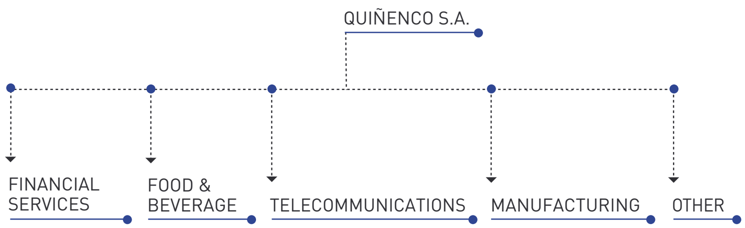
The pace of economic growth in Chile allows us to tackle the dynamics of our business on a solid footing. For this same reason, we expect our companies to benefit and to strengthen their positions inside their respective markets, either through organic growth or acquisitions. On the latter, we at Quiñenco believe that the prevailing environment is conducive to new investment opportunities.

It would be remiss of me to conclude this letter without thanking the professionals who work at Quiñenco and its group companies for the tremendous effort put in during the year. Without their commitment and dedication, the achievements and financial results would not have been possible as people are the key element to success in our organization. I would also like to extend to our executives and board members the recognition they deserve for their valuable contribution to growth in all business areas, as well as thank our shareholders for their confidence and support during the year.



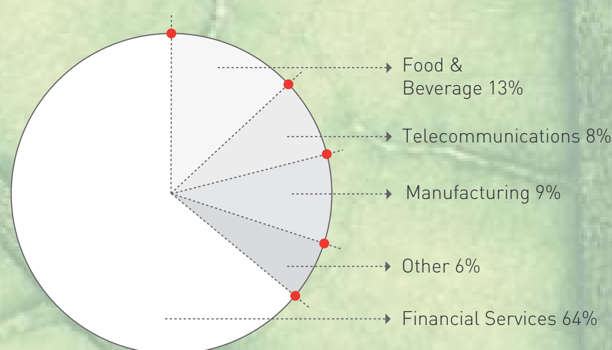
Guillermo Luksic Craig
Chairman of the Board

Company Profile



Investments by sector

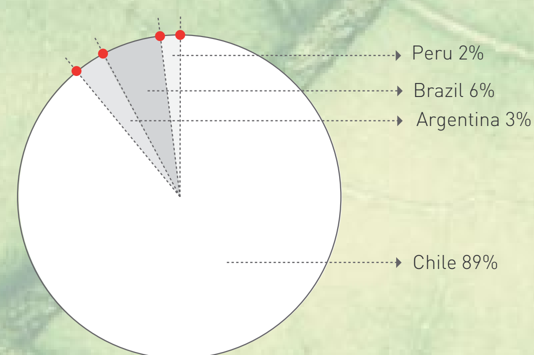
MCh$ 937,518 as of 12.31.04



Book values as of 12.31.04 (Quiñenco and intermediate holding companies)

Consolidated assets by country

As of December 31, 2004 MCh$ 1,335,698



Quiñenco is the parent company of one of the most important and diversified business conglomerates in Chile, with consolidated assets of approximately US$2.4 billion. As a holding, it has controlling interests in a significant number of companies, concentrated mainly in the financial services, food and beverage, telecommunications and manufacturing sectors. The financial services and food and beverage sectors are especially relevant to Quiñenco in that they represent 77% of all investments and 72% of corporate level assets.

As a parent company, Quiñenco is focused on maximizing the performance of its group companies, applying tried and trusted business practices developed during almost half a century of experience. Quiñenco works with the management at each operating company to help define long-term strategies, set annual targets, supervise operational and financial performance, structure and manage relevant mergers and acquisitions, identify synergies among different business areas, and seek out and retain quality personnel.

Quiñenco's business model is geared toward adding value to the companies in which it invests by sharing the know-how accumulated during decades in the marketplace. Between 1997 and 2004, Quiñenco divested diverse corporate assets worth US$2 billion, resulting in gains on sale of around US$1 billion.

Among its most recent sales are those of Lucchetti Chile to Corpora Tres Montes and the Hotel Carrera in Santiago to the Chilean government. Cash raised through these divestments helped finance acquisitions and capital increases at Quiñenco subsidiaries of more than US$1.7 billion. In 2004, these operations included investments in Calaf and Almacenes París.

Another characteristic of the Quiñenco model is the incorporation of world class strategic partners when the situation is called for. The aim here is to gain from their experience in the development of products and services. Such is the case with CCU, a company which since 2003, has been jointly controlled by Quiñenco and global brewery giant Heineken NV, providing invaluable expertise and resources for the company.

The search for excellence has been the prime driver of Quiñenco since its foundation, as much in the quality of the products and services it offers as in the quest for shareholder value. In this way, Quiñenco has assembled a highly qualified and adept management team to search out and scrutinize business opportunities through acquisitions, divestments or restructurings – all of which are geared towards keeping the group on top of developments in a highly competitive world.

Growth Strategy

Strengthen value creation in core businesses through:

- Market leadership
- Adoption of best practices
- Exploitation of synergies across business units
- Increases in productivity and efficiencies
- Reorganizations and restructurings
- Highly skilled personnel
- Acquisition and divestment of businesses

Investment criteria:

- Brand and franchise development potential
- Adequate critical mass
- Developed distribution networks
- Industry experience
- Access to strategic partners and commercial alliances
- Controlling stakes

Board of Directors

Director
Matko Koljatic Maroevic*
Business Administrator,
Catholic University of Chile
ICAME Certificate in
Marketing Management,
Stanford University, U.S.A.

Chairman
Guillermo Luksic Craig*
Director of Companies

Director
Hernán Büchi Buc
Civil Mining Engineer,
University of Chile

Director
Gonzalo Menéndez Duque*
Business Administrator,
University of Chile

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

Vice Chairman
Andrónico Luksic Craig
Director of Companies

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

Advisor to the Board
Gustavo Delgado Opazo
Director of Companies
General Accountant

* Member of the Directors' Committee

2004 Financial Results

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

Quiñenco reported consolidated revenues of Ch$382,511 million in 2004, up 4.4% from the 2003 level. Consolidated revenues were boosted by the 33% or Ch$80,427 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 implied a reduction of Ch$59,503 million in revenues when compared to 2003.

Consolidated operating income jumped by 108% reaching Ch$27,197 million in 2004. The sharp increase in operating profit for the year was entirely attributable to Madeco's operations, which benefited from strong sales, efficiency gains in production and stable SG&A expenses. The rise in operating income was partially offset by the divestment of Lucchetti's Chilean operations in early 2004, which represented a decline of Ch$3,296 million compared to 2003.

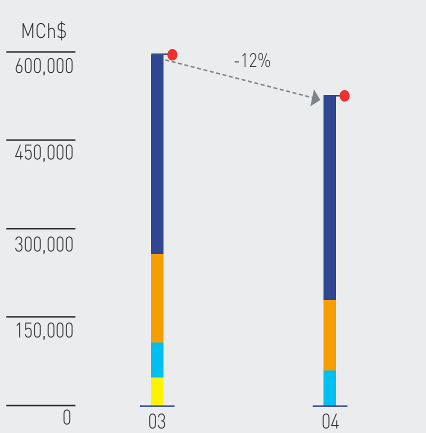
Quiñenco reported a net non-operating loss of Ch$3,844 million, compared to net non-operating income of Ch$25,571 million in 2003. The variation between the two years is largely explained by a non-recurring arbitration settlement payment received from Quiñenco's ex-partners in IRSA, the company which controls 61.6% of CCU, which boosted non-operating results by an additional Ch$36,936 million in 2003.

Financial results	2004 MCh$	2003 MCh$
Operating income	**27,197**	**13,066**
Non-operating results		
Share of net income from equity investments	58,469	58,832
Other non-operating items	(56,455)	(58,650)
Non-operating income	**2,014**	**182**
Others items*	(5,858)	25,389
Net non-operating income (loss)	(3,844)	25,571
Net income	**23,353**	**38,637**

* Includes income taxes, minority interest and amortization of negative goodwill.

2004 non-operating results benefited from a 20% reduction in interest expense, following the sale of Lucchetti Chile at the beginning of the year as well as lower interest expense at Madeco, Telefónica 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 results.

Consolidated debt



Consolidated debt breakdown

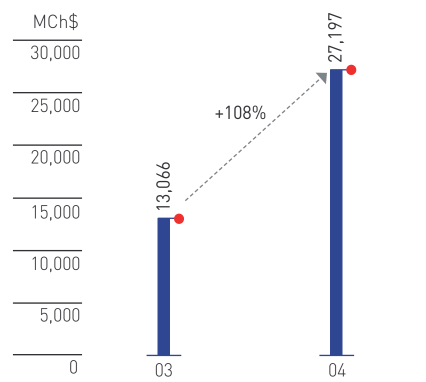
MCh$	2003	2004	%
Corporate level	338,289	347,211	+3%
Madeco	150,189	119,254	-21%
Telefónica del Sur	59,742	59,142	-1%
Indalsa	46,409	-	-100%
Carrera	300	-	-100%
Total	**594,929**	**525,607**	**-12%**

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

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

Dividend cash flow amounted to Ch$49,052 million in 2004, down from 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.

Operating income



In addition, Telefónica del Sur distributed dividends of Ch$3,235 million to Quiñenco, up from Ch$3,097 million in 2003. The strong dividend cash flow facilitated investment acquisition and debt pay-down during the period.

Net income contribution from operating companies

The following table shows the contribution of the main operating companies to Quiñenco's 2004 net income:

(In millions of Ch$ pesos as of December 31, 2004)

Companies	Quiñenco's Ownership (1)	Sales Revenue	Net Profit (Loss)	Quiñenco's Prop. Share	Total Assets	S/H Equity
Financial Services						
Banco de Chile	(2) 53.5%	(3) 469,823	152,628	45,612	9,481,150	713,068
Food & Beverage						
CCU	30.8%	420,638	45,394	13,985	592,241	302,104
Indalsa	97.0%	1,090	(4,107)	(3,962)	25,043	24,606
Telecommunications						
Telsur	73.7%	52,940	6,861	5,053	137,831	63,995
Entel	5.7%	692,485	47,364	2,695	1,154,994	622,659
Manufacturing						
Madeco	51.2%	324,035	8,512	4,615	342,910	158,513
Other Operating Companies				(4,528)		
Total Operating Companies				**63,470**		
Quiñenco & Holding Companies				**(40,117)**		
Net Income for the Year				**23,353**		

(1) Direct or indirect.
(2) Corresponds to voting rights. As a consequence of the share repurchase that Banco de Chile carried out in early 2004, Quiñenco's dividend rights in the bank increased from 29.2% to 29.9% and voting rights increased from 52.2% to 53.5%. Ownership % in the above table corresponds to voting rights in Banco de Chile.
(3) Corresponds to operating revenues.

History

1957
Forestal Quiñenco S.A. initiates its operations, exploiting eucalyptus forests and making wooden supports for coal mines.

1960s
Lucchetti S.A. and Colcura Forestal S.A. become part of the holding group.

1970s
Hoteles Carrera S.A. joins the group.

1980s
The group enters the financial services business by acquiring interests in Banco O'Higgins and Banco de Santiago.

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

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

Quiñenco acquires a majority stake in VTR S.A.

1990
Quiñenco begins acquiring shares of Endesa S.A., amassing 9.2% of the company.

1993
In the financial services sector, Quiñenco forms a partnership with Banco Central Hispanoamericano and creates the OHCH group.

47 years of value creation

1957 2004

1995
The group sells a 6.2% stake in Endesa S.A.

Quiñenco gains a controlling interest in Banco de Santiago.

In order to strengthen VTR S.A., Quiñenco enters into a strategic alliance with SBC Communications, Inc.

1996
The Luksic Group reorganizes and Quiñenco becomes the holding company for investments in the financial services and industrial sectors and Antofagasta Holding for the mining and railway sector investments.

1997
Quiñenco raises US$279 million in a public share offering on the New York and Santiago stock exchanges.

VTR S.A. sells its stake in Startel S.A., leader in mobile telephony, to CTC.

1998
VTR S.A. divests its long-distance telephony business by selling VTR Larga Distancia S.A.

In partnership with the Spanish construction company, Ferrovial Inmobilaria, Quiñenco creates Habitaria S.A.

1999
Following the sale of Banco Central Hispanoamericano to BSCH, Quiñenco sells its stake in OHCH to the BSCH consortium. Shortly thereafter, Quiñenco acquires 51.2% of Banco de A. Edwards and an 8% interest in Banco de Chile.

Quiñenco acquires a 14.3% stake in Entel S.A.

The holding group sells its 66% stake in VTR Hipercable S.A. to UIH Latin America.

2000
Quiñenco creates LQ Inversiones Financieras S.A., an investment vehicle for its holdings in the financial services sector.

2001
Quiñenco gains control of Banco de Chile through the acquisition of 52.7% of the voting rights.

Quiñenco sells an 8% stake in Entel.

Quiñenco divests its 39.4% interest in Plava Laguna, a tourist resort located on the Adriatic coast in Croatia.

2002
At the beginning of the year, the group merges Banco de Chile with Banco Edwards, creating the largest bank in Chile at that time.

2003
Quiñenco obtains a US$50 million settlement payment in relation to the conclusion of arbitration with its German partners in IRSA, the controlling entity of CCU.

Following the exit of the Schörghuber Group, Heineken, one of the largest brewers in the world, becomes Quiñenco's partner in IRSA.

Madeco carries out a US$130 million capital increase and restructures its debt.

Hotel Carrera of Santiago is sold to the Chilean Ministry of Foreign Relations.

2004
Calaf, a cookie and candy manufacturer, is acquired through a joint venture with CCU and Indalsa.

Lucchetti retires from the pasta, oil and soup business by selling its Chilean operations.

Quiñenco acquires an 11.41% interest in a leading retail department store chain, Almacenes Paris.

LQIF, Quiñenco's financial services holding vehicle, raises UF7,000,000 in a local bond issue.

Human Resources

At Quiñenco we know full well that if it weren't for the efforts, dedication, talent and loyalty of the people who make up the company, nothing we do would be possible. It follows, then, that one of the main concerns of the parent company is the selection of first-class people, as much for their professional capacity as for their human qualities.

Those who make up Quiñenco are highly qualified professionals who have made teamwork, personal commitment and the quest for results the focus of their performance.

To identify this professional profile, Quiñenco has established selection and recruitment mechanisms directed at finding the best emerging talent and nurturing career development. At the same time, the company has general and specific mechanisms for evaluating the performance of those people it takes on, so that remuneration is commensurate with the level of responsibility and linked to performance and results year to year.

Quiñenco's culture embraces the development of talent and expertise, both individual and collective, and encourages personnel to reflect on their progress. This means that our people are equipped to give account of themselves as they improve, while delivering results that add value to the company.

Among the main tasks of Quiñenco's human resources management is the promotion of motivation as a means of increasing productivity, a policy that amounts to a permanent invitation to identify and commit to the success of the business.

It is also the job of Human Resources to match shareholders' interests with those of our workers, as well as to strengthen their sense of belonging to a group, to provide the optimum organizational environment and workplace conditions, to maintain an explicit commitment to the community and the environment, and to gear any process of reorganization toward improving structure, results and quality.

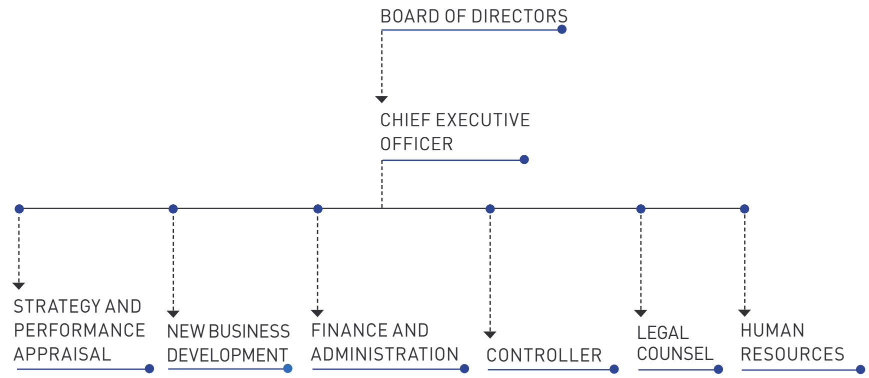
It is worth highlighting that Quiñenco has always taken care to adapt its human resources policy to new technologies and the globalization of markets.

Personnel (as of December 31, 2004)

Company	Executives	Professionals & technicians	Other workers	Total
Quiñenco	12	13	15	40
Banco de Chile	318	4,750	4,297	9,365
Madeco	49	643	2,085	2,777
Telsur	6	196	301	503
Indalsa	3	1	5	9
Hoteles Carrera	2	11	52	65
Other subsidiaries	14	57	42	113
Total	**404**	**5,671**	**6,797**	**12,872**

As of December 31, 2004, the affiliate companies CCU and Habitaria had 3,876 and 60 employees, respectively.

Organization



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

STRATEGY AND PERFORMANCE APPRAISAL
Manager of Strategy and Performance Appraisal
Martín Rodríguez Guiraldes
Business Administrator,
Catholic University of Chile
MBA, Univ. of California
at Los Angeles (UCLA), U.S.A.

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

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

FINANCE AND ADMINISTRATION
Chief Financial Officer
Luis Fernando Antúnez Bories
Civil Industrial Engineer,
Catholic University of Chile
MBA, Georgia State University, U.S.A.

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

General Accountant
Oscar Henríquez Vignes
Certified Public Accountant,
University of Chile
Graduate degree in Tax Planning,
Catholic University of Chile
Master of Tax Management,
Adolfo Ibañez University

CONTROLLER
Controller
Fernando Silva Lavín
Business Administrator,
Catholic University of Chile

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

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

Attorney
Davor Domitrovic Grubisic
Attorney,
University of Chile

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

Pedro Marín
Manager of Performance Appraisal

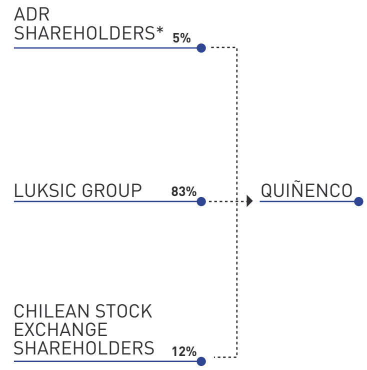
Oscar Henríquez
General Accountant

Alessandro Bizzarri
Attorney

Cindi Freeman
Investor Relations Manager

Davor Domitrovic
Attorney

Shareholders



*1 ADR is equivalent to 10 ordinary shares

The Company's shares are traded on the New York Stock Exchange and the Santiago Stock Exchange (Bolsa de Comercio de Santiago) since 1997. The twelve largest shareholders as of December 31, 2004 are:

Corporate I.D. #	Name	Shares	%
77.636.320-0	Andsberg Inversiones Ltda.*	364,163,159	33.73
59.039.730-k	Ruana Copper A.G. Agencia Chile*	240,938,000	22.31
78.306.560-6	Inmobiliaria e Inversiones Río Claro S.A.*	142,819,109	13.23
96.536.010-7	Inversiones Consolidadas S.A.*	124,819,108	11.56
59.030.820-k	The Bank of New York **	53,239,840	4.93
96.894.180-1	Bancard S.A.	21,967,518	2.03
90.818.000-3	Axxión S.A.	20,854,008	1.93
96.871.750-2	Inversiones Salta S.A.*	18,000,000	1.67
96.571.220-8	Banchile Corredora de Bolsa S.A.	8,262,759	0.77
96.684.990-8	Moneda S.A. A.F.I. para Pionero F.I. Mobiliaria	5,415,000	0.50
99.012.000-5	Compañía Seg. Vida Consorcio Nac. de Seguros S.A.	4,838,020	0.45
98.001.000-7	A.F.P. Cuprum S.A. Fondo Tipo C	3,417,303	0.32
Totales		1,008,733,824	93.43

	Other information as of 12.31.2004		
	Number of shares outstanding	1,079,740,079	
	Number of shareholders	2,405	

* Companies related to the Luksic Group
** Depositary bank for ADR shareholders

Quiñenco is controlled 82.5% by the Luksic Group, through its companies Andsberg Inversiones Ltda., Ruana Copper A.G. Agencia Chile, Inversiones Consolidadas S.A., Inmobiliaria e Inversiones Río Claro S.A. and Inversiones Salta S.A. All of these companies are linked to Antonio Andrónico Luksic Abaroa, Andrónico Mariano Luksic Craig and Guillermo Antonio Luksic Craig. There are no formal agreements as to the voting or disposition of shares between members of the Luksic Group.

Antonio Andrónico Luksic Abaroa indirectly holds a 94.6% interest in Andsberg Inversiones Ltda. and a 100% interest in Ruana Copper A.G. Agencia Chile. Andrónico Mariano Luksic Craig and his family hold 100% of Inversiones Consolidadas S.A. and Inversiones Salta S.A., both directly and indirectly. Guillermo Antonio Luksic Craig holds a 99.9% direct interest in Inmobiliaria e Inversiones Río Claro S.A..

Social Responsibility

Social responsibility

At Quiñenco we believe that for a company to be part of society, it has a responsibility to contribute to the common good and advancement of the community at large. This is why our collaborative efforts with different social organizations, associations and institutions are directed at providing concrete

support in the areas of education, health, art, culture and the environment.

The companies that make up Quiñenco are committed to activities and programs of this type. In this way, the whole group is involved in various initiatives, embracing everything from improving the quality of life for handicapped people and needy children to backing projects that promote environmentally-friendly work practices. At the same time, it collaborates and takes part in campaigns to improve the health and education of Chileans, as well as promote culture and participation in a diverse range of sports.

Children

The plight of handicapped children is an issue of great concern at the Quiñenco group companies. Without doubt, one of the great national events which address this concern is the Teletón, an initiative in which our companies have been present and committed right from the start. It's not only a question of financial support - time, dedication, teamwork, enthusiasm and sacrifice are all part of the support network. Another disquieting reality in our society is that of child poverty. To help beat it, our institutions back national campaigns aimed at helping the most needy of our children.

Education

Ever conscious of education's vital role in the development of a country, the Quiñenco group is committed to providing sponsorship to first-class seminars and the organization of community programs aimed at improving the quality of education available to children from poor backgrounds. It also supplies educational materials to public schools, offers scholarships at the primary, secondary and tertiary levels, and engages in other activities such as the donation of computer equipment and installation of laboratories.

Culture

The promotion of culture is one of Quiñenco's most important commitments to the community. Each year, the different group companies help finance, sponsor and host exhibitions featuring outstanding contemporary Chilean artists, in town halls, colleges, recreation centers and restaurants. The Company also promotes musical events of broad public appeal, such as world-class recitals and shows.

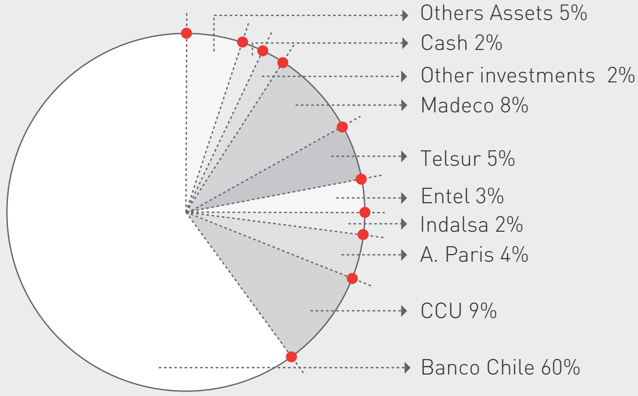
At the same time, the Quiñenco group, through its different companies, sponsors sportsmen, women and teams, including handicapped competitors. It also backs various events, such as family sports days and international golf and ski tournaments, among others.

The environment

One of the basic principles of the Quiñenco group consists of working in harmony with the environment and promoting the conservation of flora and fauna. Through one of its companies, Quiñenco manages the protection of native tree species, an activity that, without doubt, adds to peoples' quality of life. At the same time, the Company sets aside annual donations directed at promoting a culture of respect for the conservation of our natural heritage.

Composition of assets

As of December 31, 2004 MCh$ 1,004,993



Corporative level (Quiñenco and intermediate holding companies).

The dynamic nature of the Quiñenco group companies came to the forefront in 2004, leaving no doubt as to their quality and reaffirming their leadership in their respective markets.

Business activities

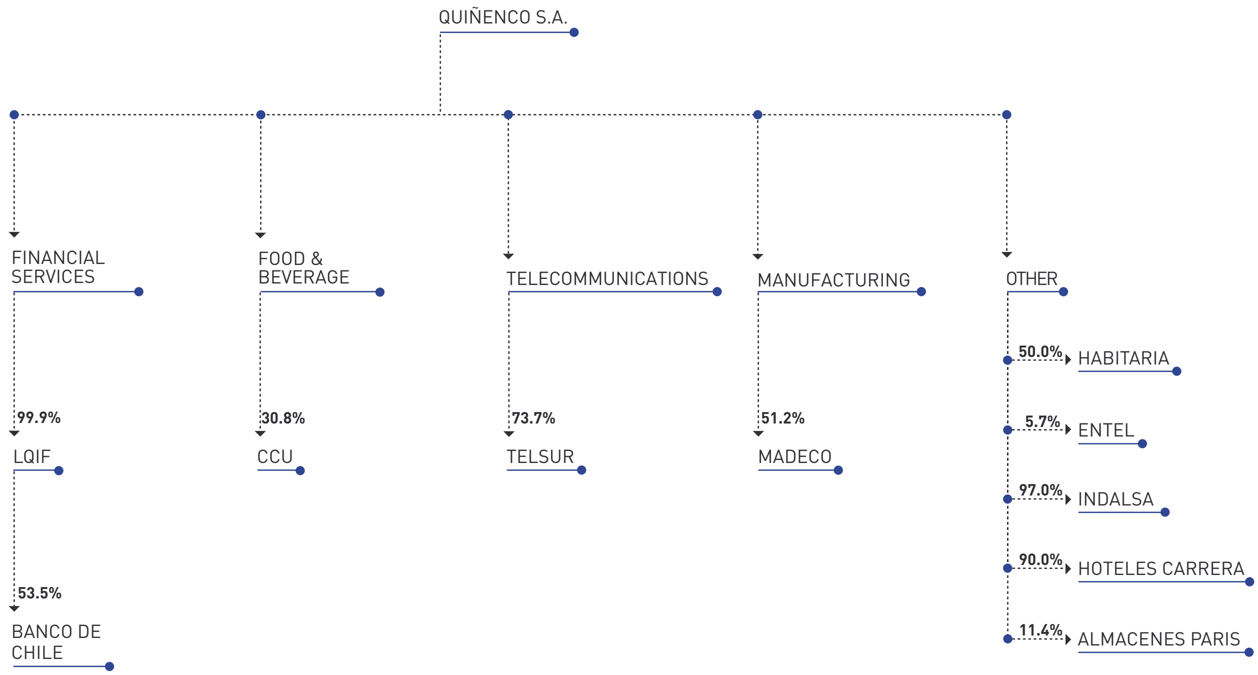
Leading

Leader in profitability

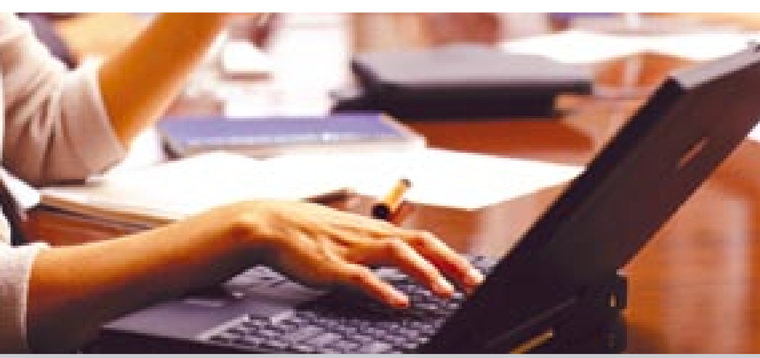
Two years after its merger with Banco de Edwards, Banco de Chile has become the most profitable bank in the Chilean financial system - with a 29.2% return on capital and reserves, thanks to a solid consolidation strategy in the national market. This performance places it among the best banks in Chile and Latin America, according to rankings compiled by América Economía and The Banker, a member of the Financial Times group.

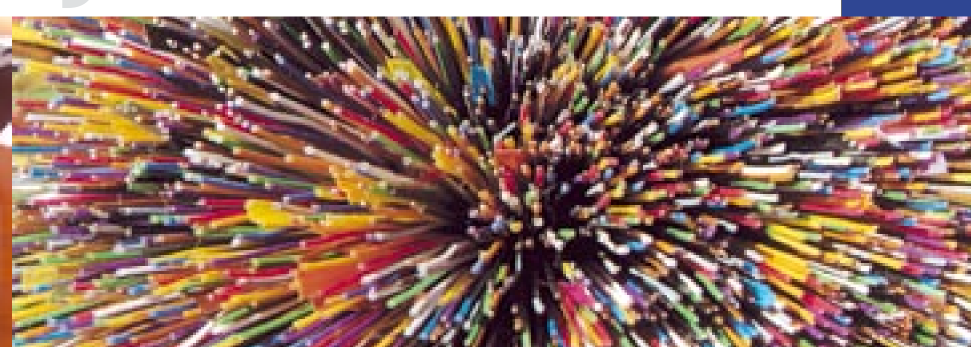
Product expansion

CCU continued to broaden its already diverse portfolio of beers, soft drinks, juices, mineral water, wines and Piscos in 2004. It also pushed into the snack food market with the purchase of Calaf, taking advantage of its extensive, 90,000-strong national distribution network. This constant innovation allowed CCU to record the highest level of sales in its history during 2004.



the way to...





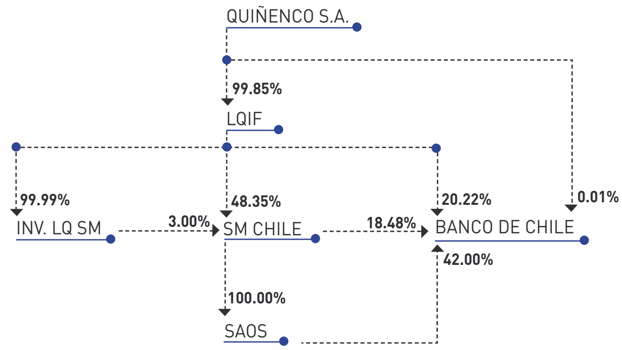
Technology solutions

Telefónica del Sur was the first to roll out a wireless network of broadband internet access points in Chile, using Bluetooth and WiFi technology. In 2004, it opted to go even further, establishing an alliance with Telefónica CTC Chile to create the most extensive network in South America. These advances are expected to add fuel to an already explosive level of growth in internet services.

Renovation

After years of difficult operating conditions, 2004 marked the start of the recovery for Madeco and its businesses. A business plan was implemented that reactivated sales activity, which, coupled with efficiency gains and a healthier financial structure, allowed the company to reverse losses and report a net profit for the first time since 1998.

LQIF
LQ INVERSIONES FINANCIERAS



LQIF's stake in Banco de Chile	2003	2004
Voting rights *	52.2%	53.5%
Dividend rights *	29.2%	29.9%
% of shares owned		
SM Chile	51.4%	51.4%
Banco de Chile	20.2%	20.2%

* As a consequence of the share repurchase that Banco de Chile carried out in 2004, voting rights increased to 53.5% and dividend rights to 29.9%.

Quiñenco's investments in the financial services sector are grouped together in LQ Inversiones Financieras, a wholly-owned subsidiary. The company holds 53.5% of the voting rights and 29.9% of the dividend rights of Banco de Chile, one of Chile's most important financial institutions.

Indeed, the financial services sector is Quiñenco's most important business segment, both in terms of corporate assets (60%) and total investments (64%). In 2004, Banco de Chile's contribution to Quiñenco's net income was Ch$45,612 million, making it the most significant operating company in the group.

Quiñenco has been active in the Chilean financial sector for decades, boasting a series of successes. Among the highlights are the merger of Banco Santiago with Banco O'Higgins in 1997; the ensuing sale of its stake when the merged entity was absorbed by Banco Santander Central Hispano (BSCH) of Spain in 1999; the purchase of controlling stakes in Banco Edwards and Banco de Chile in 1999 and 2001, respectively, and the subsequent merger of these two banks in 2002.

At the end of 2004, LQIF placed its first bond issue in the domestic market, raising UF7 million. The issue was broken into two parts: Series A, for UF4 million which has a 5.5 year maturity and a 3.25% annual coupon rate and; Series B, amounting to UF3 million, which has a 20.5 year maturity and a 4.75% coupon rate. The proceeds from the bond issue were used to refinance existing debt obligations at LQIF.

LQIF reported net profit of Ch$21,149 million in 2004, principally due to income from investments in related companies – principally Banco de Chile – which reached Ch$45,592 million, the effect of which was partially offset by goodwill amortization related to the acquisition of the bank in 2001 and the financial costs incurred during the period.

Banco de Chile

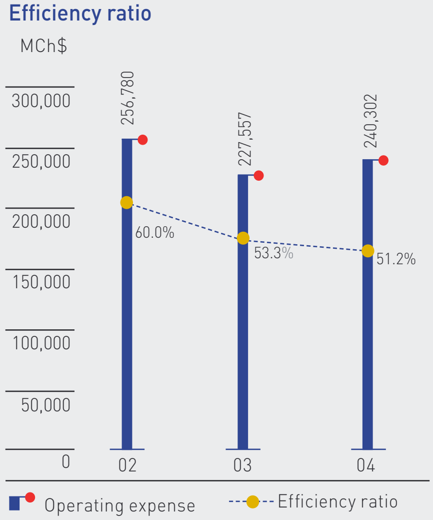
Leader in profitability

Banco de Chile is among the largest and most successful financial institutions in Chile, both in terms of return on capital and reserves and return to its investors. It is number one among locally-capitalized banks and the second-largest financial institution in Chile, well ahead of the rest of the financial system in terms of market position, brand recognition, client base and income diversification.

Banco de Chile has US$17.3 billion in assets with shareholders' equity of US$1.2 billion. The bank's market share in terms of loans is 18%, while it has 15% of time deposits and 21% of the current accounts market.

Banco de Chile is active in all market segments through its Chile, Edwards and CrediChile brands, offering a wide range of financial products and services to its clients. Its broad client base provides services to large corporations, small and medium-sized companies and retail customers through a national network made up of 241 branches, 1,001 automatic teller machines (ATMs) and other electronic distribution channels. Operations are organized in six main business divisions: large corporations; middle market companies; retail banking; mass consumer market; international banking and treasury operations.

Efficiency ratio



Efficiency ratio is calculated as a percentage of operating expenses to operating revenues.

This wide range of financial services is further complemented by subsidiary operations which provide securitization, stock brokerage, investment and mutual funds, insurance, financial consultancy and factoring services. In 2004, the subsidiary

BanChile Trade Services was created to serve clients with existing or planned operations in the Asian market. In order to create this business line, the bank signed an agreement with Standard Chartered Bank, a UK financial institution with an important presence in Asia.

Banco de Chile also has branches in New York and Miami, as well as a network of representative offices in Buenos Aires, Mexico City and Sao Paulo. These allow the bank to extend its international products and services in a competitive fashion, and in accordance with the needs of its clients.

Among the main objectives of the bank are the provision of high-quality services to its clients; the expansion of its commission base through the strengthening and creation of products; the continual drive to improve efficiency –currently around 51%– and the development of international business.

It is worth highlighting that apart from its listings in the local capital market, Banco de Chile is also present on the New York

Key financial information		12.31.03	12.31.04
Total loans	MCh$	6,411,793	6,888,911
Total assets	MCh$	9,481,150	9,649,203
Shareholders' equity	MCh$	713,068	674,533
ROAA		1.45%	1.59%
ROAE		20.0%	23.6%
Net financial margin		3.9%	4.0%
Efficiency ratio		53.3%	51.2%
Market share (loans)		18.1%	17.6%

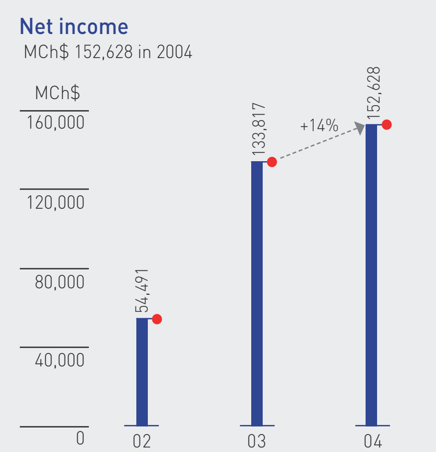
Stock Exchange (NYSE), the Madrid stock exchange and the London Stock Exchange. Its stock market value of some US$4 billion makes it one of the largest in Chile in terms of market capitalization.

During 2004, Banco de Chile received recognition as Chilean bank of the year from the prestigious The Banker magazine, part of the Financial Times group. América Economía also named it best Chilean bank and second best in Latin America. These awards reflect not only the solid results of the bank, but also its technological and strategic development.

2004 Results

Banco de Chile reported net income of Ch$152,628 million for the year ended December 31, 2004, surpassing its previous record of Ch$133,817 million set in 2003. This increase was mainly attributable to the bank's strong operational performance in 2004, which implied sustained growth in fee income and net financial income.

Operating revenues amounted to Ch$469,823 million, up 10.0% from the Ch$427,134 million reported in 2003. Fee income, which accounted for 27.0% of total operating revenues in 2004, was the main driver as both the banking and subsidiary businesses experienced important fee income growth. As a result, fee income jumped by 29.1% to Ch$126,842 million in 2004. Likewise, net financial income also contributed to the growth in operating revenues, increasing by 7% to Ch$346,132 million. Net financial income, which is the sum of net interest income and net FX transactions, grew as a result of a 2.2% increase in average interest earning assets, higher loan spreads, an increase in the inflation rate, a better funding mix and recovery of previously charged-off loans. The increase in operating



The NEOS **Project**

In 2003, the bank launched its NEOS Project with a view to significantly transform its technological platform and implement a business model aimed at optimizing commercial capacity and competitiveness. The final phase of the project is scheduled for completion in 2006.

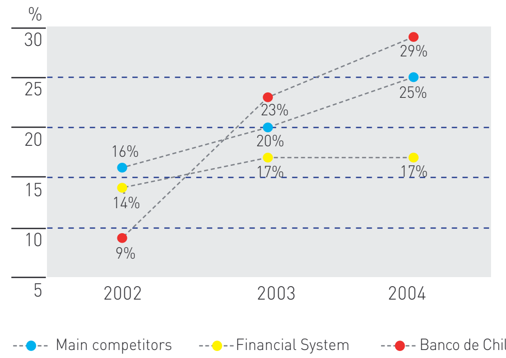
The NEOS plan represents a great technological challenge for Banco de Chile in the coming years. In 2004, it concluded the first phase with the implementation of Flex Cube, which traces account balances and movements to facilitate more efficient management and control of financial and performance data. The bank also installed a training program, incorporating an application of CRM, a platform aimed at improving the quality of service.

revenues was partially offset by a net loss on sales of financial instruments of Ch$3,151 million.

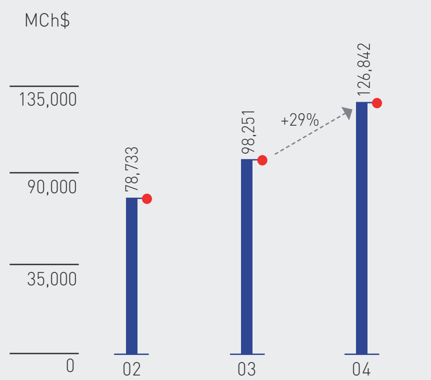
Provisions for loan losses increased by 19.3% to Ch$73,512 million, mainly attributable to the growth of 7.4% in the loan portfolio and to the downgrading of a number of corporate clients in the construction sector.

Operating expenses increased by 5.6% to Ch$240,302 million compared to 2003, primarily due to higher personnel and

Return on capital and reserves

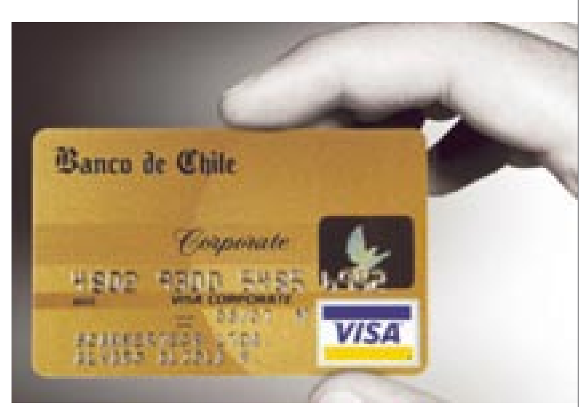


Income from services, net
MCh$ 126,842 in 2004



administrative expenses associated with a higher headcount and variable compensation packages. Despite the increase in operating expenses in 2004, Banco de Chile's efficiency ratio (measured as operating expenses to operating revenues) improved to 51.2% for the twelve month period ended December 31, 2004, compared to 53.3% in 2003.

As of December 2004, the Bank's loan portfolio had grown by 7.4% to Ch$6,888,911 million. Loan portfolio growth was driven by increases in other outstanding loans, commercial loans and contingent loans, all of which were stimulated by the favorable economic conditions which prevailed in 2004. Banco de Chile was the second ranked bank in the country (in terms of loans) with a market share of 17.6% according to information published by the Chilean Superintendency of Banks for the period ended December 31, 2004. Its return on capital and reserves for the twelve-month period was 29.2%, the highest in the Chilean financial system. The local financial system as a whole reported a return on capital and reserves of 16.7% in 2004, according to the same source.



CCU

Product expansion

CCU is one of Chile's largest producers of beer, soft drinks, bottled mineral water, juices, wines, Pisco and confectionary products. As the country's leading brewer, with a 90% market share, the company's main revenue source is the production and sale of beer. Its Cristal, Royal Guard, Morenita, Escudo, Kunstmann and Lemon Stones brands are distributed throughout the country, enjoying the support of millions of consumers. The company also markets in Chile international brands of such renown as Heineken, Budweiser and Paulaner.

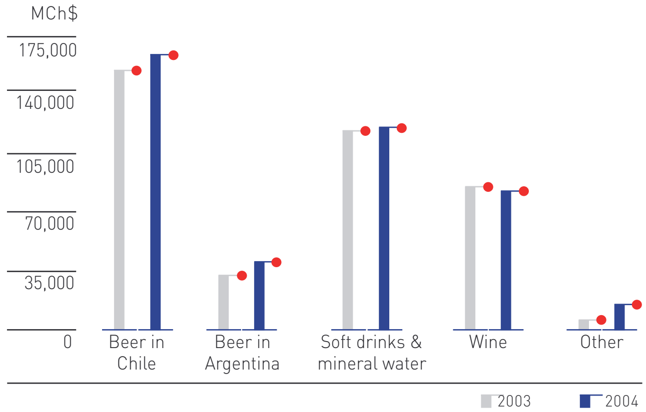
At the same time CCU, through its Argentine subsidiary, is the second largest brewer in Argentina, with a 15% share of the market. It makes and sells beer for the local market and, since 2000, has exported Budweiser to other markets in the Southern Cone. Among its international brands are Heineken, Budweiser, Corona, and Guinness, while its domestic portfolio includes the Sante Fe, Salta, Schneider, and Córdoba brands.

CCU also makes and markets soft drinks and bottles mineral water and fruit juices through its ECUSA subsidiary. In soft drinks, the company sells own brands such as Bilz, Pap, Kem, and Kem Xtreme, and under licence, Pepsi, 7 Up, Crush, Limón Soda, Ginger Ale, Agua Tónica and Gatorade. In this segment, CCU has a 22% share of the market. In mineral waters, CCU is the domestic leader with the Cachantun and Porvenir brands, which together claim 64% of total market sales.

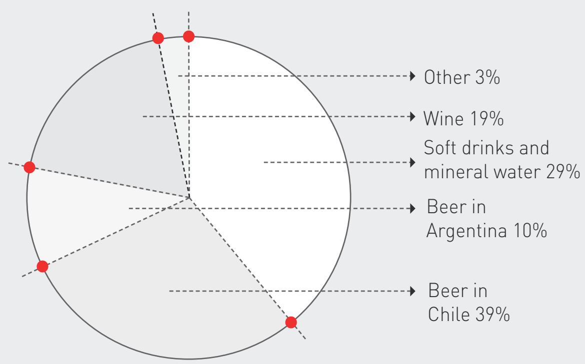
The production and sale of wines for the domestic and export markets is handled in Chile by the San Pedro subsidiary. This winery, along with associate companies such as Santa Helena, Finca La Celia, Tabalí and Altair, deals in a wide range of wines for domestic and international markets. Viña San Pedro is among the three most important wineries in Chile with a domestic market share of 17%, and the second-largest wine exporter with a 15% market share at December 2004.

Despite having only recently entered the Pisco market, the Ruta Norte brand has already managed to position itself solidly in one of the ten most important consumer markets in Chile and promises to continue making inroads. Ruta Norte amplified its product range in 2004 with the launch of Ruta Sour and Ruta Sour Light, both ready-to-drink Pisco mixes. This has helped the business position itself as the third-largest player in the Pisco market, with an 18% market share.

Sales
MCh$ 420,638 in 2004



2004 sales composition
MCh$ 420,638



On top of all this, CCU entered the snack food segment in January 2004 following the acquisition of 50% of Calaf, a cookie and candy producer. This product line complements the soft drinks business, and CCU hopes to be able to capitalize on its extensive 90,000-strong distribution network to sell Calaf products and so produce synergic value from the deal. Calaf is currently focused on improving the quality of its production facilities and fine-tuning its product line.

Market share	2003	2004
Beer in Chile	89%	90%
Beer in Argentina	14%	15%
Soft drinks	23%	22%
Mineral water	64%	64%
Fruit juice	52%	52%
Domestic wine (VSP)	17%	17%
Export wine (VSP) bottled	18%	15%

"Punto Máximo" **Plan**

The "Punto Maximo" Plan, underway since July 2004, seeks to lift levels of consumer and client satisfaction by improving the quality of service and adding value at the point of sale. The objective is to maximize market segmentation and consumer profiling. With this plan, the company has been able to prioritize its actions towards optimizing performance in all its business areas, giving each one the specific attention required.

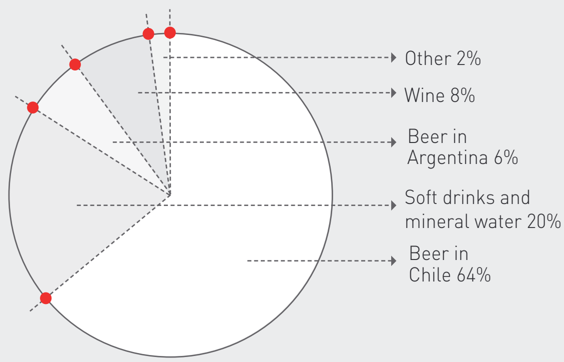
2004 Results

CCU's consolidated sales revenues rose by 6.9% to Ch$420,638 million, attributable to a 4.2% increase in volumes sold and higher average prices. In general terms, volumes were influenced by the economic reactivation underway in Chile and to a certain extent, in Argentina, as well as the addition of new products to CCU's portfolio, particularly Heineken beer and Ruta Norte pisco.

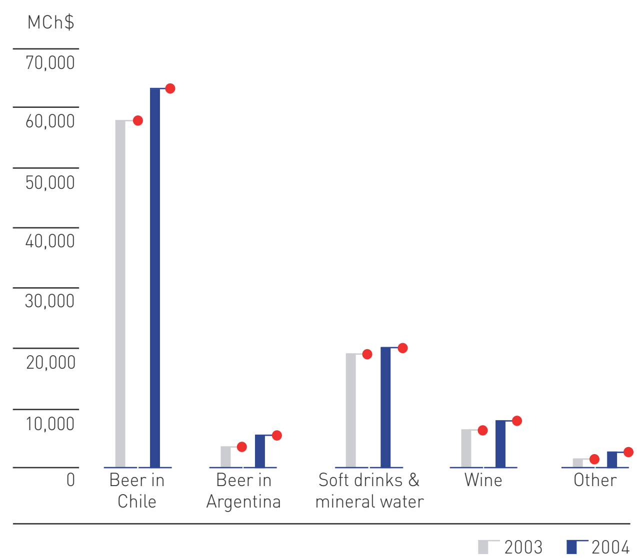
Operating income jumped by 24.9% to Ch$58,707 million in 2004, due to improvements in the operating performance across all of CCU's business segments. The increase in operating results associated with the beer segments in Chile and Argentina accounted for 73.9% of the total Ch$11,698 million increase. Both of these segments benefited from volume and price increases as well as lower cost of goods sold related to the drop in the value of the US dollar. 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 COGS in US dollars and SG&A expenses as a percentage of sales. EBITDA reached Ch$98,556 million showing an increase of 11.3% over 2003.

CCU reported non-operating losses of Ch$6,178 million, compared to non-operating income of Ch$13,941 million in 2003. The variation in non-operating results is mostly explained by an extraordinary gain in 2003 of Ch$20,617 million on the sale of CCU's investment in Karlovacka, a beer producer in Croatia.

2004 EBITDA by segment
MCh$ 98,555



EBITDA
MCh$ 98,555 in 2004



In spite of the marked improvement in CCU's operating performance in 2004, which was reflected in a 24.9% increase in its operating profits, net profit for the year dropped by 18.1% to Ch$45,394 million, as a result of the aforementioned non-recurring gain reported in 2003 on the sale of the Croatian brewery.

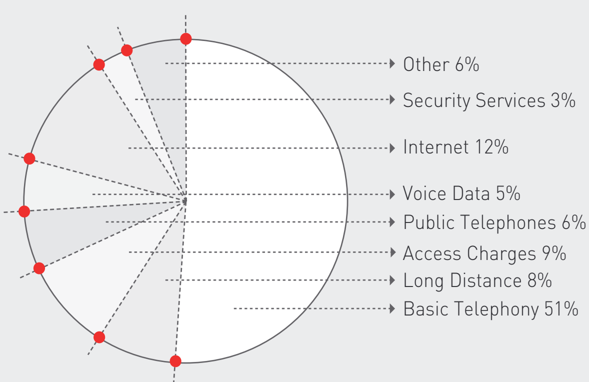
Volume sold (*)	2003	2004	Change
Beer in Chile	3,718	3,807	+2%
Beer in Argentina	1,904	2,101	+10%
Soft drinks and mineral water	4,286	4,424	+3%
Domestic wine (VSP)	505	503	-
Export wine (VSP)	453	448	-1%
Pisco	32	70	+119%

(*) Thousands of hectoliters

Telefónica del Sur

Technology solutions

2004 sales composition
MCh$ 52,940



Telefónica del Sur is the leading telecommunications company in the south of Chile. It has more than 185,000 lines servicing commercial and residential clients in the 8th, 9th, 10th and 11th Regions, covering cities such as Concepción, Temuco, Valdivia Osorno, Puerto Montt and Coyhaique.

In the past few years, through a broad expansion program, Telsur has grown from a being a traditional fixed-line service provider to a multi-faceted telecom operator offering, apart from traditional services, internet connections across various band widths, tele-monitoring, voice and data transmission and specialized business services.

During 2004, Telefónica del Sur launched its "Internet a 1 Mega" service, an exclusive product that has allowed thousands of clients to surf the internet at maximum speed and in minimum time. The initiative helped drive a 90% increase in the number of internet customers during the year.

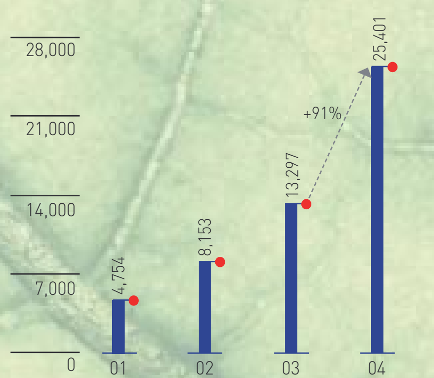
Another highlight of 2004 was the strategic alliance with Telefónica CTC Chile to roll out the most extensive hotspot network in South America. The partnership allows users to connect to wireless broad band internet at any of the public access points of both companies, from Arica in the north to Coyhaique in the south. This is the most comprehensive matrix in South America and the first that offers Wi-Fi roaming, meaning that clients will have access to any of the 300 public hotspots which make up the companies' combined network.

Connecting to **the World**

At the end of 2004, Telefónica del Sur, through its Blue Two Chile subsidiary, won the tender to implement a project to provide broad band internet connections in the main cities of the Palena Province, in the 10th Region, after its proposal was selected by the Board of the Telecommunications Development Fund (FDT). The tender, and the project, confirm the company's commitment to the southern region of the country.

With the benefit of a Ch$315 million subsidy, the project involves the roll-out of a 200 km fiber optic network with digital microwave links, allowing ADSL internet connections in three localities. Residents of these areas will enjoy the benefits of the network at the same prices, and with the same quality of service, offered by Telefónica del Sur in its existing coverage zones.

Wide band clients



Market share	2003	2004
Concepción	12%	13%
Temuco	47%	50%
10th Region	82%	83%
11th Region	88%	89%

2004 Results

Telefónica del Sur's revenues reached Ch$52,940 million in 2004, varying only slightly from the Ch$52,755 million reported in 2003. Although the sales level was constant, the revenue mix highly favored non-regulated services, which in 2004 accounted for 39% of total revenues, up from 35% in 2003.

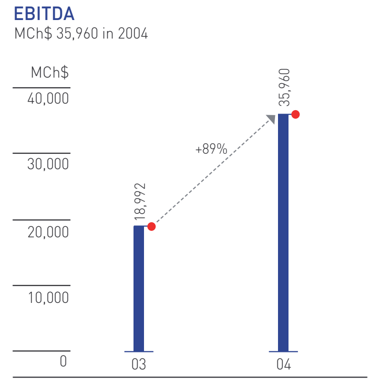
One of the main growth drivers in 2004 was internet services which jumped by 34.9% to Ch$6,113 million, accounting for 11.5% of all sales. The strong growth in this area was due to a 91% increase in the number of wide band clients, which as of December 31, 2004 reached 25,401. Likewise, revenue from security and data services experienced rapid growth in 2004, increasing by 34.6% and 14.9%, respectively. Fixed telephony traffic (in minutes) was down by 20.5%, following the downward trend seen throughout the industry as users come to depend more on internet and mobile communication alternatives.

Operating profits remained steady at Ch$12,561 million, varying by less than 1% from 2003. Non-operating losses increased from Ch$2,867 million in 2003 to Ch$3,484 million in 2004. Non-operating results were dragged down by costs associated with a debt restructuring carried out in the latter part of 2004. In addition, 2003 non-operating results included non-recurring income of Ch$532 million, which also explains the variation between the two periods.

Net profit in 2004 amounted to Ch$6,861 million, representing a 9.9% decrease from the Ch$7,616 million reported in 2003. The decline in bottom line results for the year was attributable to the aforementioned deterioration in non-operating results.

MADECO

Renovation



Market share	2003	2004
Wire & Cable		
Chile	30%	37%
Brazil	18%	16%
Peru	64%	65%
Argentina	4%	5%
Brass Mills		
Chile	57%	59%
Argentina	13%	14%
Coin blanks	5%	4%
Flexible Packaging		
Chile	26%	26%
Argentina	8%	8%
Aluminum Profiles	76%	71%

The activities of Madeco, an industrial conglomerate with an important regional presence, are concentrated in four main areas of production: copper and aluminum cables, brass mills, flexible packaging and aluminum profiles.

Last year marked the beginning of a business recovery at Madeco, which in the past few years has had to contend with difficult economic conditions, resulting mainly from problems in both the sectors and markets in which it operates. Given this, and the company's complicated financial state, Madeco launched an internal restructuring program in 2002. The 2002-2005 strategic plan basically involves lifting sales through improved organization, stronger exports, and the recovery of market share, as well as working toward improved operational efficiency and a reduced cost structure. The success of this program, aimed at recovering profitability in a competitive market, means Madeco is ready to successfully take on the challenges of the coming years.

Thanks to the operational and financial measures applied during this time, 2004, although still a transitional year, was an extremely positive period. From the operational viewpoint, Madeco managed to increase sales activity and production. The cable and brass mill businesses proved to be especially dynamic.

Although the financial restructuring was implemented in 2003, there were also important achievements in 2004. These included the full payment of the Series C bonds from the company's own funds, the placement of all the remaining stock shares, and the refinancing of the Series B long-term bonds with a new Series D issue.

2004 Results

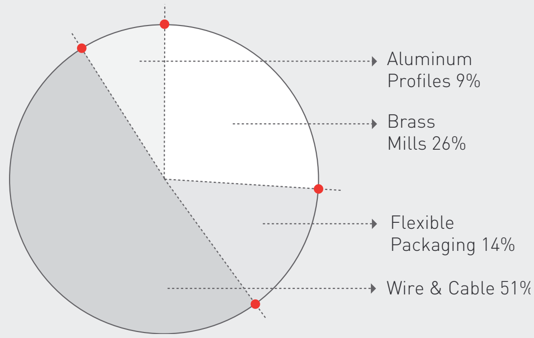
Madeco's sales level rose by 33.0% to Ch$324,035 million in 2004. The growth in sales during the year was mainly attributable to higher average prices of cables and brass mill products, mainly related to the increase in copper prices as well as higher volumes sold, which on a consolidated basis grew by 12.7%.

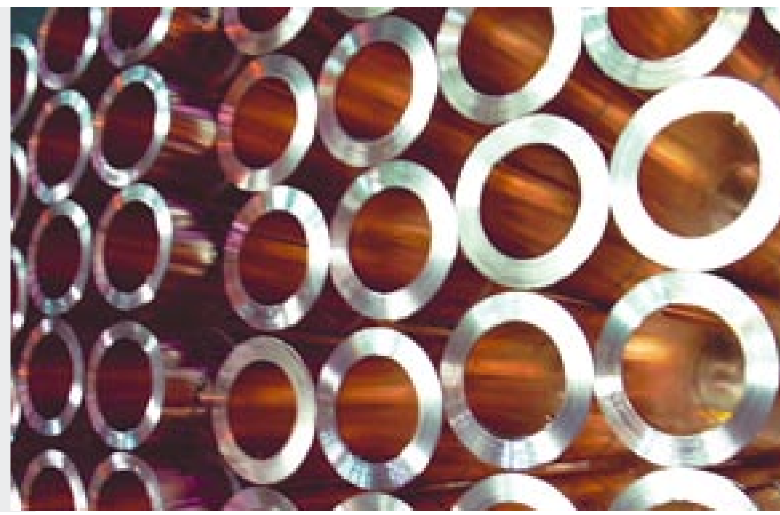
The pronounced recovery in sales, gains in efficiency and a slight 0.4% decline in SG&A expenses translated directly into significantly higher operating profits for Madeco. The company's operating income increased from Ch$7,643 million to Ch$25,176 million, attributable to the cable and brass mill business units. The operating margin as a percentage of sales rose from 3.1% in 2003 to 7.8% in 2004. Likewise, the increase in EBITDA was significant, growing from Ch$18,992 million in 2003 to Ch$35,960 million in 2004.

Madeco reported non-operating losses of Ch$14,301 million, down by 36.8% from the Ch$22,628 million reported in 2003, mostly explained by lower non-operating expenses, which in 2003 included asset write-offs and provisions for the liquidation of Optel in Brazil. In addition, a 13.9% reduction in interest expense and the absence of exchange rate losses due to the appreciation of the Chilean peso also served to reduce non-operating losses for the period.

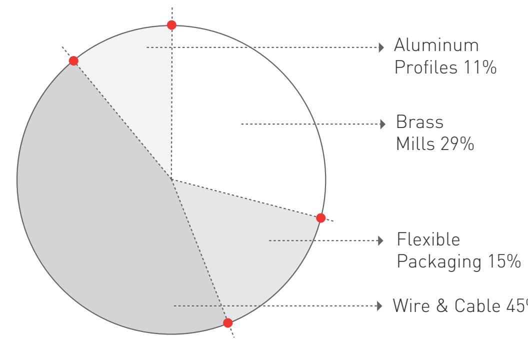
Madeco's improved performance, both at the operating and non-operating level served to totally revert 2003's net loss of Ch$17,153 million. Madeco reported net income of Ch$8,512 million in 2004. Worth highlighting is that 2004 is the first year since 1998 that Madeco has reported a positive bottom line.

2004 sales composition
MCh$ 324,035





2004 EBITDA by business unit
MCh$ 35,960



Special **Cables Project** in Brazil

Madeco's current business plan is focused on developing a new range of specialized cables with high value-added content. In keeping with this, Ficap, the Brazilian cable subsidiary, began exploiting a niche market in the export of specialized electricity transmission cables used in the construction of ships and oil drilling platforms.

At the end of 2003, the Brazilian government helped reactivate the shipbuilding industry in the country, which resulted in the re-emergence of demand for this type of cable. Madeco has made the most of the business opportunity, already claiming a 75% market share in this niche area and brightening its outlook for coming years.

Other investments

Entel

Since 1999 Quiñenco has been a shareholder in Entel, the main provider of mobile telephony in the country and the second-largest telecommunications group, with more than four million mobile, long-distance and internet clients.

In 2004, Entel reported a net profit of Ch$47,364 million, 5.7% of which corresponded to Quineñco's proportionate share.

Habitaria

Habitaria is a real estate development company created in 1998 through a joint venture between Quiñenco and Ferrovial Inmobiliaria Chile Ltda, an indirect subsidiary of Ferrovial Inmobiliaria S.A. of Spain.

Habitaria, focused on completing projects started in previous years, made no new investments in land for future development during 2004. It reported a net loss of Ch$8,609 million, mainly due to a write-down of the value of several property developments, 50% of which was booked by Quiñenco. At the end of 2004, Habitaria had 180 apartments ready for sale.

Indalsa

Since the sale of Lucchetti Chile at the beginning of 2004, the main activity at Indalsa, which is 97% controlled by Quiñenco, has been its joint venture with CCU in Calaf, a cookie and candy manufacturer.

After closing its Peruvian business (Lucchetti Perú) in January 2003, Indalsa spent 2004 disposing of remaining assets. In February 2005, the arbitration court CIADI declared itself without jurisdiction to rule on a lawsuit for damages filed by Indalsa against the Republic of Peru. As a result, Indalsa booked a Ch$2,381 million provision against accounts receivable from Lucchetti Perú.

In 2004, Indalsa reported a Ch$4,107 million net loss, due mainly to the winding-up of Lucchetti Perú. The total loss was partially offset by a gain on the sale of Lucchetti Chile for Ch$2,946 million.

Hoteles Carrera

Hoteles Carrera, a subsidiary controlled 90% by Quiñenco, has one hotel in Concepción following the sale of the flagship Hotel Carrera in Santiago in 2003. During 2004, it also ceased to rent and manage the three hotels located in the north of the country. In 2004, Hoteles Carrera reported a net loss of Ch$248 million.

Almacenes Paris

In October 2004, Quiñenco, through its Inversiones Río Azul subsidiary, bought an 11.4% stake in Almacenes Paris, a department store chain. As one of the largest department store chains in the country, Almacenes Paris boasts a presence in most of Chile's shopping malls. It also has 3 million credit cards in circulation, an insurance broker, travel agency and, more recently, a financial services business called Banco Paris.

The investment is accounted for on a lower of cost or market basis as of December 31, 2004.

Corporate affairs

Corporate headquarters

Quiñenco's corporate headquarters are located in the El Golf sector of Santiago at Enrique Foster Sur #20, Las Condes. Its offices occupy approximately 2,500 square meters.

Investment policy

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

Quiñenco seeks out investment opportunities in companies with a strong brand orientation and in industries where it has proven experience. In the past, the Company has formed strategic alliances in order to obtain financing and know-how.

Financing policy

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

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

Risk factors

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

Quiñenco is 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 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 return to the high inflation experienced by Chile and a devaluation of the Chilean peso relative to the U.S. dollar.

In addition to its operations in Chile, some of Quiñenco's businesses operate in and export to companies that 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.

Quiñenco 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 Quiñenco's businesses. While the Company expects that its businesses, based on their past experience and track records, will be able to continue to successfully compete within their industries, there is 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 margins and results of operations of Quiñenco's businesses, which as a result, could materially and adversely affect the dividend cash flow Quiñenco receives from its businesses.

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

As a holding company, Quiñenco's debt service and repayment capacity, as well as it ability to make dividend distributions depends on the level of dividends and profit distributions it receives from its subsidiary and affiliate companies. The payment of dividends by subsidiary companies, equity investments and related companies, is, in certain instances, subject to restrictions and is contingent upon their earnings and cash flows. In addition, Quiñenco's level of income has largely depended on the periodic sale of assets held for investment. There can be no assurance that Quiñenco will be able to continue to rely on certain subsidiaries' dividends and distributions nor that the it will be able to generate the level of gains on the sale of investments that it has shown in the past.

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

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

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

Insurance

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

Dividend policy

At the Annual Shareholders' Meeting to be held on April 28, 2005, the Board of Directors will propose to maintain its dividend policy of distributing at least 30% of annual net profits.

Dividend number	Payment date	Dividend per share*	Total dividend*	For the year ended December 31st
N° 12	05-04-00	Ch$44.54132	ThCh$48,093,048	1999
N° 13	10-05-02	Ch$5.74560	ThCh$6,203,753	2001
N° 14	09-01-04	Ch$11.24745	ThCh$12,144,323	Interim 2003
N° 15	11-05-04	Ch$6.20807	ThCh$6,703,102	2003

* historic figures

QUIÑENCO

annual **report** 2004

Distribution of income

Net income for 2004 totaled ThCh$23,352,714. The Board of Directors has proposed to distribute 2004 net income as follows:

1) Absorption of the accumulated deficit from the development period of ThCh$780,742.
2) Payment of a dividend of ThCh$14,011,625 corresponding to the distribution of 2004 net income as follows:
   a) Payment of a minimum obligatory dividend of ThCh$5,924,944, to be paid in accordance with the date established at the Annual Shareholders' Meeting.
   b) Payment of an additional dividend of ThCh$8,086,681, to be paid in accordance with the date established at the Annual Shareholders' Meeting.
3) Allocation of the balance of ThCh$8,560,347 to retained earnings.
   The proposed dividend distribution corresponding to 2004 net income is equivalent to 60% of net earnings for the year.

Calculation of allowable dividend distribution	ThCh$
Net income 2004	23,352,714
Accumulated deficit from the development period	(780,742)
Allowable distribution of 2004 earnings	22,571,972
2004 dividend as a percentage of allowable distribution	62.08%
Amortization of negative goodwill (consolidated)	(2,822,157)

In conformance with Circular N°368 of the SVS, amortization of negative goodwill for a given period may not be considered as part of distributable net income for the purpose of calculating the minimum obligatory dividend but may be considered in calculating an additional dividend.

Board compensation

As agreed upon at the Annual Shareholders' Meeting held in 2004, compensation paid to members of the Board of Directors during the year was as indicated below (per diem, profit sharing and other remunerations, respectively):

Guillermo Luksic Craig, ThCh$4,366, ThCh$32,225 and ThCh$0 (ThCh$4,506, ThCh$0 and ThCh$971,940 in 2003); Andrónico Luksic Craig, ThCh$0, ThCh$32,225 and ThCh$0 (ThCh$732, ThCh$0 and ThCh$971,940 in 2003); Jean Paul Luksic Fontbona, ThCh$2,001, ThCh$32,225 and ThCh$0 (ThCh$1,400, ThCh$0 and ThCh$0 in 2003); Hernán Büchi Buc, ThCh$2,184, ThCh$32,225 and ThCh$0 (ThCh$2,435, ThCh$0 and ThCh$0 in 2003); Joaquín Errázuriz Hochschild, ThCh$2,183, ThCh$32,225 and ThCh$0 (ThCh$2,619, ThCh$0 and ThCh$0 in 2003); Juan Andrés Fontaine Talavera, ThCh$2,365, ThCh$32,225 and ThCh$0 (ThCh$2,285, ThCh$0 and ThCh$0 in 2003); Gonzalo Minéndez Duque, ThCh$2,365, ThCh$32,225 and ThCh$0 (ThCh$2,436, ThCh$0 and ThCh$0 in 2003); Vladimir Radic Piraíno, ThCh$2,001, ThCh$32,225 and ThCh$0 (ThCh$2,468, ThCh$0 and ThCh$0 in 2003) and Matko Koljatic Maroevic, ThCh$2,183, ThCh$32,225 and ThCh$0 (ThCh$1,647, ThCh$0 and ThCh$0 in 2003). In addition, Guillermo Luksic Craig, Gonzalo Menéndez Duque, Matko Koljatic, Joaquín Errázuriz Hochschild and Vladimir Radic Piraíno received compensation for their services as a member of the Directors' Committee in 2004 of ThCh$865, ThCh$4,756, ThCh$865, ThCh$3,892 and ThCh$3,892 (ThCh$0, ThCh$4,341, ThCh$0, ThCh$4,169 and ThCh$4,169 in 2003), respectively.

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

- In Banco de Chile (per diem, fees and other, respectively), Guillermo Luksic Craig, ThCh$24,732, ThCh$40,893 and ThCh$0 (ThCh$24,255, ThCh$41,561 and ThCh$0 in 2003); Andrónico Luksic Craig, ThCh$13,667, ThCh$115,937 and ThCh$36,203 (ThCh$19,962, ThCh$83,121 and ThCh$0 in 2003) and Gonzalo Menéndez Duque, ThCh$185,903, ThCh$40,893 and ThCh$44,732 (ThCh$149,898, ThCh$59,771 and ThCh$0 in 2003).
- In Madeco (per diem), Guillermo Luksic Craig, ThCh$2,085 (ThCh$1,926 in 2003); Andrónico Luksic Craig, ThCh$569 (ThCh$768 in 2003); Jean-Paul Luksic Fontbona, ThCh$1,329 (ThCh$964 in 2003) and Hernán Büchi Buc, ThCh$2,085 (ThCh$2,504 in 2003. Aditionally, Hernán Büchi Buc received fees of ThCh$9,110.
- In Telefónica del Sur S.A. (per diem and profit sharing, respectively), Guillermo Luksic Craig, ThCh$7,231 and ThCh$25,805 (ThCh$6,495 and ThCh$26,949 in 2003) and Gonzalo Menéndez Duque, ThCh$7,914 and ThCh$30,898

Share transactions by controlling shareholders

	Number of Shares		Transaction Amount (*)		Price per Share (**)	
2004	Purchased	Sold	Purchased ThCh$	Sold ThCh$	Purchased Ch$	Sold Ch$
Andsberg Inversiones Ltda. (1)	1,405,963	-	752,138	-	534.96	-
2003						
Inversiones FCAB Ltda.	-	(362,757,196)	-	-	-	-
Inversiones Antofagasta Ltda. (1)	362,757,196	-	-	-	-	-

(1) On April 2, 2004, Inversiones Antofagasta Ltda. changed its name to Andsberg Inversiones Ltda. (*) Historic figures (**) Average price

Share transactions by officers and executives of the company

	Number of Shares Purchased (Sold) 2004	Number of Shares Purchased (Sold) 2003	Transaction Amount (**) Purchased (Sold) 2004 ThCh$	Transaction Amount (**) Purchased (Sold) 2003 ThCh$	Price per Share (**) (***) Purchased (Sold) 2004 Ch$	Price per Share (**) (***) Purchased (Sold) 2003 Ch$
Francisco Pérez Mackenna (CEO) (*)	(334,799)	(334,801)	(180,122)	(145,643)	(538.00)	(435.01)
Martín Rodríguez Guiraldes (Executive) (*)	(83,188)	(83,188)	(44,755)	(36,188)	(538.00)	(435.01)
Pedro Marín Loyola (Executive) (*)	(38,665)	(38,665)	(20,802)	(16,820)	(538.00)	(435.01)
Luis Fernando Antúnez (Executive) (*)	(145,367)	(145,367)	(78,207)	(63,237)	(538.00)	(435.01)
Felipe Joannon Vergara (Executive) (*)	(179,439)	(179,439)	(96,538)	(78,058)	(538.00)	(435.01)
Oscar Henríquez Vignes (Executive) (*)	(37,493)	(37,493)	(20,171)	(16,310)	(538.00)	(435.01)
Manuel José Noguera (Executive) (*)	(179,439)	(179,439)	(96,538)	(78,058)	(538.00)	(435.01)
Sergio Cavagnaro Santa María (Executive) (*)	(79,673)	(79,673)	(42,864)	(34,659)	(538.00)	(435.01)
Davor Domitrovic Grubisic (Executive) (*)	(36,322)	(36,322)	(19,541)	(15,801)	(538.00)	(435.01)
Alessandro Bizzarri Carvallo (Executive) (*)	(49,210)	(49,210)	(26,475)	(21,407)	(538.00)	(435.01)
Cindi Freeman (Executive) (*)	(39,980)	-	(21,509)	-	(538.00)	-
Jorge Tagle Ovalle (Ex Executive) (*)	(53,896)	(53,896)	(28,996)	(23,446)	(538.00)	(435.01)
Luis Hernán Paúl (Ex Executive) (*)	(127,547)	(542,371)	(66,824)	(282,849)	(523.92)	(521.50)
Patricio León Délano (Ex Executive)	-	(11,781)	-	(6,421)	-	(545.02)
Sergio Guzmán Lagos (Ex Executive)	-	(91,344)	-	(31,514)	-	(345.00)
Total	**(1,385,018)**	**(1,862,989)**	**(743,344)**	**(850,411)**		

(*) Corresponds to long-term incentive plan (**) Historic figures (***) Average price

(ThCh$10,303 and ThCh$30,171 in 2003).

- In Industria Nacional de Alimentos S.A. (per diem and fees, respectively), Guillermo Luksic Craig, ThCh$2,087 and ThCh$10,383 (ThCh$3,945 and ThCh$14,136 in 2003); Andrónico Luksic Craig, ThCh$301 and ThCh$10,383 (ThCh$1,218 and ThCh$14,135 in 2003); Hernán Büchi Buc, ThCh$8,345 and ThCh$0 (ThCh$11,539 and ThCh$0 in 2003) and Matko Koljatic Maroevic, ThCh$0 and ThCh$0 (ThCh$1,512 and ThCh$0 in 2003).
- In Hoteles Carrera S.A. (per diem), Joaquín Errázuriz Hochschild, ThCh$1,818 (ThCh$1,823 in 2003) and Vladimir Radic Piraíno, ThCh$1,964 (ThCh$2,125 in 2003).

Management compensation

Compensation paid to Quiñenco's main executives during the year 2004, including salaries, benefits and performance bonuses, totaled ThCh$2,814,011.

Incentive plan

In March of 2000, a long-term management incentive plan was established for the Company's main executives. Loans, which as of December 31, 2004 amounted to ThCh$2,069,839, were granted to acquire shares of Quiñenco and its subsidiaries at market price. The loans, expressed in UF, repayable in annual installments, and the shares acquired, are delivered in guarantee and may be delivered in payment. The plan was made in accordance with the directives of the Board of Directors on March 8, 2000.

Directors' committee

Until November 8, 2004, the Directors' Committee was composed of Gonzalo Menéndez Duque, Chairman, Vladimir Radic Piraino and Joaquín Errázuriz Hochschild. In an Extraordinary Board Meeting held on November 8, 2004, the Board of Directors designated Guillermo Luksic Craig, Gonzalo Menéndez Duque and Matko Koljatic Maroevic as members of the Directors' Committee. This designation was made as a consequence of the re-election of the Board on November 5, 2004, at which time the Board was reduced from nine to seven members. The committee is presided over by Gonzalo Menéndez Duque and meets on a monthly basis. Francisco Pérez Mackenna, CEO, Luis Fernando Antúnez, CFO, and Fernando Silva Lavín, Controller, are also regular participants at each session.

The Directors' Committee, in accordance with Article 50 of the Corporations Law (Ley de Sociedades Anónimas) and its predetermined meeting schedule, carried out the following activities in 2004:

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

- The sale of real estate in the city of Antofagasta consisting of 2,025 square meters of land for UF25 per square meter to Almagro S.A.

- The sale of 10 parking places belonging to Hoteles Carrera S.A. to Inversiones Adriático S.A., a company owned by Andrónico Luksic Abaroa for UF310 each.
- Extension of a consulting and professional services contract with Juan Andrés Fontaine y Asociados Ltda. under the existing terms and conditions until December 2004.
- Evaluated the option to purchase 50% of Sutivan Investments Establishment, a company which participates in the tourism and hotel industries in Croatia, controlled by Andrónico Luksic Abaroa. Quiñenco did not exercise the option.

b) A review of the salary and compensation packages of Quiñenco's main executives and long-term incentive plan.

c) Review and approval of the Company's Form 20-F for the year 2003 that was registered with the Securities and Exchange Commission of the United States.

d) A review of the reports issued by the Company's external auditors, including the Internal Control Report periodically sent to the Company's administration. The committee, prior to the presentation of the 2004 Audited Financial Statements to shareholders, reviewed the documents.

e) The committee proposed to the Board of Directors the designation of Ernst & Young Servicios Profesionales de Auditores y Asesorías Limitada as external auditors for the year 2005. If this firm for whatever reason can not be contracted, it would then propose PriceWaterhouseCoopers, and as a third alternative, Deloitte & Touche. Feller Rate and Humphreys were proposed as the Company's risk classifiers.

Stock share price and volume traded

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

Period	Number of shares	Transaction amount (*) ThCh$	Average price (*) Ch$
2004			
1st Quarter	28,137,796	15,280,208	543.05
2nd Quarter	10,422,736	5,428,486	520.83
3rd Quarter	29,218,704	18,306,609	626.54
4th Quarter	15,182,803	10,597,645	698.00
2003			
1st Quarter	36,834,844	13,198,888	358.33
2nd Quarter	32,575,377	13,300,895	408.31
3rd Quarter	19,140,097	8,770,464	458.22
4th Quarter	29,867,419	16,098,687	539.00
2002			
1st Quarter	6,418,134	2,865,831	446.52
2nd Quarter	13,444,833	4,624,507	343.96
3rd Quarter	9,053,587	2,490,600	275.10
4th Quarter	14,897,151	4,649,265	312.09

(*) Historic figures

Board of directors external consulting expenses

In 2004, the Board of Directors did not incur any expenses with respect to external consultants.

Employee severance payments

In 2004, the Company incurred expenses associated with severance payments to its managers and key executives of ThCh$43,827.

Summarized Consolidated Financial Statements

AS OF DECEMBER 31, 2004 AND 2003

QUIÑENCO S.A.

Quiñenco S.A. and Subsidiaries

Report on the Summarized Consolidated Financial Statements

As of and for the years ended December 31, 2004 and 2003

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

Contents

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 Unidad de Fomento ("UF") is an inflation-indexed peso –denominated monetary unit. The UF is set daily in advance based on changes in the previous month's inflation rate.

2004

Report of Independent Auditors

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

ERNST & YOUNG
Quality In Everything We Do

To the Board of Directors and Shareholders of
Quiñenco S.A.

1. We have audited the accompanying consolidated balance sheets of Quiñenco S.A. and subsidiaries (the "Company") as of December 31, 2004 and 2003 and the related consolidated statements of income and cash flows for each of the years then ended. These financial statements (including the accompanying notes) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, based on our audits. We did not audit the consolidated financial statements of the subsidiary Madeco S.A. as of and for the year ended December 31, 2003, which statements reflect total assets of ThCh$362,517,685 as of December 31, 2003 and total revenues of ThCh$243,607,682 for the year then ended. In addition, we did not audit the financial statements of Compañía Cervecerías Unidas S.A., an equity method investment which represented ThCh$151,051,873 and ThCh$142,870,444 of total assets as of December 31, 2004 and 2003, respectively, and accounted for ThCh$22,696,933 and ThCh$27,720,164 of net income for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other auditors.

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

3. In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Quiñenco S.A. and subsidiaries as of December 31, 2004 and 2003 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Chile.

4. As described in Note 26.2 to the summarized consolidated financial statements of Quiñenco S.A. and subsidiaries and in accordance with Law N°19,396, the subordinated debt obligation with the Chilean Central Bank assumed by the subsidiary Sociedad Matriz del Banco de Chile S.A. through its subsidiary Sociedad Administradora de la Obligación Subordinada S.A. has not been recorded as a liability.

5. As described in Note 9 a) 6. to the summarized consolidated financial statements, the New York and Miami branches of the subsidiary Banco de Chile are being reviewed by regulatory authorities in the United States of America. At the date of issuance of these consolidated financial statements, and in accordance with information analyzed by the subsidiary's management, it is not possible to determine whether there might be any additional regulatory actions to those already agreed upon with the American regulator or to estimate their corresponding impact on the financial statements. The subsidiary Banco de Chile therefore has not made any provisions relating to this contingency.

6. The notes accompanying this report are a summarized version of the official financial statements, over which we have also issued a similarly dated audit opinion, includes additional information required by the Chilean Superintendency of Securities and Insurance. Management believes that these additional disclosures are not necessary for an adequate understanding of the financial statements.

Arturo Selle S.

ERNST & YOUNG LTDA.

Santiago, Chile March 9, 2005

Consolidated Balance Sheets

	As of December 31,	
	2004	2003
Assets	ThCh$	ThCh$
Current assets		
Cash	4,148,331	6,524,209
Time deposits	13,789,624	43,401,501
Marketable securities	652,433	6,306,097
Accounts receivable, net	61,863,153	67,987,579
Notes receivable, net	7,138,700	8,241,833
Other accounts receivable, net	3,484,039	3,423,144
Notes and accounts receivable from related companies	9,144,434	6,061,853
Inventories, net	71,821,971	63,523,794
Recoverable taxes	5,095,072	5,549,215
Prepaid expenses	935,375	2,642,346
Deferred taxes	3,083,362	2,294,561
Other current assets	30,410,874	39,327,147
Total current assets	**211,567,368**	**255,283,279**
Property, plant and equipment		
Land	14,922,889	19,919,114
Buildings and infrastructure	157,864,877	182,408,741
Machinery and equipment	317,813,789	372,118,058
Other property, plant and equipment	48,250,125	52,212,872
Revaluation from technical appraisals	14,595,819	15,434,131
Subtotal	553,447,499	642,092,916
Less: Accumulated depreciation	(279,102,372)	(308,171,317)
Property, plant and equipment, net	**274,345,127**	**333,921,599**
Other assets		
Investments in related companies	468,087,871	480,506,959
Investments in other companies	45,406,690	92,717
Goodwill, net	313,286,570	335,465,742
Negative goodwill, net	(10,856,775)	(13,690,709)
Long-term accounts receivable	3,121,010	2,219,853
Notes and accounts receivable from related companies	831,969	1,949,744
Deferred taxes	8,502,781	13,987,298
Intangible assets	547,657	1,294,292
Amortization of intangible assets	(225,641)	(344,058)
Other assets	21,082,955	15,457,648
Total other assets	**849,785,087**	**836,939,486**
Total assets	**1,335,697,582**	**1,426,144,364**

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

Consolidated Balance Sheets

	As of December 31	
	2004	2003
Liabilities and Shareholders' equity	ThCh$	ThCh$
Current liabilities		
Current bank obligations	23,647,102	19,179,719
Current portion of long-term bank obligations	39,959,984	33,019,383
Bonds payable	30,302,632	49,796,034
Other long-term obligations due within one year	905,554	736,860
Dividends payable	332,218	12,758,585
Accounts payable	13,896,911	14,884,427
Notes payable	9,361,231	8,759,140
Other accounts payable	4,558,068	3,248,369
Notes and accounts payable to related companies	342,976	495,163
Provisions	15,528,239	16,431,979
Withholdings	3,027,639	2,765,439
Deferred income	358,083	1,715,698
Other current liabilities	1,682,536	2,168,348
Total current liabilities	**143,903,173**	**165,959,144**
Long-term liabilities		
Long-term bank obligations	189,349,838	341,175,886
Bonds payable	242,347,769	151,757,981
Notes payable	5,246	67,690
Other accounts payable	6,388,633	7,517,965
Notes and accounts payable to related companies	8,738	25,450
Provisions	9,183,409	9,085,957
Other long-term liabilities	1,132,240	1,913,553
Total long-term liabilities	**448,415,873**	**511,544,482**
Minority interest	**108,333,436**	**98,768,003**
Shareholders' equity		
Paid-in capital	470,774,003	470,774,003
Other reserves	(16,417,969)	14,104,256
Retained earnings	158,117,094	139,088,564
Accumulated deficit during development stage	(780,742)	(283,374)
Interim dividends	-	(12,447,931)
Net income for the year	23,352,714	38,637,217
Total shareholders' equity	**635,045,100**	**649,872,735**
Total liabilities and shareholders' equity	**1,335,697,582**	**1,426,144,364**

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

Consolidated Statements of Income

	For the years ended December 31	
	2004	2003
	ThCh$	ThCh$
Operating results		
Revenues	382,511,087	366,313,912
Cost of sales	(310,086,374)	(292,153,062)
Gross margin	72,424,713	74,160,850
Administrative and selling expenses	(45,227,792)	(61,095,210)
Operating income	**27,196,921**	**13,065,640**
Non-operating results		
Interest income	1,961,539	3,001,628
Equity participation in income of equity-method investments	63,011,550	59,444,677
Other non-operating income	6,942,291	38,959,097
Equity participation in losses of equity-method investments	(4,542,718)	(613,400)
Amortization of goodwill	(20,572,171)	(20,597,209)
Interest expense	(28,722,814)	(36,072,185)
Other non-operating expenses	(16,005,975)	(46,889,169)
Price-level restatement, net	(357,000)	1,939,233
Foreign currency translation, net	298,856	1,008,993
Non-operating income	**2,013,558**	**181,665**
Income before income taxes, minority interest and amortization of negative goodwill	**29,210,479**	**13,247,305**
Income tax expense	(1,955,479)	(2,632,981)
Income before minority interest and amortization of negative goodwill	**27,255,000**	**10,614,324**
Minority interest	(6,724,443)	3,911,497
Income before amortization of negative goodwill	**20,530,557**	**14,525,821**
Amortization of negative goodwill	2,822,157	24,111,396
Net income for the year	**23,352,714**	**38,637,217**

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

Consolidated Statements of Cash Flows

	For the years ended December 31	
	2004	2003
	ThCh$	ThCh$
Cash flows from operating activities		
Collection of accounts receivable	469,041,701	418,275,817
Interest income received	2,133,786	2,876,640
Dividends and other distributions received	49,051,740	76,416,376
Other income received	6,543,006	1,899,869
Payments to suppliers and employees	(426,314,168)	(379,172,828)
Interest paid	(26,683,008)	(31,790,396)
Income taxes paid	(1,835,580)	(1,538,070)
Other operating expenses paid	(2,413,459)	(5,898,894)
VAT and other taxes paid	(11,693,143)	(14,605,558)
Net cash provided by operating activities	**57,830,875**	**66,462,956**
Cash flows from financing activities		
Capital increase	10,287,680	46,836,216
Borrowings	52,887,410	43,801,446
Bonds issued	148,647,350	-
Promissory notes from related companies	-	14,222,706
Other borrowings from related companies	39,903	264,870
Other sources of financing	-	18,028,923
Dividends paid	(20,251,829)	(1,294,617)
Capital distributions	(285,608)	(562,766)
Repayment of loans	(106,768,562)	(171,436,015)
Repayment of bonds	(81,172,810)	(33,154,801)
Repayment of promissory notes from related companies	(40,614,043)	-
Repayment of other loans from related companies	(70,372)	(346,785)
Payment of share issuance costs	(115,084)	(903,941)
Payment of bond issuance costs	(3,370,868)	-
Other amounts used in financing activities	(646,478)	(17,641,219)
Net cash used in financing activities	**(41,433,311)**	**(102,185,983)**
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	4,210,908	16,152,410
Proceeds from sales of permanent investments	11,523,278	74,568
Proceeds from sales of investments in other companies	28,542,089	20,838,313
Collection of specific term loans from related companies	22,143	-
Collection of other loans from related companies	744,925	-
Other income from investments	5,990,032	38,698,232
Additions to property, plant and equipment	(19,023,697)	(12,377,379)
Payments of capitalized interest	(88,242)	(79,297)
Purchase of permanent investments	(50,724,876)	(195,958)
Investments in financial instruments	-	(50,053,820)
Specific term loans granted to related companies	(4,559,925)	-
Other loans granted to related companies	(1,073,909)	(771,659)
Other investing activities	(6,583,869)	(25,625)
Net cash (used in) provided by investing activities	**(31,021,143)**	**12,259,785**
Net cash flows for the year	**(14,623,579)**	**(23,463,242)**
Effect of price-level restatement on cash and cash equivalents	(663,185)	(15,188,892)
Net decrease in cash and cash equivalents	**(15,286,764)**	**(38,652,134)**
Cash and cash equivalents, beginning of year	57,716,361	96,368,495
Cash and cash equivalents, end of year	**42,429,597**	**57,716,361**

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

Consolidated Statements of Cash Flows

	For the years ended December 31	
	2004	2003
	ThCh$	ThCh$
Reconciliation between net income and operating cash flows		
Net income for the year	**23,352,714**	**38,637,217**
Income from sales of assets		
Loss on the sale of property, plant and equipment	1,172,080	3,000,411
Gain on the sale of investments	(4,209,396)	(19,032)
Loss on the sale of investments	-	89,189
Charges (credits) to net income which do not represent cash flows		
Depreciation	25,404,810	29,384,614
Amortization of intangible assets	176,536	106,920
Write-offs and provisions	7,018,913	9,100,022
Equity participation in income of equity-method investments	(63,011,550)	(59,444,677)
Equity participation in losses of equity-method investments	4,542,718	613,400
Amortization of goodwill	20,572,171	20,597,209
Amortization of negative goodwill	(2,822,157)	(24,111,396)
Price-level restatement, net	357,000	(1,939,233)
Foreign currency translation, net	(298,856)	(1,008,993)
Other non-cash credits	(4,977,680)	(4,140,934)
Other non-cash charges	14,735,615	38,439,580
Variations in assets affecting cash flows, (increase) decrease		
Accounts receivable	(6,265,976)	(19,874,519)
Inventories	(17,651,085)	1,644,687
Other assets	57,076,655	19,592,887
Variations in liabilities affecting cash flows, increase (decrease)		
Accounts payable related to operating income	43,223	(2,391,836)
Interest payable	2,039,806	16,970,922
Income taxes payable, net	(2,132,207)	819,576
Other accounts payable related to non-operating income	(3,650,160)	4,040,993
VAT and other taxes payable	(366,742)	267,446
Minority interest	6,724,443	(3,911,497)
Net cash provided by operating activities	**57,830,875**	**66,462,956**

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

SUMMARIZED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of the management, these summarized notes provide sufficient but less detailed information than that contained in the consolidated financial statements filed with the Chilean Superintendency of Securities and Insurance ("SVS") and the stock exchanges, which are available to the general public. This information may also be obtained from the Company's offices within 15 days prior to the Ordinary Shareholders' Meeting.

The main differences between these summarized consolidated financial statements and those financial statements filed with the SVS are as follows:

a) Notes excluded:

- Current and long-term accounts receivable
- Securities' purchase agreements, sales under agreements to repurchase, repurchase agreements and reverse repurchase agreements
- Sales with leaseback agreements
- Staff severance indemnities
- Bond and share issuance and placement costs
- Local and foreign currencies
- The following notes to the consolidated financial statements of LQ Inversiones Financieras S.A. (LQIF) and its bank subsidiaries:
  - Transactions with related parties
  - Investments in other companies
  - Provisions
  - Investments
  - Transactions with derivative instruments
  - Foreign currency balances
  - Contingencies, commitments and other responsibilities
  - Commissions
  - Current and deferred taxes
  - Directors' expenses and remuneration
  - Reported material information
- Environmental issues
- Time deposits

b) Information included in the following notes was summarized:

- Transactions and balances with related companies
- Short-term bank obligations
- Long-term bank obligations
- Changes in shareholders' equity

NOTE 1 – THE COMPANY

Quiñenco S.A. (herein referred to individually as the "Parent Company" or on a consolidated basis as the "Company") is registered in the Chilean Securities Register under No. 0597 and is subject to regulation by the SVS.

The Parent Company's principal operations relate to investing activities.

The following consolidated subsidiaries are registered in the Chilean Securities Register:
Madeco S.A., Registration No.251
Agrícola El Peñón S.A., Registration No. 78
Industria Nacional de Alimentos S.A., Registration No. 64
Comatel S.A., Registration No. 54
Compañía Nacional de Teléfonos Telefónica del Sur S.A., Registration No.167
LQ Inversiones Financieras S.A., Registration No.730

The Parent Company and its subsidiary Madeco S.A. are also registered on the New York Stock Exchange ("NYSE"), under ticker codes LQ and MAD respectively, and are therefore subject to the regulatory authority of the Securities and Exchange Commission ("SEC") of the United States of America.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Periods covered

These financial statements cover the years ended December 31, 2004 and 2003.

b) Basis for preparation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Chile, as issued by the Chilean Association of Accountants, and the instructions of the SVS (collectively referred to as "Chilean GAAP"). In case of discrepancies, the rules and regulations issued by the SVS prevail. The specific provisions governing corporations contained in Law No. 18,046 and its regulations have also been taken into account.

The Company maintains its accounting records in Chilean pesos in accordance with Chilean GAAP. For the convenience of the reader, the summarized consolidated financial statements and their accompanying notes have been translated from Spanish into English. Certain accounting practices applied by the Company that conform to Chilean GAAP may not conform to accounting principles generally accepted in the United States of America ("US GAAP").

c) Basis of presentation

The figures of the financial statements of the previous year have been adjusted for inflation for presentational and comparison purposes by the percentage change of 2.5% in the Consumer Price Index ("CPI").

The Company has made certain minor reclassifications to the prior year presentation in order to facilitate the comparison of these financial statements.

d) Basis of consolidation

The subsidiaries included in the consolidation are as follows:

	Ownership percentage as of December 31,			
	2004			2003
	% Direct	% Indirect	% Total	% Total
Excelsa Establishment	99.9900	0.0100	100.0000	100.0000
VTR S.A. and subsidiaries	99.9900	0.0100	100.0000	100.0000
Inversiones Río Grande S.A. and subsidiaries	99.9900	0.0100	100.0000	100.0000
Agrícola El Peñón S.A. and subsidiary	96.2000	0.0000	96.2000	96.2000
O'Higgins Punta Arenas Ltda. CPA and subsidiary	75.5600	0.0000	75.5600	75.5600
Comatel S.A.	69.5600	15.4822	85.0422	85.0422
LQ Inversiones Financieras S.A. and subsidiary	63.9383	36.0617	100.0000	100.0000
Madeco S.A. and subsidiaries	44.7606	6.4703	51.2309	55.2203

The accompanying consolidated financial statements include the assets, liabilities and cash flows of the Parent Company and its subsidiaries. The effects of all significant transactions with consolidated subsidiaries have been eliminated in the consolidation, and the participation of minority investors is disclosed in the consolidated financial statements under the caption Minority interest.

The financial statements of Inversiones Río Grande S.A. and subsidiaries include the consolidation of the following direct subsidiaries: Inversiones Río Seco S.A., Inmobiliaria e Inversiones Hidroindustriales S.A. and subsidiaries, Inversiones y Bosques S.A., Inversiones Ranquil S.A., Inversiones Punta Brava S.A., Inmobiliaria Norte Verde S.A. and subsidiaries, Merquor Establishment, Lisena Establishment and Inversiones O'Higgins Punta Arenas Ltda.

The financial statements of Industria Nacional de Alimentos S.A. (formerly Empresas Lucchetti S.A.) ("Indalsa") and subsidiaries are included in the consolidation through Inmobiliaria e Inversiones Hidroindustriales S.A. and subsidiaries.

With respect to the information contained in Note 22, Contingencies and Restrictions, concerning the situation affecting the indirect subsidiary Lucchetti Perú S.A., which has resulted in an orderly liquidation of its assets, Indalsa has not consolidated the financial statements of its investment in Lucchetti Perú S.A. as of December 31, 2004 and 2003, based on the provisions of Technical Bulletin No.72 of the Chilean Association of Accountants and Resolution No.01642 of the SVS dated March 11, 2003.

Note 9 c) shows the summarized balance sheet of the subsidiary Lucchetti Perú S.A. as of December 31, 2004 and 2003.

The subsidiary Lucchetti Chile S.A. was sold on March 31, 2004, and as a result, the operations and figures of that subsidiary have therefore not been included in these consolidated financial statements, for the quarter ended March 31, 2004. This treatment is based on the provisions of Technical Bulletin No.72 of the Chilean Association of Accountants and Resolution No.03287 of the SVS dated April 16, 2004.

The financial statements of Agrícola El Peñón S.A. and subsidiary include the consolidation of Hoteles Carrera S.A.

The financial statements of Madeco S.A. and subsidiaries include the consolidation of the following direct and indirect subsidiaries: Alusa S.A. and subsidiaries, Armat S.A., Indalum S.A. and subsidiaries, Soinmad S.A. and subsidiaries, Comercial Madeco S.A. (Argentina), Indeco S.A. (Peru), Madeco Overseas S.A. (Cayman Islands), Metal Overseas S.A. and subsidiaries (Cayman Islands), and Metalúrgica Industrial Argentina S.A. and subsidiaries.

As of December 31, 2003, the indirect subsidiary Metal Overseas S.A. has written-off its 50% investment in Optel Limitada ("Optel (Brazil)") held through Madeco Brasil Ltda. and has also provided for other expenses as a result of the unfavorable judgment of the arbitration between Metal Overseas S.A. and Corning International Corporation ("Corning Inc."), the holder of the remaining 50% of Optel (Brazil). Metal Overseas S.A. has lost the right to exercise the management of Optel (Brazil), and as such, this indirect subsidiary has not been included as of December 31, 2004 and 2003 in the consolidated financial statements of Madeco S.A. and subsidiaries, and for accounting purposes has been treated as an affiliate company.

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

The consolidated financial statements of CNT Telefónica del Sur S.A. included in the consolidated financial statements of VTR S.A. and subsidiaries do not include the consolidation of the financial statements of Blue Two Chile S.A. as it is in the development stage. The summarized financial statements of this development stage subsidiary are included in Note 9 f).

The consolidated financial statements of LQ Inversiones Financieras S.A. and its subsidiary LQ SM S.A. do not include the consolidation of the financial institutions Banco de Chile and SM Chile S.A., as these financial companies apply different accounting principles than those applied by commercial corporations. This exemption from consolidation was authorized by the SVS in Official Letter No. 03200 dated May 9, 2002. Note 26 includes the summarized financial statements of LQ Inversiones Financieras S.A. and its banking subsidiaries prepared according to the instructions of the Superintendency of Banks and Financial Institutions ("SBIF").

The Parent Company has not consolidated the financial statements of Banchile Compañía de Seguros de Vida S.A. as this company, due to the nature of its business, applies accounting criteria specific to insurance companies. The exemption from consolidation was granted by the SVS in Official Letter No. 7203 dated November 2, 2000. The summarized financial statements of Banchile Compañía de Seguros de Vida S.A. are shown in Note 9b).

e) Price-level restatement
The financial statements have been restated to reflect the effects of variations in the purchasing power of the local currency during each year. According to current regulations, non-monetary assets and liabilities, equity accounts and income and expense accounts have been restated in line with changes in the official consumer price index, which amounted to 2.5% during the year 2004 (1.0% for 2003).

The monthly balances of income and expense accounts have also been restated to present such amounts in constant purchasing power as of the balance sheet date.

f) Currency translation
Assets and liabilities contracted in Unidades de Fomento ("UF") are translated to pesos at Ch$17,317.05 per UF (Ch$16,920.00 per UF in 2003).

Assets and liabilities in United States dollars have been translated at the closing exchange rates as of December 31, 2004 of Ch$557.40 per US$1.00 (Ch$593.80 per US$1.00 in 2003).

g) Time deposits
Time deposits are shown at cost plus indexation adjustments for inflation and accrued interest, as applicable.

h) Marketable securities
Marketable securities include investments in shares and mutual funds. Shares are recorded at the lower of their restated cost and market values at the end of each year. Investments in mutual funds are recorded at their redemption value at the end of each year.

i) Inventories
Inventories of finished products, by-products and work in process are valued at restated cost, which includes indirect manufacturing expenses. Inventories of merchandise, raw materials, warehoused materials and goods in transit are valued at their restated cost. Inventories do not exceed their estimated net realizable value or their respective replacement cost.

Inventories with a turnover of longer than one year are shown in Other long-term assets net of allowances for obsolescence.

An allowance has been recorded for discontinued products and products with low turnover.

j) Allowance for doubtful accounts
The Parent Company and its subsidiaries establish allowances for estimated uncollectible accounts based on the aging of the corresponding balances. These allowances are shown deducted from Accounts receivable, Notes receivable and Other accounts receivable.

k) Other current assets
This caption mainly includes time deposits pledged in guarantee, disposable assets for sale and repurchase agreements.

l) Repurchase agreements
Repurchase agreements correspond to fixed-income instruments and are included in Other current assets. They are stated at cost plus interest and indexation adjustments accrued at year-end, and are based on interest rates and realizable values specified in the related contracts.

m) Property, plant and equipment
Property, plant and equipment are valued at restated cost which includes the cost of financing until assets are placed in service and the incremental values resulting from technical appraisals made as of December 31, 1979, in accordance with Circular No. 1,529 of the SVS.

The values so determined are shown net of allowances for obsolescence.

Property, plant and equipment that will not be used for an indefinite period of time or that is held for sale have been adjusted to their estimated realizable value and are shown in Other short or long-term assets based on the Company's expectation of their use or sale.

n) Depreciation of property, plant and equipment
Depreciation has been calculated using the straight-line method over the estimated remaining useful lives of the assets except for some production plants whose depreciation is calculated as a function of their production units.

The depreciation of property, plant and equipment that is temporarily inactive is shown under Other non-operating expenses in the Statement of income.

o) Leased property, plant and equipment
Property, plant and equipment acquired under financial leases are shown under the caption of Property, plant and equipment and the total obligation plus interest is shown on an accrual basis. These assets do not legally belong to the Company and its subsidiaries until the respective purchase option is exercised.

p) Intangible assets

Items included under intangible assets are trademarks and software licenses that represent an effective service potential for the Company, which are amortized using the straight-line method based on the period in which they are expected to provide benefits, but not exceeding 40 years, in accordance with Technical Bulletin No. 55 of the Chilean Association of Accountants.

q) Investments in related companies

Investments in related companies are shown at their equity-method value after eliminating any unrealized income on intercompany transactions. Equity movements that do not affect the income of the related companies are shown proportionally as a charge or credit to Other reserves or Accumulated deficit during the development stage, as appropriate.

Investments in foreign companies have been measured in United States dollars in accordance with Technical Bulletin No. 64 of the Chilean Association of Accountants, and adjustments have been made for the corresponding taxes payable by the Company.

r) Goodwill and negative goodwill

Goodwill and negative goodwill represent the difference between the acquisition cost of the related company and the net book value of the participation acquired at the date of purchase. Amortization is determined using the straight-line method as a function of the expected return on the investment, but not exceeding 20 years.

s) Other assets - others

This caption mainly includes inventories with no turnover during the year, property, plant and equipment that are expected to be idle for an indefinite period of time, industrial development bonds, judicial deposits, differences in the placement value of bonds and other minor items.

t) Financial derivative contracts

The subsidiary LQ Inversiones Financieras S.A. enters into forward currency contracts to hedge its foreign exchange exposure.

The subsidiary Madeco S.A. enters into derivative contracts to hedge its foreign exchange risks.

Hedging instruments for existing and expected transactions are shown at their market value, and unrealized gains and losses are shown as a charge to Other current assets or as a credit to Other current liabilities, respectively.

u) Bonds payable

Bonds payable include bonds that have been issued by the Parent Company and the subsidiaries LQ Inversiones Financieras S.A., Madeco S.A., Compañía Nacional de Teléfonos, Telefónica del Sur S.A. and Compañía de Teléfonos de Coyhaique S.A. They are shown at their face value at the end of each year. Accrued interest is included in current liabilities. The difference between the nominal value and placement value of the bonds, and the costs incurred in their issuance and placement, are shown in Other assets and are amortized over the term of the bonds.

v) Current and deferred income taxes

The Parent Company and its subsidiaries have recorded their respective income tax expenses according to current tax legislation.

The Parent Company and its subsidiaries have recorded the effects of deferred income taxes arising from timing differences, tax loss carry forwards and other events which create differences between the accounting and tax results, in accordance with Technical Bulletin No. 60 and complementary bulletins thereto issued by the Chilean Association of Accountants and the instructions contained in Circular 1,466 of the SVS.

w) Staff severance indemnities

Severance indemnities that subsidiaries have agreed to pay to their employees for years of service have been calculated on a present value basis (accrued cost of the benefit), taking into account the terms of the contracts in question, using a discount rate of between 6% and 7% per annum and based upon the estimated remaining service period of each employee until retirement.

x) Operating revenues

The Parent Company does not carry out direct transactions and therefore has no operating revenues. Industrial and commercial transactions are carried out by the subsidiaries, and revenues are recorded on the basis of goods effectively delivered or services provided.

Revenues associated with the installation of telephone lines are recognized under a percentage of completion method taking into account the total estimated cost of the contract. Estimated losses on these contracts are recorded as soon as they become known.

The subsidiary Hoteles Carrera S.A. follows a policy of including an estimate of services provided and not billed at the end of the financial year as operating revenue, in addition to those revenues billed during the year. This estimate has been made using prices prevailing at the time the services were provided. The cost of these services is also included in Cost of sales.

The telecommunications sector subsidiaries follow a policy of recording revenue when the services are provided. They include an estimate of accrued traffic and services which are not yet billed, based on a calculation of unbilled domestic and international calls and data transmission. The related cost of these services is shown in Cost of sales. The estimated amounts of unbilled services and their related costs do not materially differ from those revenues charged in telephone bills to customers during the subsequent two month period.

y) Computer software

Computer software has been acquired as part of computer purchase programs and is shown in Other assets under Property, plant and equipment.

z) Sales with leaseback

Sales with leaseback transactions are recorded by the subsidiaries by maintaining the assets at the same book value as prior to the transaction. The assets received under these transactions receive the same treatment as the leased assets indicated in Note 2 o).

aa) Employee vacations

As of December 31 each year, the Parent Company and its subsidiaries made a provision for the cost of employee vacations on an accrual basis.

ab) Cash Flows

The Parent Company and its subsidiaries have considered as Cash and cash equivalents all short-term investments made as part of normal cash management with maturities not exceeding 90 days from the date of the investment, including mutual funds, repurchase agreements and time deposits.

Cash flows from operating activities include all cash flows from operations, including interest expense, interest income and all cash flows not otherwise defined as relating to either financing or investing activities. This concept is broader than that used for the Statement of income.

ac) Compensation plans

With respect to compensation plans including share purchase options, Madeco S.A. has adopted the policy of not recording any effect at the time the option is granted and only shows the eventual increase in capital once the respective options are exercised and the payment of the capital increase is made for the amount represented by the option exercise price. This accounting treatment is based on the provisions of International Financial Reporting Standard (IFRS) No.2, as Chile has not established any rules for this purpose.

ad) Investments in other companies

This caption shows investments in shares with or without a market listing in which the Company does not have the power to exercise significant influence, in accordance with the provisions of Circular No. 1,697 of the SVS.

Investments in other companies are shown at their restated cost.

NOTE 3 – ACCOUNTING CHANGES

During the years ended December 31, 2004 and 2003, there were no accounting changes that would significantly affect the interpretation of these consolidated financial statements.

NOTE 4 – BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a) Notes and accounts receivable from related parties:

	Short-term		Long-term	
Company	**2004 ThCh$**	**2003 ThCh$**	**2004 ThCh$**	**2003 ThCh$**
Blue Two Chile S.A.	4,814,978	297,245	-	-
Inversiones y Rentas S.A.	2,619,662	3,276,141	-	-
Transporte y Servicios Aéreos S.A.	1,244,502	1,722,744	-	-
Embotelladoras Chilenas Unidas S.A.	139,512	287,867	-	-
Inmobiliaria Adriático S.A.	77,942	-	254,051	-
Compañía Cervecerías Unidas S.A.	34,327	41,083	-	-
Cobrecón S.A.	32,179	176,356	108,968	-
Viña San Pedro S.A.	20,844	20,723	-	-
Electromecánica Industrial S.A.	18,432	4,233	252,195	252,573
Inversiones Ontario S.A.	11,187	3,303	216,753	217,080
Cervecera CCU Chile Ltda.	8,625	13,501	-	-
Colada Continua S.A.	4,012	18,810	-	-
Minera Los Pelambres S.A.	880	10,471	-	-
Transportes CCU Ltda.	-	49,688	-	-
Banco de Chile	-	23,919	-	-
Entel S.A.	-	19,974	-	-
Lucchetti Perú S.A.	-	-	-	1,436,247
Promosol S.A.	-	-	-	43,844
Others	117,352	95,795	2	-
Total	**9,144,434**	**6,061,853**	**831,969**	**1,949,744**

b) Notes and accounts payable to related companies:

	Short-term		Long-term	
	As of December 31,		As of December 31,	
Company	2004 ThCh$	2003 ThCh$	2004 ThCh$	2003 ThCh$
Colada Continua Chilena S.A.	189,705	283,872	-	-
Compañía de Telecom. de Llanquihue S.A.	58,299	27,968	8,738	25,450
Minera Michilla S.A.	58,073	84,002	-	-
Almacenes París S.A.	6,156	-	-	-
Cervecera CCU Chile Ltda.	973	6,582	-	-
Embotelladoras Chilenas Unidas S.A.	956	11,339	-	-
Viña San Pedro S.A.	79	9,215	-	-
Electromecánica Industrial S.A.	-	23,249	-	-
Cobrecón S.A.	-	23,837	-	-
Peruplast S.A.	-	8,433	-	-
Others	28,735	16,666	-	-
Total	**342,976**	**495,163**	**8,738**	**25,450**

c) Significant transactions with related parties:

			Years ended December 31,			
			2004		2003	
Company	Relationship	Transaction	Amount ThCh$	Effect on income (charge) credit ThCh$	Amount ThCh$	Effect on income (charge) credit ThCh$
Banco de Chile	Subsidiary (not consolidated)	Interest on investments and time deposits	385,355	385,355	609,252	609,252
Banco de Chile	Subsidiary (not consolidated)	Interest expense	43,329	(43,329)	278,717	(278,717)
Plan de Incentivos para Ejecutivos	Executive officers	Payments, in lieu of payment, Note 16	1,157,869	-	1,668,898	-
Almagro S.A.	Common director	Sale of land	867,990	(183,764)	-	-
Andsberg Finance Corp. Ltd.	Common shareholders	Loan	52,813,029	-	11,564,050	-
Andsberg Finance Corp. Ltd.	Common shareholders	Indexation adjustments & interest	2,376,829	(2,376,829)	8,328,164	7,905,196
Compañía Telecom. Llanquihue S.A.	Affiliate	Purchases of services	165,191	(165,191)	183,499	(183,499)
Blue Two Chile S.A.	Subsidiary (not consolidated)	Current account	4,524,983	-	297,245	-
Cobrecón S.A.	Affiliate	Production services	1,160,011	-	118,584	-
Colada Continua Chilena S.A.	Affiliate	Production services	1,243,390	-	1,263,122	-
Embotelladoras Chilenas Unidas S.A.	Affiliate	Sales of products	938,570	788,715	924,270	780,743
Minera Los Pelambres S.A.	Common shareholders	Cable invoicing	488,841	410,790	392,699	332,796
Minera Michilla S.A.	Common shareholders	Purchase of raw materials	809,005	-	550,027	-
Inmobiliaria Adriatico S.A.	Common shareholders	Sale of real estate	380,838	356,426	-	-
Sodimac S.A.	Common director	Sales	5,872,219	4,934,638	-	-

The Parent Company and its subsidiaries have current accounts, temporary investments and borrowings with the following banks and financial institutions:
- Banco de Chile
- Andsberg Finance Corporation Ltd. (obligation outstanding until December 2004).

The rights and obligations with these financial institutions have been classified under different headings within these financial statements, based on the nature of the transaction and not by the fact that they may be with related parties in order to avoid distorting the presentation of the financial statements and their analysis.

The above transactions with related banks and financial institutions are subject to indexation adjustments and interest which is calculated at market rates. The maturities of such transactions are shown in the respective notes on short-term and long-term Bank obligations.

The amounts shown as transactions with related entities are carried out based on price and payment terms, which reflect market conditions.

For the purposes of this note, significant related party transactions are defined as those that are greater than the lesser of either UF10,000 or 1% of shareholders' equity.

NOTE 5 – INVENTORIES, NET

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

	2004 ThCh$	2003 ThCh$
Raw materials	20,992,962	20,248,421
Finished goods	19,301,330	19,005,445
Work-in-process	17,052,660	11,004,717
Supplies	6,551,629	6,809,446
Merchandise and imports in transit	3,402,496	2,460,752
Merchandise	4,311,133	3,618,111
Materials and packaging	-	193,135
Others	209,761	183,767
Total	**71,821,971**	**63,523,794**

Inventories are shown net of an allowance for obsolescence amounting to ThCh$2,919,083 and ThCh$4,262,248 in 2004 and 2003, respectively.

NOTE 6 – CURRENT AND DEFERRED INCOME TAXES

a) Income tax
For the year ended December 31, 2004, the Parent Company had accumulated tax losses of ThCh$3,019,711 (ThCh$10,651,020 in 2003) and has made no current provision for income tax.

b) The detail of undistributed retained earnings for tax purposes of the Parent Company as of December 31, 2004 is as follows:

	ThCh$
Earnings with 15% credit, origin 1998	32,110,411
Earnings with 10% credit, origin 1998	107,683
Earnings without credit, origin 1998	1,285,593
Earnings with 15% credit, origin 1999	56,617,961
Earnings with 15% credit, origin 2000	58,487,608
Earnings without credit, origin 2000	9,594,222
Earnings with 15% credit, origin 2001	11,390,153
Earnings without credit, origin 2001	2,662,416
Earnings without credit, origin 2002	4,336,416
Earnings with 15% credit, origin 2002	2,328,677
Earnings with 15% credit, origin 2003	6,834,036
Earnings without credit, origin 2003	28,166,191
Earnings with 10% credit, origin 2003	7
Earnings with 16% credit, origin 2003	6,913,155
Earnings with 16.5% credit, origin 2003	9,665,286
Exempt earnings without credit	3,176,398
Non-taxable earnings	153,871,006
Exempt earnings with 10% credit	1,631,754

c) Tax obligations
The detail of Recoverable taxes recorded by the Parent Company and its subsidiaries is as follows:

	As of December 31, 2004 ThCh$	2003 ThCh$
First category income tax	(2,593,466)	(2,052,199)
Additional income tax	(117,613)	(75,398)
Monthly income tax installments	1,803,670	1,458,366
Other tax credits	4,376,772	4,682,771
Other recoverable taxes	1,625,709	1,535,675
Total recoverable taxes	**5,095,072**	**5,549,215**

d) Composition of deferred income taxes:

Description	As of December 31, 2004				2003			
	Deferred tax asset		Deferred tax liability		Deferred tax asset		Deferred tax liability	
	Short-term	Long-term	Short- term	Long- term	Short- term	Long-term	Short-term	Long-term
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Temporary differences								
Allowance for doubtful accounts	1,097,075	2,001,925	-	-	1,393,980	188,188	-	-
Provision for vacations	252,450	-	-	-	362,964	-	-	-
Amortization of intangible assets	-	-	-	-	5,114	15,557	-	-
Leased assets	109,451	215,731	-	7,148,772	162,329	284,654	91,978	2,441,530
Manufacturing expenses	-	-	-	545,427	-	-	527,891	-
Depreciation of property, plant and equipment	-	336	737,106	12,146,567	-	4,229	481,136	17,339,031
Severance indemnities	-	-	34,878	95,325	1,227	-	-	658,619
Other events	961,992	4,385,954	300,700	305,308	1,048,066	8,992,105	280,370	562,489
Miscellaneous provisions	567,549	1,014,230	-	-	-	-	-	-
Accumulated tax losses	3,620,071	38,572,400	-	-	228,900	36,146,871	-	-
Allowance for disposable property, plant and equipment	178,005	117,072	-	-	-	-	-	-
Allowance for value of investment in Brazil	7,888,668	-	-	-	-	-	-	-
Allowance for obsolescence	11,005	-	-	-	586,199	100,003	-	-
Deferred expenses	-	-	-	-	-	-	71,025	-
Complementary accounts, net of amortization	(41,843)	(475,481)	-	(5,561,902)	(117,052)	(10,356,796)	(86,052)	(12,623,803)
Valuation allowance	(10,488,377)	(22,649,889)	-	-	(10,818)	(13,009,647)	-	-
Total	**4,156,046**	**23,182,278**	**1,072,684**	**14,679,497**	**3,660,909**	**22,365,164**	**1,366,348**	**8,377,866**

e) Composition of tax expense:

	Year ended December 31, 2004	2003
	ThCh$	ThCh$
Current tax expense (provision for tax)	(2,711,079)	(2,127,395)
Tax expense adjustment from previous year's provision	(39,745)	4,109
Deferred income taxes for the year	(3,338,309)	2,154,098
Tax benefit for tax losses	2,635,589	5,325,246
Amortization of complementary accounts	1,988,205	221,126
Deferred tax assets and liabilities arising from changes in valuation allowance	(4,007,029)	(8,297,513)
Other	3,516,889	87,348
Total	**(1,955,479)**	**(2,632,981)**

NOTE 7 – OTHER CURRENT ASSETS

The following is a detail of other current assets:

	As of December 31, 2004	2003
	ThCh$	ThCh$
Repurchase agreements	24,078,859	20,915,368
Repurchase agreements to be used for paying bonds	-	9,330,947
Disposable assets held for sale, net	4,795,901	6,937,221
Time deposits in guarantee	273,423	983,928
Other	1,262,691	1,159,683
Total	**30,410,874**	**39,327,147**

NOTE 8 –PROPERTY, PLANT AND EQUIPMENT

Presented below is the detail of Accumulated depreciation, Depreciation for the year, Other property, plant and equipment and Revaluation from technical appraisals:

	As of December 31,	
	2004 ThCh$	2003 ThCh$
Accumulated depreciation:		
Buildings and infrastructure	54,287,447	59,729,508
Machinery and equipment	201,198,823	220,874,196
Other property, plant and equipment	18,584,704	21,911,977
Revaluation from technical appraisals	5,031,398	5,655,636
	279,102,372	**308,171,317**
Depreciation for the year:		
Cost of sales	23,066,077	25,618,834
Administrative and selling expenses	2,338,733	3,765,780
	25,404,810	**29,384,614**
Other non-operating expenses	2,154,985	1,845,708
	27,559,795	**31,230,322**
Other property, plant and equipment:		
Leased assets	14,406,570	18,550,700
Furniture and fixtures	7,636,417	9,174,749
Construction in progress	1,258,518	3,115,890
Computer software	5,025,439	6,895,212
Office machines	3,548,255	3,896,023
Tools and others	2,094,225	2,293,001
Materials and spare parts	1,651,706	1,842,812
Computer equipment	295,672	1,154,617
Other	12,333,323	5,289,868
	48,250,125	**52,212,872**
Depreciation related to revaluation from technical appraisals:		
Land	3,073,373	3,216,754
Buildings and infrastructure	9,389,945	10,084,875
Machinery and equipment	2,132,501	2,132,502
	14,595,819	**15,434,131**
Accumulated depreciation	4,623,467	5,138,524
Depreciation for the year	407,931	517,113
	5,031,398	**5,655,637**

NOTE 9 - INVESTMENTS IN RELATED COMPANIES

The detail of investments in related companies as of December 31, 2004 is as follows:

Company	Country	Ownership percentage %	Shareholders' equity of company ThCh$	Net income (loss) ThCh$	Participation in net income (loss) ThCh$	Participation in equity ThCh$	Unrealized results ThCh$	Book value ThCh$
Banco de Chile	Chile	20.23	674,532,637	152,627,773	31,664,951	137,236,834	-	137,236,834
SM Chile S.A. (Series A)	Chile	3.00	351,775,893	27,546,280	-	9,728,625	-	9,728,625
SM Chile S.A. (Series B)	Chile	46.19	351,775,893	27,546,280	13,324,742	163,085,078	-	163,085,078
SM Chile S.A. (Series D)	Chile	1.78	351,775,893	27,546,280	512,140	6,268,063	-	6,268,063
SM Chile S.A. (Series E)	Chile	0.38	351,775,893	27,546,280	109,772	1,343,266	-	1,343,266
Inversiones y Rentas S.A.	Chile	50.00	186,444,674	27,824,134	13,912,067	93,222,337	-	93,222,337
Entel S.A.	Chile	5.69	622,659,299	47,364,347	2,695,226	35,431,869	-	35,431,869
Habitaria S.A.	Chile	50.00	8,705,759	(8,609,087)	(4,304,543)	4,352,880	-	4,352,880
Peruplast S.A.	Peru	25.00	14,669,026	(84,174)	(21,044)	3,667,257	-	3,667,257
Tech Pack S.A.	Peru	25.61	9,817,079	76,032	19,470	2,513,948	-	2,513,948
Banchile Seguros de Vida S.A.	Chile	99.90	4,121,600	728,175	727,448	4,117,479	-	4,117,479
Colada Continua Chilena S.A.	Chile	41.00	3,484,525	1,003	411	1,428,655	-	1,428,655
Cobrecón Perú S.A.	Peru	33.33	1,977,170	(65,550)	(21,850)	659,056	-	659,056
Compañía Telecom. de Llanquihue S.A.	Chile	49.00	1,134,780	50,561	24,775	556,043	-	556,043
Empresa Aérea El Litoral S.A.	Chile	50.00	277,329	(16,054)	(8,027)	138,665	-	138,665
Inmobiliaria El Norte y El Rosal S.A.	Chile	50.00	123,936	(2,886)	(1,443)	61,968	-	61,968
Blue Two Chile S.A.	Chile	99.00	-	(917,285)	-	-	-	-
Transporte y Servicios Aéreos S.A.	Chile	50.00	122,824	(371,622)	(185,811)	61,412	-	61,412
Inmobiliaria Barrio Verde S.A.	Chile	-	1,166,702	18,213	-	1	-	1
Calaf S.A.	Chile	50.00	8,428,870	41,097	20,548	4,214,435	-	4,214,435
Lucchetti Perú S.A.	Peru	100.00	11,766,282	(8,682,914)	-	-	-	-
Total						**468,087,871**	**-**	**468,087,871**

The detail of investments in related companies as of December 31, 2003 is as follows:

Company	Country	Ownership percentage %	Shareholders' equity of company ThCh$	Net income (loss) ThCh$	Participation in net income (loss) ThCh$	Participation in equity ThCh$	Unrealized results ThCh$	Book value ThCh$
Banco de Chile	Chile	20.22	713,067,837	133,816,686	27,057,220	144,205,659	-	144,205,659
SM Chile S.A. (Series A)	Chile	3.00	374,437,678	23,584,210	-	10,527,484	-	10,527,484
SM Chile S.A. (Series B)	Chile	46.19	374,437,678	23,584,210	11,408,201	173,465,988	-	173,465,988
SM Chile S.A. (Series D)	Chile	1.78	374,437,678	23,584,210	438,477	6,667,044	-	6,667,044
SM Chile S.A. (Series E)	Chile	0.38	374,437,678	23,584,210	93,983	1,428,765	-	1,428,765
Inversiones y Rentas S.A.	Chile	50.00	176,416,889	32,784,472	16,392,236	88,208,444	-	88,208,444
Entel S.A.	Chile	5.69	598,410,702	61,476,633	3,499,331	34,052,024	-	34,052,024
Habitaria S.A.	Chile	50.00	17,314,845	(689,244)	(344,621)	8,657,423	-	8,657,423
Peruplast S.A.	Peru	25.00	16,238,053	157,677	39,419	4,059,514	-	4,059,514
Tech Pack S.A.	Peru	25.61	10,636,597	(195,429)	(50,046)	2,723,809	-	2,723,809
Banchile Seguros de Vida S.A.	Chile	99.90	3,367,680	518,100	503,894	3,364,314	-	3,364,314
Colada Continua Chilena S.A.	Chile	41.00	3,483,522	(48,042)	(19,697)	1,428,243	-	1,428,243
Cobrecón Perú S.A.	Peru	33.33	2,230,521	(6,295)	(2,098)	743,506	-	743,506
Compañía Telecom. de Llanquihue S.A.	Chile	49.00	1,084,218	19,208	9,411	531,267	-	531,267
Empresa Aérea El Litoral S.A.	Chile	50.00	293,384	(16,531)	(8,267)	146,694	-	146,694
Agromercantil Limitada	Chile	45.00	261,071	(8,254)	(3,715)	117,481	-	117,481
Inmobiliaria El Norte y El Rosal S.A.	Chile	50.00	126,821	5,014	2,505	63,410	-	63,410
Promosol S.A.	Chile	50.00	116,564	(7,434)	(3,717)	58,283	-	58,283
Blue Two Chile S.A.	Chile	49.00	58,188	(299,486)	-	57,606	-	57,606
Transporte y Servicios Aéreos S.A.	Chile	50.00	(505,555)	(362,480)	(181,239)	-	-	-
Inmobiliaria Barrio Verde S.A.	Chile	-	1,120,468	(242,911)	-	1	-	1
Lucchetti Perú S.A.	Peru	100.00	21,697,378	(3,544,281)	-	-	-	-
Total						**480,506,959**	**-**	**480,506,959**

a) Investments in Banco de Chile and SM Chile S.A.:
The direct and indirect shareholdings of Quiñenco S.A, through its subsidiary LQ Inversiones Financieras S.A., in Banco de Chile is as follows:

1. Shares held:
The Company's ownerships of shares of SM Chile S.A. and Banco de Chile as of December 31 of each year are as follows:

	Issued shares		Shares held by LQ Inversiones Financieras S.A.		Ownership Percentage of SM Chile S.A.	
	2004	2003	2004	2003	2004	2003
SM Chile S.A. (Series A)	567,712,826	567,712,826	377,528,973	377,528,973	3.00%	3.00%
SM Chile S.A. (Series B)	11,000,000,000	11,000,000,000	5,811,598,701	5,811,598,701	46.19%	46.19%
SM Chile S.A. (Series D)	429,418,369	429,418,369	223,364,308	223,364,308	1.78%	1.78%
SM Chile S.A. (Series E)	584,921,232	584,921,232	47,866,985	47,866,985	0.38%	0.38%
Total	**12,582,052,427**	**12,582,052,427**	**6,460,358,967**	**6,460,358,967**	**51.35%**	**51.35%**

	Issued shares		Shares held by LQ Inversiones Financieras S.A.		Ownership Percentage of Banco de Chile	
	2004	2003	2004	2003	2004	2003
Banco de Chile	68,079,783,605	68,079,783,605	13,762,345,978	13,762,345,978	20.22%	20.22%

2. Recognition of the results of SM Chile S.A.
The novation of the subordinated obligation set forth in accordance with Law 18,818 of November 1989 suspended the dividend rights of the Series A shares of the company formerly called Banco de Chile (now called Sociedad Matriz del Banco de Chile S.A.) until the subordinated obligation with the Central Bank of Chile is repaid.

Therefore, any surplus generated by Sociedad Matriz del Banco de Chile S.A., after recording the provision for the payment of the annual installment of the subordinated obligation of the subsidiary Sociedad Administradora de la Obligación Subordinada S.A., may only be distributed as dividends to the shareholders of the Series B, D and E shares. The accrued net income for any year is shown in the financial statements of the parent company based on the percentage of dividend rights associated with the shares held.

The Series A shares of S.M.Chile S.A. grant no rights as to the recognition of results of any kind, nor do they have associated dividend rights. The equity value of these shares is calculated as the participation in the shareholders' equity of S.M.Chile S.A., excluding net income.

3. Repurchase of Own Shares
On March 26, 2004, Banco de Chile made a Public Share Offering to buy 1,701,994,590 shares, equivalent to 2.5% of the total issued shares for Ch$31 per share, in accordance with the Share Repurchase Program approved by the Extraordinary Shareholders' Meeting of Banco de Chile held on March 20, 2003. This transaction has been recoded as a reduction of equity, consistent with the accounting treatment recorded by the bank, resulting in a charge to equity amounting to ThCh$23,006,352.

The voting and dividend rights related to the repurchased shares will be exercised by the shareholders on a pro rata basis to their holdings, the effect of which has been shown in the Company's financial statements.

4. Voting rights in Banco de Chile:
The voting rights in Banco de Chile corresponding to the 41,179 million shares held by SM Chile S.A. and SAOS S.A. are exercised by the shareholders of SM Chile S.A. that attend the Bank's shareholders' meetings. The rights corresponding to the shares owned by SM Chile S.A. are exercised proportionally through all of the series' shareholders (i.e. Series A, B, D and E). Those rights corresponding to the shares owned by SAOS S.A. are exercised by Series A, B and D shareholders.

As a result, the voting rights of Banco de Chile are distributed as follows:

Shares	Number of votes in Banco de Chile (millions)	Participation of LQIF in each series	Number of votes for LQIF	LQIF voting rights	
	2004	2004	2004	2004	2003
Owned by SM Chile S.A. and SAOS					
SM Chile S.A. (Series A)	1,970	66.50%	1,310	1.93%	1.88%
SM Chile S.A. (Series B)	38,171	52.83%	20,166	29.62%	28.88%
SM Chile S.A. (Series D)	1,490	52.02%	775	1.14%	1.11%
SM Chile S.A. (Series E)	600	8.18%	49	0.07%	0.07%
Other shareholders	25,849	20.22%			
Subtotal	**68,080**		**22,300**	**32.76%**	**31.94%**
Banco de Chile				20.73%	20.22%
Total voting rights in Banco de Chile				**53.49%**	**52.16%**

5. Dividend rights in Banco de Chile:

As of December 31 of each year, LQ Inversiones Financieras S.A.'s dividend distribution rights in Banco de Chile are as follows:

Series	Dividend distribution rights		% corresponding to LQ Inversiones Financieras S.A.'s ownership interest	
	2004	2003	2004	2003
SM Chile S.A. (Series A)	0.00%	0.00%	0.00%	0.00%
SM Chile S.A. (Series B)	16.57%	16.16%	8.75%	8.54%
SM Chile S.A. (Series D)	0.65%	0.63%	0.34%	0.33%
SM Chile S.A. (Series E)	0.88%	0.86%	0.07%	0.06%
SAOS S.A.	43.93%	42.83%	0.00%	0.00%
Banco de Chile	37.97%	39.52%	20.73%	20.22%
Total	**100.00%**	**100.00%**	**29.89%**	**29.15%**

The indirect subsidiaries Banco de Chile and SM Chile S.A. are governed by the provisions of the third and fifth paragraphs of Law 19,386 concerning the modification of the payment conditions of the Subordinated Obligation of the subordinated debt with the Central Bank of Chile.

As a result, the indirect subsidiary Banco de Chile must distribute the earnings corresponding to the previous year as a dividend distribution before the end of April each year.

The subsidiary LQ Inversiones Financieras S.A. received 29.15% of Banco de Chile's 2003 net income in March 2004 with respect to its direct and indirect shareholdings, which amounted to ThCh$38,055,109.

6. Instructions and agreement with the regulator of the New York branch of Banco de Chile

Banco de Chile and its New York branch have agreed to act in accordance with instructions from the Office of the Comptroller of the Currency (OCC) with regard to compliance of rules and regulations concerning bank secrecy and anti-money laundering in the New York branch, which will take effect starting February 1, 2005.

According to these instructions, the Bank and its branch are required to immediately adopt measures and within 90 days, prepare and present a compliance plan, including an assessment of the capabilities and skills of branch staff needed to comply with the regulations, which will cover the following aspects: a program to maintain books and registers with the information necessary to comply with the laws on banking secrecy of the United States of America; a program of standards and procedures for the branch staff; an internal control program including additional controls to be made concerning high risk or accounts of politically-exposed persons, which will ensure the identification of the parties involved in transactions in which the branch is involved; a program of compliance with banking secrecy rules, audit programs on the application of banking secrecy rules; and a program to report on suspicious activity. The compliance plan should be submitted for consideration by the OCC.

Lastly, according to the instructions and agreement with the authority, the bank shall set up a compliance department in the New York branch, refrain from effecting transactions with persons mentioned in the instructions and establish a reporting committee responsible for supervising and controlling the progress of the corrective measures to be adopted.

7. Exemption from consolidation of banking companies:

a) These financial statements do not include the consolidation of Banco de Chile and SM Chile S.A. as they apply different accounting principles to those followed by commercial corporations. This exemption was granted by the SVS in its Official Letter Nº 03200 dated May 9, 2003.

Note 26 of the consolidated financial statements includes the consolidated financial statements of LQ Inversiones Financieras S.A. and subsidiaries prepared in accordance with the instructions of the SBIF.

b) Summarized financial statements of Banchile Seguros de Vida S.A.:

The following shows the summarized balance sheet and statement of income of the subsidiary Banchile Seguros de Vida S.A.:

	As of December 31,	
Balance Sheet	**2004 ThCh$**	**2003 ThCh$**
Assets		
Investments	15,386,589	11,707,950
Premiums receivable	1,254,597	1,332,977
Receivables from reinsurance	228,041	449,595
Other assets	305,406	246,530
Total assets	**17,174,633**	**13,737,052**
Liabilities and Shareholders' equity		
Technical reserves	9,280,341	7,303,675
Insurance premiums payable	1,774,981	1,001,864
Other liabilities	1,997,711	2,063,833
Shareholders' equity	4,121,600	3,367,680
Total liabilities and Shareholders' equity	**17,174,633**	**13,737,052**

	Years ended December 31,	
Statement of Income	**2004 ThCh$**	**2003 ThCh$**
Operating revenue	6,950,264	8,704,193
Operating costs	(6,671,710)	(8,448,059)
	278,554	**256,134**
Income from investments	524,659	428,854
Other income	3,918	9,554
Financing costs	(16,443)	(11,898)
Adjustments of provisions and write-offs	(1,034)	(70,659)
Foreign currency translation, net	(3,295)	(1,112)
Price-level restatement, net	89,389	9,725
	597,194	**364,464**
Income before income taxes	875,748	620,598
Income taxes	(147,573)	(102,498)
Net income for the year	**728,175**	**518,100**

c) Summarized Financial Statements of Lucchetti Perú S.A.:

Presented below are the summarized financial statements of Lucchetti Perú S.A.:

	As of December 31,	
Balance Sheet	**2004 ThCh$**	**2003 ThCh$**
Assets		
Total current assets	152,632	1,544,692
Property, plant and equipment, net	13,705,187	28,995,873
Total other assets	3,551,765	3,783,035
Total assets	**17,409,584**	**34,323,600**
Liabilities and Shareholders' equity		
Total current liabilities	334,773	3,721,680
Total long-term liabilities	5,308,529	8,904,542
Total shareholders' equity	11,766,282	21,697,378
Total liabilities and Shareholders' equity	**17,409,584**	**34,323,600**

Statement of Income	Years ended December 31, 2004 ThCh$	2003 ThCh$
Operating revenue	-	2,927,489
Operating costs	-	(2,928,409)
Gross Margin	**-**	**(920)**
Administrative and selling expenses	(326,705)	(1,131,942)
Operating loss	**(326,705)**	**(1,132,862)**
Financial income	5,551	26,850
Other non-operating income	-	337,250
Financial expenses	(320,037)	(1,038,244)
Other non-operating expenses	(8,166,677)	(1,193,959)
Foreign currency translation, net	124,954	(543,316)
Non-operating loss	**(8,356,209)**	**(2,411,419)**
Net loss for the year	**(8,682,914)**	**(3,544,281)**

d) Madeco S.A.:

In July 2004, the subsidiary Madeco S.A. placed 138,956,755 shares for an amount of ThCh$5,697,227 (historic pesos). The Parent Company Quiñenco S.A. and the subsidiary Rio Grande S.A. did not participate in this issuance and thereby reduced their shareholding from 55.22% to 51.23% and generated a loss of ThCh$48,977, which is shown in Other non-operating expenses in the Statement of income (see Note 10).

In March 2003, the Parent Company and its subsidiary Inversiones Río Grande S.A. participated in the capital increase of the subsidiary Madeco S.A., subscribing for 2,058,353,792 shares for ThCh$49,616,293.

In June 2003, the subsidiary Madeco S.A. placed 264,800,000 shares amounting to ThCh$7,680,072 (historic pesos). The Parent Company and the subsidiary Río Grande S.A. did not participate in this share issuance and thereby reduced their shareholding from 84.30% to 76.78% and generated a loss of ThCh$5,809,229 which is shown in Other non-operating expenses in the Statement of Income (Note 10).

In August 2003, the subsidiary Madeco S.A. placed 1,156,803,602 shares amounting to ThCh$32,402,520 (historic pesos). The Parent Company Quiñenco S.A. and the subsidiary Río Grande S.A. did not participate in this share issuance which resulted in a reduction in their shareholding from 76.78% to 55.22% and generated a loss of ThCh$15,320,787 which is shown in Other non-operating expenses in the Statement of Income (Note 10).

e) Executive incentive plan:

As described in Note 16 "Movements in equity accounts", Quiñenco received payments in cash and in shares of Banco de Chile, CNT Telefónica del Sur S.A., Madeco S,A, and Indalsa from executives as per the agreed installment for 2004 and 2003.

f) Summarized Balance Sheet of Blue Two Chile S.A. (subsidiary in the development stage):

	2004 ThCh$
Assets	
Total current assets	1,841,963
Premises, equipment and machinery, net	6,681,263
Total other assets	251,542
Total assets	**8,774,768**
Liabilities and Shareholders' equity	
Total current liabilities	9,632,672
Total Long-term liabilities	1,193
Total Shareholders equity	(859,097)
Total liabilities and Shareholders' equity	**8,774,768**

g) Entel S.A.

The investment in Entel S.A. is shown at its equity value according to the methodology applicable to investments in which the investor has the capacity to exercise influence or control over the investee, as this company, through its subsidiary VTR S.A., has elected a director and an alternate director in Entel S.A., acquired before Circular No.1697 of the SVS entered into effect.

h) Foreign investments

1) Liabilities of the subsidiary Madeco S.A. that have been specifically designated and booked to hedge investments abroad, correspond to a loan from BankBoston amounting to ThCh$2,595,570 as of December 31, 2004.

2) There were no remittable profits as of December 31, 2004.

NOTE 10 – GOODWILL AND NEGATIVE GOODWILL

a) Goodwill:

	Years ended December 31,			
	2004		2003	
Company	**Amortization for the year ThCh$**	**Goodwill (net) ThCh$**	**Amortization for the year ThCh$**	**Goodwill (net) ThCh$**
SM Chile S.A. (Series B)	10,827,280	172,200,670	10,827,280	183,027,950
Banco de Chile (formerly Banco Edwards)	4,476,583	65,656,542	4,476,583	70,133,125
Banco de Chile	2,695,148	42,921,821	2,687,795	45,530,721
Madeco S.A. and subsidiaries	2,098,800	25,584,758	2,193,269	29,687,801
SM Chile S.A. (Series D)	329,614	5,176,862	329,613	5,506,475
CNT Telefónica del Sur S.A.	102,256	1,104,207	38,450	566,048
SM Chile S.A. (Series E)	36,163	578,612	36,163	614,776
Inversiones Río Grande S.A. and subsidiaries	6,327	63,098	8,056	398,846
Total	**20,572,171**	**313,286,570**	**20,597,209**	**335,465,742**

b) Negative goodwill:

	Years ended December 31,			
	2004		2003	
Company	**Amortization for the year ThCh$**	**Negative Goodwill (net) ThCh$**	**Amortization for the year ThCh$**	**Negative Goodwill (net) ThCh$**
VTR S.A. and subsidiary	846,220	5,275,629	901,821	6,121,848
Madeco S.A. and subsidiaries	1,643,645	4,008,288	23,085,074	5,663,607
Agrícola El Peñón S.A. and subsidiary	275,186	664,429	71,546	939,614
Inversiones Río Grande S.A. and subsidiaries	30,190	482,782	29,834	507,186
SM Chile S.A. (Series A)	26,916	425,647	22,818	452,667
Other	-	-	303	5,787
Total	**2,822,157**	**10,856,775**	**24,111,396**	**13,690,709**

As a result of the capital increase made in July 2004 of the subsidiary Madeco S.A., in which the Parent Company did not participate, the Company amortized ThCh$48,977 of goodwill in Madeco S.A., equivalent to the dilution gain for not participating.

The subsidiary Madeco S.A. made capital increases in March, June and August of 2003. The Parent Company and its subsidiary, Inversiones Río Grande S.A., did not subscribe to the capital increases in June and August but did so in March. The March transaction generated negative goodwill amounting to ThCh$27,799,836 (historic pesos) of which ThCh$5,809,229 and ThCh$15,230,787 was extraordinarily amortized for the loss generated for not subscribing in June and August, respectively.

NOTE 11 – CURRENT BANK OBLIGATIONS

Short-term obligations to banks are as follows:

	Year ended December 31,	
	2004 ThCh$	**2003 ThCh$**
Short-term payable in:		
United States dollars	10,778,585	5,828,092
Other foreign currencies	5,588,567	5,770,558
Unidades de Fomento (UF)	6,686	132,423
Chilean pesos (not indexed)	7,273,264	7,448,646
Total	**23,647,102**	**19,179,719**
Short-term portion of long-term bank obligations payable in:		
United States dollars	478,599	6,522,586
Other foreign currencies	1,025,716	162,281
Unidades de Fomento (UF)	38,197,243	20,584,091
Chilean pesos (not indexed)	258,426	5,750,425
Total	**39,959,984**	**33,019,383**

NOTE 12 – LONG-TERM BANK OBLIGATIONS

The maturities of obligations to banks and financial institution as of December 31, 2004 are as follows:

	2004 ThCh$
Years to maturity:	
Between 1 and 2 years	46,651,503
Between 2 and 3 years	47,960,726
Between 3 and 5 years	75,580,979
Between 5 and 10 years	19,156,630
More than 10 years	-
Total	**189,349,838**

NOTE 13 – BONDS PAYABLE

Current portion of long-term bonds payable

Registration or identification number of instrument	Series	Nominal value of current liability	Measure-ment unit	Interest rate	Maturity date	Payment periods Interest	Payment periods Amortization	Book value As of December 31, 2004 M$	Book value As of December 31, 2003 M$	Domestic or foreign issuance
229	B	900,000	UF	6.20%	04/30/2008	Semi-annual	Semi-annual	16,143,589	16,335,310	Domestic
198	E	281,545	UF	5.80%	02/10/2011	Semi-annual	Semi-annual	4,990,919	1,065,289	Domestic
399	D	221,076	UF	5.00%	12/10/2011	Semi-annual	Semi-annual	3,918,184	-	Domestic
251	G	133,333	UF	6.00%	12/01/2005	Semi-annual	Semi-annual	2,319,938	2,332,908	Domestic
229	A	62,500	UF	6.20%	04/30/2021	Semi-annual	Semi-annual	1,436,757	358,819	Domestic
198	F	22,796	UF	5.80%	02/10/2020	Semi-annual	Semi-annual	578,500	567,832	Domestic
384	B	-	UF	4.75%	05/15/2025	Annual	Annual	309,934	-	Domestic
385	A	-	UF	3.25%	05/15/2010	Annual	Annual	283,777	-	Domestic
184	D	14,679	UF	5.80%	02/10/2017	Semi-annual	Semi-annual	271,546	257,831	Domestic
251	H	-	UF	6.00%	12/01/2021	Semi-annual	Semi-annual	49,488	46,143	Domestic
258	C2	-	UF	6.15%	05/01/2004	Semi-annual	None	-	15,417,175	Domestic
258	C1	-	UF	6.15%	05/01/2004	Semi-annual	None	-	8,707,200	Domestic
222	A2	-	UF	7.25%	12/15/2011	Semi-annual	Semi-annual	-	2,043,405	Domestic
222	A1	-	UF	7.25%	12/15/2011	Semi-annual	Semi-annual	-	1,412,964	Domestic
184	C	-	UF	5.80%	02/10/2008	Semi-annual	Semi-annual	-	898,979	Domestic
178	A	-	UF	6.25%	09/01/2004	Semi-annual	Semi-annual	-	352,179	Domestic
Total current portion								**30,302,632**	**49,796,034**	

Long-term bonds payable

Registration or identification number of instrument	Series	Nominal value of current liability	Measure-ment unit	Interest rate	Maturity date	Payment periods Interest	Payment periods Amortization	Book value As of December 31, 2004 M$	Book value As of December 31, 2003 M$	Domestic or foreign issuance
385	A	4,000,000	UF	3.25%	05/15/2010	Annual	Annual	69,268,200	-	Domestic
384	B	3,000,000	UF	4.75%	05/15/2025	Annual	Annual	51,951,150	-	Domestic
229	B	2,250,000	UF	6.20%	04/30/2008	Semi-annual	Semi-annual	38,963,363	54,630,450	Domestic
229	A	1,937,500	UF	6.20%	04/30/2021	Semi-annual	Semi-annual	33,551,784	34,686,000	Domestic
399	D	1,578,924	UF	5.00%	12/10/2011	Semi-annual	Semi-annual	27,342,312	-	Domestic
251	H	600,000	UF	6.00%	12/01/2021	Semi-annual	Semi-annual	10,390,230	10,405,800	Domestic
198	F	425,534	UF	5.80%	02/10/2020	Semi-annual	Semi-annual	7,368,987	7,775,375	Domestic
184	D	202,791	UF	5.80%	02/10/2017	Semi-annual	Semi-annual	3,511,743	3,771,585	Domestic
222	A2	-	UF	7.25%	12/15/2011	Semi-annual	Semi-annual	-	18,541,504	Domestic
222	A1	-	UF	7.25%	12/15/2011	Semi-annual	Semi-annual	-	12,820,943	Domestic
198	E	-	UF	5.80%	02/10/2011	Semi-annual	Semi-annual	-	4,882,834	Domestic
251	G	-	UF	6.00%	12/01/2005	Semi-annual	Semi-annual	-	2,312,400	Domestic
184	C	-	UF	5.80%	02/10/2008	Semi-annual	Semi-annual	-	1,931,090	Domestic
Total long-term portion								**242,347,769**	**151,757,981**	

NOTE 14 - PROVISIONS AND WRITE-OFFS

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

	2004 ThCh$	2003 ThCh$
Current liabilities:		
Remunerations, fees and consulting expenses	2,659,517	2,392,631
Employee vacations	2,411,351	2,732,992
Lawsuits pending	1,518,222	423,170
Staff severance indemnities	1,108,536	1,869,622
General and commercial expenses	994,943	1,867,254
Restructuring expenses	969,995	1,038,900
Suppliers invoices	699,968	258,268
Telephone connection and long-distance costs	664,852	382,081
Property, municipal and other taxes	557,496	162,169
Distribution fees and freights	449,707	300,814
Provision for net value of sale of property, plant and equipment	440,913	-
Provision for write-off of Optel (Brazil)	430,208	1,929,628
Employee profit-sharing and benefits	360,440	596,717
Basic utilities	344,305	340,705
Provision for installation and maintenance contractors	172,214	61,033
Export and import expenses	150,932	157,093
Advertising, promotion and corporate image	115,681	176,620
Provision for guarantee received	89,593	-
Provision for work in progress	28,040	205,138
Provision for local interconnection costs	-	213,336
Other	1,361,326	1,323,808
Total	**15,528,239**	**16,431,979**
Long-term liabilities:		
Contingencies	4,979,892	4,231,851
Subsidiaries with accumulated deficits	859,098	-
Lawsuits pending	1,604,045	2,745,180
Staff severance indemnities	1,161,330	1,450,574
Other	579,044	658,352
Total	**9,183,409**	**9,085,957**

Allowances against assets	2004 ThCh$	2003 ThCh$
Current assets		
Accounts receivable	7,909,980	9,797,053
Notes receivable	1,328,644	3,316,068
Other accounts receivable	168,727	1,788,809
Inventories (obsolescence)	2,919,083	4,262,248
Unrealized income (inventories)	885,496	351,821
Recoverable taxes Uruguay & Argentina	296,440	291,535
Accounts receivable Optel (Brazil)	247,071	549,974
Property, plant and equipment held for sale	1,935,365	7,057,537
Other current assets	416,980	156,043
Guarantees provision contingency adjustment (Other current assets)	1,123,811	-
Long-term assets:		
Provision for investment in Lucchetti Perú S.A.	30,862,932	30,862,932
Accounts receivable Lucchetti Perú S.A.	4,495,674	2,114,260
Provision for property, plant and equipment for sale	688,649	1,979,947
Inventories without movement for more than one year	42,079	129,471
Obsolescence of property, plant and equipment	1,535,739	1,767,995
Other long-term assets (long-term receivables)	3,184,963	1,687,599
Valuation of property, plant and equipment – Argentina	3,692,381	3,469,277
Valuation of other assets - Argentina	1,326,909	1,058,792
Provision for investment in Optel (Brazil)	1,530,040	1,568,291
Provision for property, plant and equipment, not in use	4,143,945	3,960,616
Write-offs made:		
Bad debts	481,051	604,665
Inventories	-	78,291

NOTE 15 – MINORITY INTEREST

Minority interest is summarized as follows at the end of each year:

	Percentage		Minority interest			
	Minority interest As of December 31,		Book value As of December 31,		Statement of income As of December 31,	
	2004 %	2003 %	2004 ThCh$	2003 ThCh$	2004 ThCh$	2003 ThCh$
Madeco S.A.	48.77	44.78	77,305,951	67,733,015	(3,897,796)	6,168,092
CNT Telefónica del Sur S.A.	26.33	26.37	16,850,170	16,468,151	(1,807,141)	(2,011,073)
Alusa S.A.	24.04	24.04	8,682,058	8,497,530	(604,216)	(516,793)
Indalsa S.A.	4.36	4.09	733,559	1,167,898	144,706	107,006
Indeco S.A. (Peru)	7.00	7.08	1,442,305	1,488,585	(214,842)	(67,007)
Hoteles Carrera S.A.	6.50	6.50	291,540	568,733	16,128	354,025
Inversiones Vita S.A.	33.70	33.70	908,866	741,683	(161,448)	(111,661)
Cía. Teléfonos de Coyhaique S.A.	11.29	11.29	834,769	850,800	(135,073)	(157,689)
Agrícola El Peñón S.A.	3.80	3.80	290,181	319,367	(10,190)	197,871
Indalum S.A.	0.84	0.84	206,023	190,315	(15,709)	(19,223)
Comatel S.A.	14.96	14.96	105,270	107,130	1,847	(1,237)
Inversiones Pal S.A.	30.00	30.00	(713)	15,558	16,271	13,491
Distribuidora Boliviana Indalum S.A.	5.78	5.78	-	9,837	14,494	10,454
Inversiones Alusa S.A.	30.73	30.73	1,754	1,400	(353)	(114)
Inv. O'Higgins Punta Arenas Ltda. C.P.A.	24.44	24.44	219,332	230,361	11,029	2,129
Inversiones Vita Bis S.A.	33.70	33.70	462,045	377,052	(82,077)	(56,793)
Others	-	-	326	588	(73)	19
Total			**108,333,436**	**98,768,003**	**(6,724,443)**	**3,911,497**

NOTE 16 – SHAREHOLDERS' EQUITY

a) The following movements have occurred in shareholders' equity during 2004 and 2003:

	Paid-in capital ThCh$	Other reserves ThCh$	Retained earnings ThCh$	Interim dividends ThCh$	Deficit during the development stage ThCh$	Net income (loss) for the year ThCh$	Total ThCh$
Balance as of January 1, 2003	**454,744,268**	**41,417,911**	**211,215,302**	**-**	**(1,382,458)**	**(75,480,211)**	**630,514,812**
Distribution of prior year's loss	-	-	(76,862,669)	-	1,382,458	75,480,211	-
Deficit of companies in development stage	-	-	-	-	(276,463)	-	(276,463)
Proportional share of other changes directly affecting Shareholders' equity (1)	-	(28,071,840)	-	-	-	-	(28,071,840)
Price-level restatement of equity	4,547,443	414,179	1,343,527	-	-	-	6,305,149
Interim dividends	-	-	-	(12,144,323)	-	-	(12,144,323)
Net income for the year	-	-	-	-	-	37,694,846	37,694,846
Balance as of December 31, 2003	**459,291,711**	**13,760,250**	**135,696,160**	**(12,144,323)**	**(276,463)**	**37,694,846**	**634,022,181**
Balance restated for comparative purposes	**470,774,003**	**14,104,256**	**139,088,564**	**(12,447,931)**	**(283,374)**	**38,637,217**	**649,872,735**
Balance as of January 1, 2004	459,291,711	13,760,250	135,696,160	(12,144,323)	(276,463)	37,694,846	634,022,181
Distribution of prior year's income	-	-	25,274,060	12,144,323	276,463	(37,694,846)	-
Final dividend	-	-	(6,703,102)	-	-	-	(6,703,102)
Deficit of companies in development stage	-	-	-	-	(780,742)	-	(780,742)
Proportional share of equity changes (1)	-	(30,522,225)	-	-	-	-	(30,522,225)
Price-level restatement of equity	11,482,292	344,006	3,849,976	-	-	-	15,676,274
Net income for the year	-	-	-	-	-	23,352,714	23,352,714
Balance as of December 31, 2004	**470,774,003**	**(16,417,969)**	**158,117,094**	**-**	**(780,742)**	**23,352,714**	**635,045,100**

(1) On March 26, 2004 Banco de Chile concluded a public share offering to purchase 1,701,994,590 of its own shares at Ch$31 per share, equivalent to 2.5% of the total shares issued and outstanding, in accordance with its Share Repurchase Program, for the purpose of investment and their future reissuance in the markets in which the shares or ADRs of Banco de Chile are or may be traded, as agreed upon at an Extraordinary Shareholders' Meeting of the bank held on March 20, 2003.

In March 2000, a long-term incentive plan was established for executives of the Company. A loan was granted amounting to ThCh$4,729,878 (historic pesos) as of December 31, 2002 to acquire shares of the Parent Company and its subsidiaries at market value. The loan denominated in UF is repayable in annual installments over the period 2003 – 2006 and the shares acquired are pledged in guarantee and may be used in payment. The plan was made in accordance with instructions from the Board of Directors on March 8, 2000. Payments of the corresponding installments for each year were made in April 2004 and June 2003, in accordance with the conditions of the long-term incentive plan.

b) Number of shares as of December 31, 2004:

Series	Subscribed shares	Paid-in shares	Shares with voting rights
Common	1,079,740,079	1,079,740,079	1,079,740,079

c) Capital as of December 31, 2004:

Series	Subscribed capital	Paid-in capital
	ThCh$	ThCh$
Common	470,774,003	470,774,003

d) Accumulated deficit of companies in development stage as of December 31, 2004:

Company	Amount	
	For the year ThCh$	Accumulated ThCh$
VTR S.A.	668,026	668,026
Inversiones y Rentas S.A.	111,749	111,749
CNT Telefónica del Sur S.A.	967	967
Total	**780,742**	**780,742**

NOTE 17 – NON-OPERATING INCOME AND EXPENSES:

Non-operating income and expenses for the years ended December 31 are detailed as follows :

	2004 ThCh$	2003 ThCh$
Other non-operating income		
Gain on sale of subsidiary Lucchetti Chile S.A.	4,069,786	-
Gain on sale of property, plant and equipment	780,456	199,509
Sale of trademarks	628,152	-
Reversal of provisions	729,915	-
Dividends received	111,045	6,343
Rentals	110,424	298,578
Gain related to non-participation in capital increase	100,437	-
Recovery of taxes and expenses	90,114	499,066
ADR depositary contracts	56,974	-
Amount received from settlement payment	-	36,935,901
Recovery of previous investments	-	531,795
Gain on sale of shares and other investments	-	18,255
Other	264,988	469,650
Total	**6,942,291**	**38,959,097**
Other non-operating expenses		
Allowance for account receivable Lucchetti Perú S.A.	2,381,414	1,217,290
Depreciation of idle assets	2,242,660	2,033,744
Sale of machinery in Peru	1,773,510	-
Legal defense expenses Lucchetti Perú S.A.	1,577,051	1,430,835
Loss related to non-participation in capital increase of subsidiary	1,366,134	21,658,266
Fees, profit sharing, remuneration & consultancies	1,366,922	4,271,939
Provision for loss on guarantee granted	1,123,811	-
Contingencies	678,486	-
Loss on sale of property, plant & equipment	625,922	-
Adjustment to market value of assets held for sale	393,625	501,395
Write-offs and obsolescence	374,974	1,722,652
Allowance for valuation property, plant & equipment and other assets in Argentina	283,074	841,724
Labor lawsuits	257,420	391,502
Severance payments and other settlements	240,514	226,966
Bank fees and other charges	234,382	202,447
Closure and valuation adjustments of assets of subsidiaries (Chile and Uruguay)	76,427	495,213
Provision for liquidation of Optel subsidiary (Brazil)	-	5,040,422
Loss on sale of Hotel Carrera building	-	4,830,847
Other	1,009,649	2,023,927
Total	**16,005,975**	**46,889,169**

NOTE 18 – PRICE-LEVEL RESTATEMENT

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

	Indexation unit	2004 ThCh$	2003 ThCh$
Assets			
Inventories, net	CPI and replacement cost	575,062	2,374,527
Property, plant and equipment	CPI	5,002,408	2,743,981
Investments in related companies	CPI	13,029,815	6,536,811
Goodwill and negative goodwill	CPI	7,124,171	2,969,610
Financial investments	CPI	420,187	186,647
Related company current accounts, net	UF	882,095	180,001
Other assets	UF	175,584	204,505
Other non-monetary assets	CPI	1,246,222	545,568
Expense and cost accounts	CPI	4,115,906	30,337
Total credits		**32,571,450**	**15,771,987**
Liabilities			
Shareholders' equity	CPI	(15,676,274)	(6,462,777)
Bank obligations	CPI	(69,127)	(54,913)
Bank obligations	UF	(4,955,572)	(3,216,005)
Bonds payable	UF	(2,870,235)	(2,056,298)
Other liabilities	UF	(2,205,768)	(282,861)
Foreign suppliers	US$	71,557	-
Non-monetary liabilities	CPI	(2,979,298)	(1,179,044)
Revenue accounts	CPI	(4,243,733)	(580,856)
Total charges		**(32,928,450)**	**(13,832,754)**
Net gain (loss) due to price-level restatement		**(357,000)**	**1,939,233**

NOTE 19 – FOREIGN CURRENCY TRANSLATION

The detail of the foreign currency translation for the years ended December 31 is as follows:

	Currency	2004 ThCh$	2003 ThCh$
Assets (charges)/ credits			
Cash and financial investments	US dollar	(337,366)	(4,894,449)
Accounts and notes receivable	US dollar	(1,030,438)	(316,486)
Other assets	US dollar	608,672	(1,519,021)
Other assets	Others	-	(12,714)
Derivative instruments	US dollar	783,243	(13,068,665)
Translation adjustments	US dollar	519,564	2,182,683
Total credits (charges)		**543,675**	**(17,628,652)**
Liabilities (charges)/ credits			
Bank obligations	US dollar	(757,191)	15,917,974
Accounts and notes receivable	US dollar	416,163	1,298,038
Other liabilities	US dollar	(429,376)	169,040
Translation adjustment in Peru	Peruvian sol	633,113	420,657
Other liabilities	Others	17,635	(124,978)
Translation adjustment in Brazil	Brazilian real	969,490	1,514,846
Hedging costs Brazil	Brazilian real	(955,016)	(1,443,120)
Translation adjustment in Argentina	Argentine peso	(139,637)	885,188
Total (charges) credits		**(244,819)**	**18,637,645**
Net foreign currency translation		**298,856**	**1,008,993**

NOTE 20 – STATEMENT OF CASH FLOWS

The composition of Cash and cash equivalents consists of all financial investments that are easily convertible to cash with a maximum term of 90 days, including instruments acquired under repurchase agreements and fixed-income mutual funds. The detail of cash and cash equivalents is as follows:

	As of December 31,	
	2004 ThCh$	2003 ThCh$
Cash	4,148,331	6,524,209
Mutual funds	414,086	6,066,488
Time deposits	13,789,624	24,210,296
Transactions under repurchase agreements	24,078,859	20,915,368
Total	**42,429,597**	**57,716,361**

Other income includes the following:

	Year ended December 31,	
	2004 ThCh$	2003 ThCh$
Tax refund	6,023,808	1,051,241
Rental	439,761	216,878
Other	79,437	631,750
Total	**6,543,006**	**1,899,869**

Other income includes the following:

	Year ended December 31,	
	2004 ThCh$	2003 ThCh$
Factoring transactions	-	12,928,293
Collections from third parties	-	3,354,915
Sales under repurchase agreements	-	1,605,702
Other	-	140,013
Total	**-**	**18,028,923**

The following is the detail of other investment income:

	Year ended December 31,	
	2004 ThCh$	2003 ThCh$
Settlement contract	-	38,343,802
Sale of machinery	4,694,217	-
Sale of assets of subsidiary	1,285,000	-
Other	10,815	354,430
Total	**5,990,032**	**38,698,232**

The following is the detail of other investment disbursements:

	Year ended December 31,	
	2004 ThCh$	2003 ThCh$
Purchase of machinery	6,582,738	-
Other	1,131	25,625
Total	**6,583,869**	**25,625**

NOTE 21 – DERIVATIVE CONTRACTS

Description of contract									Derivative instruments effect			
						Hedged item			Asset / Liability		Effect on income	
Type of derivative	Type of contract	Nominal amount	Maturity date	Specific item	Purchase/ Sale	Description	Initial amount	Closing amount	Name	Amount M$	Realized ThCh	Deferred ThCh$
FR	CCPE	3,412,080	1st qtr. 2005	Dollar exchange rate	P	Dollar loan	3,412,080	3,121,440	OCL	288,974	-	(288,974)
FR	CCPE	3,118,360	1st qtr. 2005	Dollar exchange rate	S	Dollar loan	3,118,360	3,121,440	OCL	4,371	-	(4,371)
FR	CCPE	2,741,400	1st qtr. 2005	Dollar exchange rate	P	Dollar loan	2,741,400	2,508,300	OCL	231,971	-	(231,971)
FR	CCPE	2,505,825	1st qtr. 2005	Dollar exchange rate	S	Dollar loan	2,505,825	2,508,300	OCL	3,351	-	(3,351)
S	CCPE	1,729,027	1st qtr. 2005	Dollar/Brazilian Real	P	Dollar loan	1,729,027	1,729,027	OCL	75,774	(75,774)	-
S	CCPE	668,880	1st qtr. 2005	Dollar/Brazilian Real	P	Dollar loan	668,880	668,880	OCL	48,733	(48,733)	-
FR	CCPE	630,977	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	630,977	630,977	OCL	13,318	(13,318)	-
FR	CCPE	595,861	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	595,861	595,861	OCL	31,737	(31,737)	-
FR	CCPE	572,450	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	572,450	572,450	OCL	12,041	(12,041)	-
FR	CCPE	462,085	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	462,085	462,085	OCL	22,588	(22,588)	-
FR	CCPE	459,855	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	459,855	459,855	OCL	22,936	(22,936)	-
FR	CCPE	445,920	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	445,920	445,920	OCL	35,209	(35,209)	-
S	CCPE	407,816	1st qtr. 2005	Dollar/Brazilian Real	P	Dollar loan	407,816	407,816	OCL	7,110	(7,110)	-
S	CCPE	403,869	1st qtr. 2005	Dollar/Brazilian Real	P	Dollar loan	403,869	403,869	OCL	24,833	(24,833)	-
FR	CCPE	403,000	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	403,000	403,000	OCL	8,440	(8,440)	-
S	CCPE	358,780	1st qtr. 2005	Dollar/Brazilian Real	P	Dollar loan	358,780	358,780	OCL	20,582	(20,582)	-
FR	CCPE	328,309	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	328,309	328,309	OCL	18,152	(18,152)	-
S	CCPE	296,574	1st qtr. 2005	Dollar/Brazilian Real	P	Dollar loan	296,574	296,574	OCL	9,240	(9,240)	-
FR	CCPE	270,339	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	270,339	270,339	OCL	15,242	(15,242)	-
FR	CCPE	269,782	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	269,782	269,782	OCL	12,262	(12,262)	-
FR	CCPE	267,552	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	267,552	267,552	OCL	7,592	(7,592)	-
FR	CCPE	267,552	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	267,552	267,552	OCL	7,597	(7,597)	-
FR	CCPE	229,091	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	229,091	229,091	OCL	12,682	(12,682)	-
S	CCPE	227,419	1st qtr. 2005	Dollar/Brazilian Real	P	Dollar loan	227,419	227,419	OCL	56,407	(56,407)	-
FR	CCPE	195,090	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	195,090	195,090	OCL	8,641	(8,641)	-
FR	CCPE	195,090	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	195,090	195,090	OCL	8,589	(8,589)	-
FR	CCPE	192,860	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	192,860	192,860	OCL	10,668	(10,668)	-
FR	CCPE	179,629	1st qtr. 2005	Dollar/Brazilian Real	P	Dollar loan	179,629	179,629	OCL	9,896	(9,896)	-
S	CCPE	148,826	3rd qtr. 2005	Dollar/Brazilian Real	P	Dollar loan	148,826	148,826	OCL	6,958	(6,958)	-
S	CCPE	139,350	3rd qtr. 2005	Dollar/Brazilian Real	P	Dollar loan	139,350	139,350	OCL	6,515	(6,515)	-
FR	CCPE	133,776	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	133,776	133,776	OCL	3,800	(3,800)	-
FR	CCPE	129,874	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	129,874	129,874	OCL	7,177	(7,177)	-
FR	CCPE	66,888	1st qtr. 2005	Dollar/Brazilian Real	P	Inventories (copper)	66,888	66,888	OCL	1,881	(1,881)	-

FR Forward contracts
S SWAP
OCL Other current liabilities

The effect on income relates to variations in the fair value of the forward contracts, according to Circular No. 1,501 of the SVS.

NOTE 22 - CONTINGENCIES AND RESTRICTIONS

a) Pledge over shares

Pledges over shares are shown under Contingencies and Restrictions – Indirect guarantees.

b) Situation of the investment in Lucchetti Perú S.A. and 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 Perú S.A. for its industrial facilities and to order the final closure of the plant and its complete eradication within twelve months.

Consequently, on October 3, 2001, 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").

Later, following unsuccessful attempts to seek a cordial solution, in accordance with the Treaty, on December 23, 2002, Indalsa, together with Lucchetti Perú S.A., 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 as the Peruvian authorities themselves certified that Lucchetti Perú S.A. 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 Perú 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 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 Perú S.A., 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 Vicuña and the firm Eluchans y Cía., 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 decided not to record the potential settlement gain that might result from the international arbitration process.

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

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 heard on September 2 and 3, 2004. Despite the sound legal arguments made by Indalsa, 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 advisers, 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 S.A. 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 S.A. 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 S.A. has lawsuits pending against it with respect to its ordinary course of business which, according to the company's legal advisers, do not represent risk of significant losses.

There are legal proceedings in Brazil against the previous owner of Ficap S.A., a subsidiary of Madeco S.A., dating from the time prior to Madeco S.A.'s ownership starting in 1997. It is believed that total damages would amount to approximately ThR$6,950. Madeco S.A. has personal guarantees from the previous owner of Ficap S.A. to indemnify Madeco S.A. should the Brazilian subsidiary be affected by such legal actions.

Madeco S.A. and its subsidiary, Madeco Brasil Ltda., 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 S.A. relating to Optel (Brazil), a Brazilian company in which Corning Inc. and Madeco Brasil Ltda. are joint owners. Corning, in turn, made a counter-claim against Madeco S.A. seeking, among other things, that Corning be allowed to terminate its agreements with Madeco S.A.

Madeco S.A. 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 S.A. lost its put option to sell its shares in Optel (Brazil) to Corning Inc. at a price of US$18 million. This does not cause any accounting effect as such options are not recorded in the financial statements.

The judgment also ruled the investment agreement null and void, resulting in the loss of Madeco S.A.'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. Madeco S.A. therefore decided to make an allowance for its 50% holding in Optel (Brazil).

As of December 31, 2004, Armat S.A., a subsidiary of Madeco S.A., has lawsuits pending against it in relation to its normal course of business. The legal advisers of Armat S.A. believe there is no risk of significant losses.

As of December 31, 2004, CNT Telefónica del Sur S.A. 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. CNT Telefónica del Sur S.A. has not made a provision for this case because it believes that it will not result in any significant damages.

(2) Case No. 2166-03 in the First Civil Court of Valdivia with Mr. Andrés González 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 Villarroel 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) Financial contingencies

Quiñenco S.A. 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.

(1) Quiñenco S.A. 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 Quiñenco.
- Quiñenco to maintain control of Banco de Chile (through its investment in LQ Inversiones Financieras S.A.).

(2) The indirect subsidiary CNT Telefónica del Sur S.A. is subject to certain financial covenants and restrictions related to its bond issuances and bank loan agreements. The main financial covenants are as follows:

i. CNT Telefónica del Sur S.A.
- Maintain a liquidity ratio of at least 0.50:1 on both an unconsolidated and consolidated basis.
- Leverage (liabilities/shareholders' equity) no greater than 1.5:1 on both an unconsolidated and consolidated basis.
- Minimum shareholders' equity of UF 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.

ii. Compañía de Teléfonos de Coyhaique S.A.
- 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.

(3) LQ Inversiones Financieras S.A. is subject to certain financial covenants and restrictions related to its bond issuance and bank loan agreements, the principal ones being:

Until LQ Inversiones Financieras S.A. 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, LQ Inversiones Financieras S.A. 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, LQ Inversiones Financieras S.A 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.

(4) Madeco S.A. is subject to certain financial covenants and restrictions as of December 31, 2004, the most restrictive of which are:

Bonds Series D:
- Maintain a current ratio of at least 1.0:1.
- Minimum shareholders' equity equivalent to UF 7million.
- 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.
- Quiñenco S.A. to remain as the controller of Madeco S.A., with a direct or indirect shareholding of at least 40%, in accordance with clause 97 of the Capital Markets Law, notwithstanding that Quiñenco S.A. must at all times directly hold at least 35% of the shares.
- Madeco S.A. 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 S.A. 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 S.A. 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 S.A. (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 S.A. or the power to directly or indirectly exercise influence over the management or policies of Madeco S.A.).

Obligations:
- Preserve and maintain the corporate existence and legal structure of all of its Principal Subsidiaries (Alusa S.A., Indalum S.A., Ficap S.A. and Indeco S.A.), 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 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 S.A. and/or its subsidiaries, the disposal of subsidiaries, provisions for the valuation of disposable property, plant and equipment and assets of Madeco S.A. and/or its subsidiaries, and provisions for the valuation of foreign investments.
  - Minimum adjusted shareholders' equity of UF 7 million as of December 31st 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 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.
- The ratio of consolidated Net Financial Debt to consolidated EBITDA is no greater than 4.0:1.
- The above not withstanding the provisions of clause 79 of the Corporations Law.

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 S.A., Indalum S.A., Ficap S.A. and Indeco S.A.) 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 S.A. or the respective Principal Subsidiary, (iv) the new company assumes all the obligations assumed by Madeco S.A. or the respective Principal Subsidiary in the loan agreement, and (v) in the case of liquidation of a Principal Subsidiary, Madeco S.A. 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 S.A.
- 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 S.A. 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.
- The company shall not substantially change the nature of its principal line of business or those of its Principal Subsidiaries.
- 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 S.A., 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 S.A. 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 S.A. or Indalum S.A. 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 S.A. or Indeco S.A. 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 S.A. and Indeco S.A. will be liable to pay the whole of their outstanding debt immediately.
  - If any judicial sentence rules against Madeco S.A. 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 S.A. 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 S.A. does not comply with covenants or negative covenants.
  - Should for any reason Madeco S.A. cease to be included in the Securities Register of the Superintendency of Securities and Insurance.
  - Should Madeco S.A. cease to hold directly or indirectly at least 51% of the common voting shares of its subsidiaries Indalum S.A., Indeco S.A. and Ficap S.A.

The indirect subsidiary Alusa S.A. maintains a syndicated loan with Banco de Chile and Banco Estado for UF 300,000 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 (debt to 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. Vicuña Mackenna 2935 and 2585, Alusa S.A. must use at least 35% of the proceeds to prepay on a prorate basis the participant banks in the syndicated loan.
- Alusa S.A. 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 S.A. 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 S.A. relating to non-business operations, except with the prior written consent of the participant banks. Business-related accounts receivable with Aluflex S.A., may not exceed US$600,000 except with the prior written consent of the participant banks.

Alusa S.A. was in compliance with all of these covenants as of December 31, 2004.

f) Other contingencies

The indirect guarantees of the Parent Company, as shown in the following table, include joint and several guarantees for the debts of the following subsidiaries: Agrícola El Peñón S.A., VTR S.A., Inversiones y Bosques S.A., Inversiones Ranquil S.A., Inversiones Punta Brava S.A., Inmobiliaria e Inversiones Hidroindustriales S.A. and LQ Inversiones Financieras S.A. The relative loan agreements include clauses regarding the use of the funds and financial covenants that are normal for this type of agreement.

Quiñenco S.A. has signed option contracts with all of the above companies, except LQ Inversiones Financieras S.A., which are exercisable between February 28, 2003 and February 28, 2006 and state:
1) Quiñenco S.A. may require that the above companies sell their shares in LQ Inversiones Financieras S.A. at a price to be determined based on the purchase price of the shares and borrowing costs, plus an additional 2.0% calculated on such amounts.
2) The above companies may require Quiñenco S.A. to purchase shares of LQ Inversiones Financieras S.A. at a price to be determined based on the purchase price of the shares and borrowing costs, plus an additional 0.5% calculated on such amounts.

CNT Telefónica del Sur S.A. and Compañía de Teléfonos de Coyhaique S.A., are in compliance with all the regulations applicable to them as telecommunication companies.

Certain obligations were reciprocally agreed to between the parties with respect to a share purchase agreement between VTR S.A. and SBC International Inc. dated June 16, 1999, which could result in adjustments to the sale price.

The following restrictions were established under negotiations carried out by Indalum S.A., a subsidiary of Madeco S.A., on December 29, 2003 with Banco de Chile, Banco de Crédito 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 S.A. 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 S.A. or its 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 S.A. with its customers nor loans to the executives and personnel of Indalum S.A. or its subsidiaries.
- In the event of the disposal of the real estate located at Aysén Street 244, Macul, Vitacura Street 2726, Office 301, Vitacura, and Santa Marta Street 1313, Maipú, the sales proceeds should be used to prepay the rescheduled obligations on a prorate basis. For this calculation, the principal amount of outstanding financial loans due to Madeco S.A. shall be added to the rescheduled obligations. For this purpose, financial debt shall be defined as the sum of all loans made by Madeco S.A., 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 S.A. 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 S.A. must directly and indirectly control Indalum S.A. during the term of the agreement or have a shareholding of at least 50.1% in the company.

As of December 31, 2004, Indalum S.A. has fully complied with these restrictions.

Sale of subsidiary:

On March 31, 2004, the subsidiary Indalsa signed a contract for the sale of its subsidiary Lucchetti Chile S.A. to 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, there was to be a price adjustment for variations in Lucchetti Chile S.A's working capital as of March 31, 2004 determined by the external auditors, PricewaterhouseCoopers, in a final report dated no later than June 30, 2004.

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. PricewaterhouseCoopers 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 external auditors PricewaterhouseCoopers and completed by June 30, 2004.

On July 6, 2004, PricewaterhouseCoopers 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 Empresas Corpora Tres Montes S.A., 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 S.A. In view of this information, the management of Indalsa decided to seek damages against the buyers before the arbitrator, Sergio Urrejola Monckeberg. Said process is proceeding normally and is currently in the preparation stage. It is believed that there is sufficient basis to obtain a positive result from the arbitration. As mentioned in Note 17, the amount paid to the buyers is 100% provisioned for against Other non-operating expenses.

Regarding the sale of Lucchetti Chile S.A. on March 31, 2004, Quiñenco S.A. promised Inversiones Tres Montes 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 Industria Nacional de Alimentos S.A. (formerly Empresas Lucchetti S.A.) representing at least 51% of its capital, and (ii) control of Industria Nacional de Alimentos S.A. (formerly Empresas Lucchetti S.A.), through the majority of votes at shareholders' meetings and election of the majority of the company's directors.
- Maintain the shareholders' equity of Industria Nacional de Alimentos S.A. (formerly Empresas Lucchetti S.A.), 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, Quiñenco S.A. shall not be liable under this obligation should the equity of Industria Nacional de Alimentos S.A. (formerly Empresas Lucchetti S.A.) at any time fall below the amount indicated due to i) operating and non-operating losses incurred in the business of Industria Nacional de Alimentos S.A. (formerly Empresas Lucchetti S.A.) 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 S.A. 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 S.A. 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.

As of December 31, 2004, the indirect subsidiary Alusa S.A. has received two notifications of taxes due, Nos. 372 and 373, (Value of tax ThCh$136,280) from the Chilean Internal Revenue Service. These notifications are pending resolution.

On February 27, 2004, in accordance with the protest procedure contained in Title II of Decree Law 830 of the Tax Code, Alusa S.A. filed a complaint with the tax tribunal (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 Río 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 Chilean Internal Revenue Service. Inversiones Río Grande S.A. filed a complaint with the tax tribunal, 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 Perú to the subsidiary Lucchetti Chile S.A. 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 presently 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 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.

g) Indirect guarantees:

	Debtor			Assets committed		Balance outstanding as of December 31,		Release of collateral					
Creditor	Name	Relation-ship	Type of guarantee	Type	Book value	2004	2003	2005	Assets	2006	Assets	2007	Assets
						ThCh$	ThCh$	ThCh$		ThCh$		M$	
Banco del Estado de Chile	Agrícola El Peñón S.A.	Subsidiary	Guarantee	General	-	19,101,737	19,148,697	-	-	-	-	-	-
Banco del Estado de Chile	VTR S.A.	Subsidiary	Guarantee	General	-	4,862,260	13,055,930	-	-	-	-	-	-
Banco Santander Chile	LQ Inversiones Financieras S.A.	Subsidiary	Guarantee	General	-	-	18,826,855	-	-	-	-	-	-
Credit Lyonnais	LQ Inversiones Financieras S.A.	Subsidiary	Guarantee	General	-	-	4,597,968	-	-	-	-	-	-
Banco del Estado de Chile	Inv. Punta Brava S.A.	Subsidiary	Guarantee	General	-	17,264,690	17,311,385	-	-	-	-	-	-
Banco del Estado de Chile	Inv. Ranquil S.A.	Subsidiary	Guarantee	General	-	17,591,182	17,644,021	-	-	-	-	-	-
Banco del Estado de Chile	Inm. e Inv. Hidro-industriales S.A.	Subsidiary	Guarantee	General	-	16,887,934	16,937,094	-	-	-	-	-	-
Banco del Estado de Chile	Inv. y Bosques S.A.	Subsidiary	Guarantee	General	-	16,793,919	16,843,941	-	-	-	-	-	-
Banco del Estado de Chile	Agrícola El Peñón S.A.	Subsidiary	Pledge	Shares	17,119,396	19,101,737	-	5,706,465	-	5,706,465	-	5,706,466	-
Banco del Estado de Chile	VTR S.A.	Subsidiary	Pledge	Shares	11,672,312	4,862,260	-	3,890,771	-	3,890,771	-	3,890,770	-

Creditor	Debtor Name	Debtor Relationship	Type of guarantee	Assets committed Type	Assets committed Book value	Balance outstanding as of December 31, 2004 ThCh$	Balance outstanding as of December 31, 2003 ThCh$	Release of collateral 2005 ThCh$	Assets	2006 ThCh$	Assets	2007 M$	Assets
Banco del Estado de Chile	Inv. Punta Brava S.A.	Subsidiary	Pledge	Shares	10,427,265	11,634,694	-	3,475,755	-	3,475,755	-	3,475,755	-
Banco del Estado de Chile	Inv. Ranquil S.A.	Subsidiary	Pledge	Shares	15,734,498	17,591,182	-	5,244,833	-	5,244,833	-	5,244,832	-
Banco del Estado de Chile	Inm. e Inv. Hidroindus-triales S.A.	Subsidiary	Pledge	Shares	11,314,361	12,624,512	-	3,771,454	-	3,771,454	-	3,771,453	-
Banco del Estado de Chile	Inv. y Bosques S.A.	Subsidiary	Pledge	Shares	10,894,157	12,155,651	-	3,631,386	-	3,631,386	-	3,631,385	-
Banco del Estado de Chile	Agrícola El Peñón S.A.	Subsidiary	Pledge & guarantee	Shares	-	-	19,077,300	-	-	-	-	-	-
Banco del Estado de Chile	Inv. Ranquil S.A.	Subsidiary	Pledge & guarantee	Shares	-	-	17,534,021	-	-	-	-	-	-
Banco del Estado de Chile	Inm. e Inv. Hidroindus-triales S.A.	Subsidiary	Pledge & guarantee	Shares	-	-	12,608,361	-	-	-	-	-	-
Banco del Estado de Chile	VTR S.A.	Subsidiary	Pledge & guarantee	Shares	-	-	13,007,250	-	-	-	-	-	-
Banco del Estado de Chile	Inv. y Bosques S.A.	Subsidiary	Pledge & guarantee	Shares	-	-	12,140,100	-	-	-	-	-	-
Banco del Estado de Chile	Inv. Punta Brava S.A.	Subsidiary	Pledge & guarantee	Shares	-	-	11,619,810	-	-	-	-	-	-
Banco Santander Chile	LQ Inversiones Financieras S.A.	Subsidiary	Pledge	Shares	24,891,315	-	18,779,780	-	-	-	-	-	-
Banco BBVA	LQ Inversiones Financieras S.A.	Subsidiary	Pledge	Shares	-	-	28,442,520	-	-	-	-	-	-
Deutsche Bank A.G.	LQ Inversiones Financieras S.A.	Subsidiary	Pledge & negative pledge	Shares	-	-	11,685,984	-	-	-	-	-	-
Credit Lyonnais	LQ Inversiones Financieras S.A.	Subsidiary	Pledge & ne-gative pledge	Shares	-	-	4,564,838	-	-	-	-	-	-
Banco del Estado de Chile	Inv. Punta Brava S.A.	Subsidiary	Pledge	Shares	10,949,057	17,264,690	5,584,446	3,649,685	-	3,649,686	-	3,649,686	-
Banco del Estado de Chile	Inm. e Inv. Hidroindus-triales S.A.	Subsidiary	Pledge	Shares	9,387,480	16,887,934	4,228,930	3,129,160	-	3,129,160	-	3,129,160	-
Banco del Estado de Chile	Inv. y Bosques S.A.	Subsidiary	Pledge	Shares	9,759,079	16,739,919	4,600,734	3,253,027	-	3,253,026	-	3,253,026	-
Banco del Estado de Chile	Agrícola El Peñón S.A.	Subsidiary	Pledge	Shares	5,489,687	19,101,737	-	1,829,896	-	1,829,896	-	1,829,895	-
Banco del Estado de Chile	Inv. Ranquil S.A.	Subsidiary	Pledge	Shares	5,017,158	17,591,182	-	1,672,386	-	1,672,386	-	1,672,386	-
Banco Santander Chile	Alufoil S.A.	Indirect subsidiary	Mortgage	Industrial plant	-	-	240,603	-	-	-	-	-	-
Banco Security	Alufoil S.A.	Indirect subsidiary		Industrial machinery	-	-	1,304,086	-	-	-	-	-	-
Banco de Chile	Alufoil S.A.	Indirect subsidiary	Pledge	Machine	-	-	65,795	-	-	-	-	-	-
Area Se/Bco. Santos/Inter-Atlantico/Banrisul/Abc Brasil	Ficap S.A.	Indirect subsidiary	Insurance guarantee	-	-	1,564,198	-	141,962	-	1,422,236	-	-	-
Sudameris	Ficap S.A.	Indirect subsidiary	Assets contract	-	-	1,170	58,491	-	-	-	-	-	-
Sudameris	Ficap S.A.	Indirect subsidiary	Assets contract	-	-	-	54,708	-	-	-	-	-	-
Safra	Ficap S.A.	Indirect subsidiary	Assets contract	-	-	51,444	109,426	51,444	-	-	-	-	-
Safra	Ficap S.A.	Indirect subsidiary	Property, plant and equipment	-	-	490,980	415,266	-	-	-	-	-	-
Safra	Ficap S.A.	Indirect subsidiary	Property, plant and equipment	-	-	-	93,724	-	-	-	-	-	-
Aguas Andinas S.A.	Madeco S.A.	Subsidiary	Guarantee	Ch$	20,000	20,000	-	20,000	-	-	-	-	-

	Debtor			Assets committed		Balance outstanding as of December 31,		Release of collateral					
Creditor	Name	Relation-ship	Type of guarantee	Type	Book value	2004	2003	2005	Assets	2006	Assets	2007	Assets
						ThCh$	ThCh$	ThCh$		ThCh$		M$	
Casa de Moneda de Chile	Madeco S.A.	Subsidiary	Guarantee	Ch$	702	702	-	702	-	-	-	-	-
Cía. Americana de Multiservicios	Madeco S.A.	Subsidiary	Guarantee	US$	24,638	24,638	-	24,638	-	-	-	-	-
Cía. Americana de Multiservicios	Madeco S.A.	Subsidiary	Guarantee	Ch$	246,254	246,254	-	246,254	-	-	-	-	-
Cía. de Teleco-municaciones de Chile S.A	Madeco S.A.	Subsidiary	Guarantee	US$	258,203	258,203	-	258,203	-	-	-		
Cia. General de Electricidad	Madeco S.A.	Subsidiary	Guarantee	Ch$	42,468	42,468	-	42,468	-	-	-	-	-
Corporación Nacional del Cobre	Madeco S.A.	Subsidiary	Guarantee	US$	4,174	4,174	4,199	4,174	-	-	-	-	-
Codelco División Norte	Madeco S.A.	Subsidiary	Guarantee	US$	-	-	255,412	-	-	-	-	-	-
Enami	Madeco S.A.	Subsidiary	Guarantee	Ch$	500	500	-	500	-	-	-	-	-
Emel S.A.	Madeco S.A.	Subsidiary	Guarantee	Ch$	5,000	5,000	-	5,000	-	-	-	-	-
The Treasury Department	Armat S.A.	Indirect subsidiary	Check	US$95,471	53,216	53,216	-	53,216	-	-	-	-	-
The Treasury Department	Armat S.A.	Indirect subsidiary	Check	US$100,907	56,245	56,245	-	56,245	-	-	-	-	-
Bco Boston	Ingewall S.A.	Indirect subsidiary	Performance bond		-	458,136	438,224	458,136	-	-	-	-	-

NOTE 23 – GUARANTEES OBTAINED FROM THIRD PARTIES

In March 2000, a long-term incentive plan was introduced for executives of the Parent Company. A loan was granted, amounting to ThCh$4,729,878 (historic pesos) as of December 31, 2002, to acquire shares of the Parent Company and its subsidiaries at market value. The loan is denominated in UF and is repayable in annual installments during the period 2003 – 2006. The shares acquired are pledged as guarantee and may be used in payment. The plan is regulated by the rules approved by the Board of Directors on March 8, 2000. Payment of the installments for 2004 and 2003 were made in April 2004 and June 2003 as stipulated in the long-term incentive plan.

NOTE 24 - SANCTIONS

During 2004 and 2003, neither the Parent Company nor its directors or managers received any sanctions from the SVS or any other regulatory authority.

NOTE 25 – SUBSEQUENT EVENTS

The SVS was informed of the following on March 7, 2005:

"In accordance with clause 9 and the second paragraph of clause 10 of the Securities Market Law 18,045 and General Rule No.30 of the SVS, and being authorized for this purpose by the board of Quiñenco S.A., I wish to advise you that:

Quiñenco S.A, through its subsidiary Inversiones Rio Azul S.A., Consorcio Financiero S.A. and Parque Arauco S.A. (the Offerors), agreed to make a public tender offer (the Offer) to buy shares issued by Empresas Almacenes Paris S.A., subject to the regulations in Title XXV of Law 18,045.

The purpose of the Offer is to acquire 164,000,000 shares in Empresas Almacenes Paris S.A, representing 27.3333% of the subscribed and fully paid capital. The purchase of the shares would enable Quiñenco S.A., as the indirect shareholder through its subsidiary Inversiones Rio Azul S.A., Consorcio Financiero S.A. and Parque Arauco S.A., to become the shareholders, provided the Offer is successful, of 20.0816%, 20.0794% and 10%, respectively, of the subscribed and paid shares of Empresas Almacenes Paris S.A.

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 Empresas Almacenes Paris S.A are tendered in accordance with the terms of the Offer, notwithstanding the ability of the offering parties, in the event that, on the expiration date of the Offer, the number of acceptances confirmed is less than 27.3333%, to reduce the Offer to the number of shares tendered.

The Offer price will be Ch$900 per share of Empresas Almacenes Paris S.A, 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 which, by legal definition, is Ch$780.9578. The shares will be acquired on April 9, 2005.

The Offer will have a 30 day term, 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 law.

The total amount of the Offer is Ch$ 147,000,000,000, which will be financed from the Companies' own resources and, if necessary, with funds from shareholders.

In relation to this communication, we have attached clippings of the notifications of the launching of the Offer published today in the El Mercurio and Las Ultimas Noticias newspapers.

There have been no other events of a financial or other nature occurring between December 31, 2004 and the date of the issuance of these consolidated financial statements which would significantly affect their interpretation.

NOTE 26 – SUMMARIZED CONSOLIDATED FINANCIAL STATEMENTS OF LQ INVERSIONES FINANCIERAS AND ITS BANKING SUBSIDIARIES

As mentioned in Note 2d), the investments in Banco de Chile and Sociedad Matriz del Banco de Chile S.A. are shown at their equity-method value.

The following shows the consolidated financial statements of LQ Inversiones Financieras S.A. with Banco de Chile and SM Chile S.A. prepared in accordance with instructions of the SBIF.

LQIF and Banking Subsidiaries Summarized Consolidated Balance Sheets Assets	As of December 31 2004 ThCh$	 2003 ThCh$
Cash	**890,625,452**	**878,259,138**
Loans		
Commercial loans	2,867,288,050	2,620,925,482
Foreign trade loans	599,051,070	674,736,985
Consumer loans	691,851,115	490,045,131
Mortgage loans	819,881,559	1,156,230,296
Leasing contracts	343,852,670	275,679,760
Contingent loans	530,901,275	419,852,565
Other current loans	936,202,285	652,565,000
Overdue loans	84,685,277	108,140,525
Total loans	6,873,713,301	6,398,175,744
Less: Allowances for loan losses	(153,741,659)	(183,876,123)
Total loans, net	**6,719,971,642**	**6,214,299,621**
Other credit operations		
Interbank loans	15,197,322	13,553,764
Investments purchased under resale agreements	27,511,551	30,401,386
Total other credit operations	**42,708,873**	**43,955,150**
Investments		
Central Bank & Treasury securities	917,141,425	1,035,505,341
Other financial investments	320,125,412	469,944,504
Investment collateral under repurchase agreements	343,696,747	428,381,078
Assets to be leased	26,842,898	25,111,390
Assets received in lieu of payment	16,129,802	16,017,850
Other non-financial investments	2,184	2,207
Total investments	**1,623,938,468**	**1,974,962,370**
Other assets		
Other assets	242,960,227	236,624,108
Total other assets	**242,960,227**	**236,624,108**
Premises and equipment		
Premises and equipment, net	132,670,154	130,948,865
Investments in other companies	5,411,711	5,428,826
Negative goodwill	(425,648)	(452,667)
Goodwill	286,290,850	304,644,079
Total premises and equipment	**423,947,067**	**440,569,103**
Total assets	**9,944,151,729**	**9,788,669,490**

LQIF and Banking Subsidiaries Summarized Consolidated Balance Sheets Liabilities and Shareholders' equity	As of December 31, 2004 ThCh$	 2003 ThCh$
Deposits and other obligations		
Checking accounts	1,424,521,216	1,258,555,777
Savings and time deposits	3,855,968,312	3,674,782,961
Bankers' drafts and other deposits	659,878,514	616,355,458
Investments sold under repurchase agreements	345,600,564	437,409,495
Mortgage finance bonds	788,888,336	1,039,812,967
Contingent liabilities	532,172,018	419,879,469
Total deposits and other obligations	**7,607,028,960**	**7,446,796,127**
Bonds payable		
Bonds	303,328,104	3,205,120
Subordinated bonds	266,303,673	277,977,344
Total bonds payable	**569,631,777**	**281,182,464**
Borrowings from financial institutions		
Central Bank of Chile credit lines for loan rescheduling	1,930,100	3,049,533
Other Central Bank of Chile borrowings	107,642,758	25,528,532
Borrowings from domestic financial institutions	63,134,088	98,496,081
Foreign borrowings	595,548,415	799,587,911
Other borrowings	44,846,508	160,999,157
Total borrowings from financial institutions	**813,101,869**	**1,087,661,214**
Other liabilities		
Provision for payment of subordinated obligation with Central Bank of Chile	67,053,180	57,319,275
Other liabilities	169,621,159	164,432,892
Total other liabilities	**236,674,339**	**221,752,167**
Total liabilities	**9,226,436,945**	**9,037,391,972**
Minority interest	**290,308,586**	**320,000,283**
Shareholders' equity		
Capital and reserves	422,818,309	447,838,238
Other equity accounts	(16,561,003)	(30,360,838)
Net income for the year	21,148,892	13,799,835
Total shareholders' equity	**427,406,198**	**431,277,235**
Total liabilities and shareholders' equity	**9,944,151,729**	**9,788,669,490**

LQIF and Banking Subsidiaries
Summarized consolidated statements of income

	For the years ended December 31	
	2004	2003
	ThCh	ThCh
Interest revenue and expenses		
Interest revenue	543,415,843	439,421,705
Gains from trading and brokerage activities	20,280,430	25,842,327
Income from fees and other services	145,792,937	125,373,344
Foreign currency translation, net	17,659,750	94,727,031
Other operating income	20,910,844	14,283,180
Total operating revenues	**748,059,804**	**699,647,587**
Less:		
Interest expense	(222,718,851)	(218,238,150)
Losses from trading and brokerage activities	(23,430,755)	(19,879,005)
Other services expenses	(27,480,189)	(22,570,312)
Foreign currency translation, net	(852,447)	-
Other operating expenses	(12,383,625)	(11,112,671)
Gross margin	**461,193,937**	**427,847,449**
Personnel salaries and expenses	(136,690,120)	(128,421,534)
Administrative and other expenses	(87,862,422)	(84,465,596)
Depreciation and amortization	(17,304,003)	(19,694,759)
Net margin	**219,337,392**	**195,265,560**
Allowances for loan losses	(42,119,669)	(38,803,493)
Operating income	**177,217,723**	**156,462,067**
Non-operating results		
Non-operating income	4,855,239	6,397,985
Non-operating expenses	(13,427,644)	(17,010,263)
Equity participation in (loss) income of related companies, net	435,603	(1,250,868)
Amortization of negative goodwill	26,916	22,818
Amortization of goodwill	(18,353,230)	(18,353,230)
Price-level restatement, net	(6,736,656)	(3,321,781)
Income before income taxes	**144,017,951**	**122,946,728**
Provision for income taxes	(15,910,974)	(14,351,208)
Income after income taxes	**128,106,977**	**108,595,520**
Minority interest	(39,904,905)	(37,476,410)
Provision for payment of subordinated debt obligation with the Central Bank of Chile	(67,053,180)	(57,319,275)
Net income for the year	**21,148,892**	**13,799,835**

LQIF and Banking Subsidiaries
Summarized consolidated statements of cash flows

	For the years ended December 31, 2004 M$	2003 M$
Cash flows from operating activities		
Net income for the year	21,148,892	13,799,835
Charges (credits) to income which do not represent cash flows:		
Depreciation and amortization	17,304,003	19,694,759
Allowances for loan losses	75,855,503	64,829,241
Net change in market value of investments	716,593	10,482,768
Gain on investments in other companies	(435,603)	1,250,868
Net gain on sale of assets received in lieu of payment	(5,491,290)	(4,283,672)
Loss on sale of property, plant & equipment	(216,972)	(450,780)
Minority interest	39,904,905	37,476,410
Write-offs and allowances of property, plant and equipment	7,329,647	6,034,672
Price-level restatement, net	7,589,103	1,932,071
Other charges to results that do not represent cash flows	17,535,795	9,657,969
Changes in assets affecting cash flows	43,196,714	-
Changes in liabilities affecting cash flows	(2,253,416)	-
Net variation in accrued interest, indexation adjustments and fees	8,309,355	93,130,976
Provision for subordinated debt obligation	67,053,180	57,319,275
Net cash provided by operating activities	**297,546,409**	**310,874,392**
Cash flows from investing activities		
(Increase) in loans, net	(499,556,987)	(165,401,636)
Decrease in other credit operations, net	1,397,761	45,171,222
Decrease (increase) in investments, net	150,989,743	(550,705,604)
Additions to property, plant and equipment	(12,309,715)	(6,975,448)
Sale of property, plant and equipment	1,346,123	3,552,180
Investments in other companies	(291,548)	(2,339,210)
Dividends received from investments in other companies	733,354	558,923
Sale of investments in other companies	11,714	-
Sale of assets received in lieu of payment	16,712,144	20,649,307
Net changes in other assets and liabilities	(113,344,110)	(2,583,830)
Net cash used in investing activities	**(454,311,521)**	**(658,074,096)**
Cash flows from financing activities		
Increase (decrease) in deposits and borrowings	258,629,329	(70,113,228)
Increase in bond obligations, net	279,072,234	138,642,403
Increase in checking accounts	196,664,187	159,591,540
Increase in other sight or term obligations	28,563,900	-
Increase (decrease) in investments sold under repurchase agreements	(77,542,447)	153,849,977
Short-term borrowings from abroad	72,888,049	90,950,923
Dividends paid	(23,038,698)	(4,699,687)
Redemption of mortgage-funding notes	(318,632,225)	(338,547,419)
Issuance of mortgage-funding notes	134,048,860	312,449,243
Increase in other short-term liabilities	43,360,679	-
Loans drawn from Central Bank of Chile (long-term)	2,054,676	-
Repayment of loans from Central Bank of Chile (long-term)	(3,042,863)	-
Loans received from abroad – long-term	230,786,376	-
Repayment of loans from abroad – long-term	(509,423,644)	-
Repayment of loans from financial institutions – long-term	(102,942)	-
Other long-term loans drawn	1,814,951	-
Repayment of other long-term loans	(66,904,233)	-
Payment of the subordinated obligation	(55,919,929)	(23,108,307)
Loans drawn	-	439,530,016
Loans repaid	-	(373,019,584)
Other financing disbursements	-	43,975,897
Net cash provided by financing activities	**193,276,260**	**529,501,774**
Net cash flow for the year	**36,511,148**	**182,302,070**
Effect of inflation on cash and cash equivalents	(19,457,763)	(19,077,826)
Net increase in cash and cash equivalents	**17,053,385**	**163,224,244**
Cash and cash equivalents, beginning of year	878,259,138	715,034,894
Cash and cash equivalents, end of year	**895,312,523**	**878,259,138**

NOTE 26.1 – SIGNIFICANT ACCOUNTING PRINCIPLES

a) Information provided

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in Chile and the specific accounting standards of the various regulating entities in each area of business: SBIF, SVS and the banking regulators of the United States of America, as applicable, and Law No. 19,396, which modifies the terms of payment of the subordinated debt obligation with the Chilean Central Bank. Under Law 19,396 and SBIF instructions, the subordinated obligation is not considered as a liability for accounting purposes and is only recorded in memorandum accounts. Nevertheless, the annual installment payable on April 30 of the following year is shown as a liability which has been provisioned at the end of the year.

For comparison purposes, the financial statements for the previous year have been adjusted for inflation by the percentage variation in the consumer price index, of 2.5%.

b) Basis of consolidation

These consolidated financial statements include the assets, liabilities and results of the subsidiaries detailed below:

	Direct and indirect shareholding 2004 %	2003 %
SM Chile S.A. and subsidiaries	51.35	51.35
Inversiones LQ SM S.A.	99.99	99.99

The financial statements of Sociedad Matriz del Banco de Chile (SM Chile S.A.) and subsidiaries include the consolidation of the following direct and indirect subsidiaries: Banco de Chile, SAOS S.A., Banchile Trade Services Limited, Banchile Corredores de Bolsa S.A., Banchile Asesoría Financiera S.A., Banchile Corredora de Seguros Ltda., Banchile Factoring S.A., Banco de Chile New York Branch, Banco de Chile Miami Agency, Banchile Administradora General de Fondos S.A., Banchile Securitizadora S.A., Promarket S.A. and Socofin S.A.

For the purposes of consolidation, the financial statements of Banco de Chile New York Branch and Banco de Chile Miami Agency have been converted to Chilean pesos in accordance with Technical Bulletin 64 of the Chilean Association of Accountants, which relates to the valuation of foreign investments in economically stable countries. Unrealized exchange differences on these investments are shown in Shareholders' equity in the Currency translation adjustment account in Other reserves.

The effects of unrealized income on transactions with the subsidiaries have been eliminated and the participation of minority investors has been recorded and is shown in the Balance Sheet in the account Minority interest.

c) Interest and adjustments

Loans, investments and obligations are shown with interest and indexation adjustments accrued as of each year-end.
The Bank suspends the accrual of interest and principal indexation adjustments on loans that are overdue or when recovery is doubtful.

d) Price-level restatement

Shareholders' equity, premises and equipment and other non-monetary assets and liabilities have been restated in accordance with changes in the CPI, which resulted in a net charge to income of ThCh$6,736,656 (ThCh$3,321,781 in 2003). The income statement accounts are restated except in the subsidiaries regulated by the SBIF.

e) Basis of translation

Assets and liabilities denominated in Unidades de Fomento (UF) have been valued at Ch$17,317.05 (Ch$16,920.00 per UF in 2003).

f) Foreign currency

Assets and liabilities in United States dollars of subsidiaries regulated by the SBIF are shown at their equivalent value in Chilean pesos, calculated at the closing exchange rate of Ch$559.83 per US$1.00 as of December 31, 2004 (Ch$599.42 per US$1.00 as of December 31, 2003), which does not differ significantly from the exchange rate applied by subsidiaries supervised by the SVS.

The balance of ThCh$17,659,750 (gain of ThCh$94,727,031 in 2003) corresponding to the net gain on foreign exchange shown in the Statement of income includes gains and losses from foreign exchange transactions and the recognition of the effect of variations in the exchange rate on foreign currency assets and liabilities.

g) Financial investments

Investments in financial instruments traded on secondary markets are shown adjusted to their market value, as instructed by the SBIF. These instructions specify that the adjustments must be recorded in income for the year, except when they are made in relation to the permanent portfolio, in which case, subject to certain limits, they may be recorded in the Shareholders' equity account "Fluctuation in financial investment values".

The adjustment of these investments to market value resulted in a net charge to income of ThCh$716,593 in 2004 (charge of ThCh$10,482,768 in 2003), which is included in Operating income in the account Loss from trading and brokerage activities. The adjustment to the permanent portfolio resulted in a net charge to Shareholders' equity of ThCh$235,174 in 2004 (charge of ThCh$3,189,324 in 2003).

Other investments correspond to financial instruments, which are shown at their restated cost plus accrued interest.

h) Premises and equipment
Premises and equipment are shown at restated cost (except for New York and Miami branches) and net of depreciation calculated using the straight-line method over the useful lives of the respective assets. Properties held for sale amounted to ThCh$493,806 as of December 31, 2004 (ThCh$1,964,399 in 2003). In order to reflect the realizable value of these assets, an allowance has been made against income for the year of ThCh$293,806,000 as of December 31, 2004 (ThCh$1,406,966 in 2003).

i) Investments in other companies
Shares or rights in companies in which there is a holding of 10% or more, or in which the Company can elect or appoint at least one member of the board or management, are shown recorded in assets at their equity-method value. Other minority investments are shown at their restated cost.

j) Derivative contracts
Forward currency contracts are maintained to hedge exposures to exchange risks.

These hedging instruments are shown at their market value and unrealized differences are shown as a charge to other assets or a credit to other liabilities, depending on whether the difference results in a gain or loss, respectively.

Banco de Chile and its subsidiaries value their foreign currency forward contracts using the daily exchange rate and the resulting gains or losses are shown in the consolidated statement of income on an accrual basis. The initial premium or discount on these contracts is deferred and included in determining net income over the life of the contract. The net interest effect of the Bank's interest rate swap contracts, which corresponds to the difference between interest income and interest expense arising from such agreements, is recorded in net income in the period that cash differences originate. The Bank and its subsidiaries also charge to income for the year an adjustment to market value of the portfolio of interest swaps used to cover interest rate and exchange risks on its foreign investments.

k) Allowance for doubtful assets
The allowances required to cover the risk of asset losses have been made in accordance with the regulations of the SBIF. Assets are shown net of such allowances, except for loans, in which case the total allowance is netted against the total loan balance.

l) Current and deferred income taxes
The Parent Company and its direct and indirect subsidiaries have determined their liability for first category tax in accordance with current legislation. The banking subsidiaries take into account, in particular, Circular 41 of July 24, 1996 and Official Letter 1,874 of 1996 issued by the Chilean Internal Revenue Service.

The effects of deferred income taxes arising from timing differences between the financial and tax bases of assets and liabilities have been recorded on an accrual basis in accordance with Technical Bulletins 60, 69, 71 and 73 of the Chilean Association of Accountants and Circular No.1,466 of the SVS.

m) Staff vacations
The annual cost of staff vacations and benefits is presented on an accrual basis.

n) Severance indemnities
The subsidiary Banco de Chile has agreements for the payment of severance indemnities upon leaving the Bank with some of its staff who have been with the Bank for over 30 years. At year-end, the Bank has accrued the obligation relating to the portion earned but not yet exercised by qualified employees.

As of December 31, 2004 and 2003, a provision has been made for this obligation on the basis of its present value discounted at a real annual rate of 7%.

o) Cash and cash equivalents
LQ Inversiones Financieras S.A. considers cash and cash equivalents to include all its short-term investments made as part of its cash management strategy and whose maturities do not exceed 90 days from the date of investment, including repurchase agreements and mutual funds. The banking subsidiaries, in accordance with the specific provisions applicable to financial institutions, consider cash and cash equivalents to be only the cash shown in the Consolidated Balance Sheet. The Consolidated Statement of Cash Flow has been prepared using the indirect method.

NOTE 26.2 – BACKGROUND OF SUBSIDIARY SOCIEDAD MATRIZ DEL BANCO DE CHILE S.A.

During the Extraordinary Shareholders' Meeting held on July 18, 1996, pursuant to Law No. 19,396, Banco de Chile's shareholders approved a reorganization by which Banco de Chile was converted to a holding company named SM Chile S.A. that in turn organized a new wholly-owned banking subsidiary named Banco de Chile to which it contributed all of its assets and liabilities other than the Chilean Central Bank subordinated debt. SM Chile S.A. then created a second wholly-owned subsidiary, Sociedad Administradora de la Obligación Subordinada S.A., or SAOS S.A., that, pursuant to a prior agreement with the Chilean Central Bank, assumed a new repayment obligation in favor of the Chilean Central Bank, which replaced the Central Bank subordinated debt in its entirety.

On November 8, 1996, Banco de Chile was transformed into Sociedad Matriz del Banco de Chile S.A., or SM Chile S.A. and proceeded to transfer all its assets, liabilities and memorandum accounts, except the subordinated obligation, to the new banking company Banco de Chile. On the same date, the company subscribed and fully paid a capital increase to SAOS S.A. through the transfer of 28,593,701,789 of Banco de Chile shares representing a 43.08% holding, which were pledged as collateral to the Central Bank of Chile; simultaneously, responsibility passed to SAOS S.A. to pay the subordinated obligation, thus freeing SM Chile S.A. from the obligation. The company maintains the commitment to transfer the dividends and free shares (relating to 567,712,826 shares of Banco de Chile) to SAOS S.A., while the latter still has the subordinated obligation with the Central Bank of Chile.

SM Chile S.A. is governed by Law No. 19,396 and is subject to the regulatory authority of the SBIF.

NOTE 26.3 – PROVISION FOR PAYMENT OF BANCO DE CHILE SUBORDINATED DEBT

The provision for payment of the ninth annual installment (of the 40 total installments of UF 3,187,363.9765 each) of the subordinated obligation with the Chilean Central Bank as of December 31, 2004 was ThCh$67,053,180 (ThCh$57,319,275 in 2003), equivalent to UF 3,872,090.18 (UF 3,305,038.06 in 2003), which corresponds to the amount that, according to the contract covering the obligation, must be paid to the Central Bank by April 30, 2005 as its annual installment provided that Banco de Chile distributes all its net income for 2004 as a dividend. The final value of the annual installment will be known once the shareholders' of Banco de Chile approve the distribution of 2004 net income at the General Shareholders' Meeting.

NOTE 26.4 – ACCOUNTING CHANGES

On January 1, 2004, Circular No. 3246 of the SBIF required the application of the new regulation for determining allowances for loans, as established in Chapter 7-10 of the SBIF banking regulations. The application of these new criteria did not generate, in comparative terms, any significant effect on the financial situation of the bank and its subsidiaries shown in these consolidated financial statements. At the same time, the bank used the voluntary allowances recorded at December 31, 2003 to make additional allowances in accordance with the new rules.

NOTE 26.5 – SUBSEQUENT EVENTS

There are no other facts of a financial or other nature occurring between December 31, 2004 and the date of issuance of these consolidated financial statements that might significantly affect their interpretation.

On March 26, 2004, Quiñenco S.A informed the SVS the following:

"In accordance with clauses 9 and 10 of Law 18,045 and Circular No.660 of the SVS, and being duly authorized for this purpose, I wish to advise you, as Material Information, that the board meeting held on March 25, 2004 agreed to propose to the next Ordinary Shareholders' Meeting, the distribution of a final dividend of Ch$18,847,424,544 corresponding to 50% of the net income for the year, comprised of a) a minimum obligatory dividend of Ch$4,168,521,224 corresponding to 30% of the distributable net income for 2003, b) an additional dividend of Ch$7,975,801,328, both dividends imputed to the interim dividend of Ch$12,144,322,552 (Ch$11.24745 per share) paid on January 9, 2004 and c) an additional dividend of Ch$6,703,101,992, equivalent to Ch$6.20807 per share, payable as from May 11, 2004".

On May 7, 2004, Quiñenco S.A. informed the SVS as follows:

"In accordance with clause 9 and paragraph 2 of clause 10 of the Securities Market Law 18,045, General Circular No.30 of the SVS, clause 44 of the Corporations Law 18,046 and the communication to shareholders notifying the Ordinary Shareholders' Meeting, I wish to advise you, as Material Information, that the subsidiary, Inmobiliaria Norte Verde S.A. sold to Inmobiliaria Adriático S.A. real estate located at Plot 47 of the Urbanization of the La Parva winter center for UF20,251, payable in ten equal semi-annual installments. These installments will accrue interest at UF + 4.8% per annum. Inversiones Adriático S.A. is an investment company controlled by Mr Andrónico Luksic Abaroa."

On August 18, 2004, Quiñenco S.A. informed the SVS of the following Material Information:

"In accordance with clause 9 and paragraph 2 of clause 10 of the Securities Market Law 18,045 and General Circular No.30 of the SVS, and being duly authorized for this purpose, I wish to advise you, as Material Information, that at the company's Board Meeting held on August 17, 2004, the Board agreed to sign a Purchase Commitment Contract for 68,489,407 shares of Empresas Almacenes París S.A., equivalent to 11.41% of that company's share capital. This contract was signed today.

The purchase price of these shares will be Ch$514 each, payable upon the signing of the Sale Contract covering these shares, on or before October 14, 2004.

The shares referred to will be acquired from Inmobiliaria e Inversiones Aconcagua S.A., a company belonging to the Gálvez family, which has decided to sell its shareholding in Empresas Almacenes Paris S.A. to different buyers, including one member of the Gálvez family.

You are also informed that a Share Transfer Agreement will be signed by Quiñenco S.A. and the other buyers of the shares at the time of the purchase. This agreement provides that the parties to the agreement will have the first option to buy when any of the parties to the agreement decide to dispose of Empresas Almacenes París S.A. shares that have been acquired in the purchase from Inmobiliaria e Inversiones Aconcagua S.A. or that are acquired in the future, to become effective once the signing of the Sale Contract is formalized.

The purchase of the shares of Empresas Almacenes París S.A. by Quiñenco S.A. is a financial investment by the company which the board has decided to inform as Material Information due to the amount involved and the expectation this raises with respect to the future development of the business in which Empresas Almacenes París S.A. is involved."

On August 20, Quiñenco S.A. advised the SVS the following:

"In accordance with the fifth paragraph of clause 44 of the Corporations Law 18,046, I inform you as Material Information that, by public deed dated August 20, signed before the Santiago Notary René Benavente Cash, Quiñenco S.A. sold to Almagro S.A. a group of plots of approximately 2,000 meters located in the city of Antofagasta, for a total price of UF50,625, payable in cash.

This is sent as Material Information because the director of Quiñenco S.A., Matko Koljatic Maroevic, is also a director of Almagro S.A. and the contract involves a sum greater than UF20,000, in accordance with the said clause 44 of Law 18,046".

On September 7, 2004, Quiñenco S.A. informed the SVS the following:

"In accordance with clause 9 and paragraph 2 of clause 10 of the Securities Market Law 18,045 and General Circular No.30 of the SVS, and being duly authorized for this purpose, I wish to advise you, as Material Information, that the company's Board approved that its subsidiaries Inversiones Río Bravo Limitada, Inversiones Punta Brava S.A. and Inmobiliaria Norte Verde S.A. participate in the formation of a closely-held corporation to be called Inversiones Río Azul S.A. with initial capital of Ch$ 2,000,000,000, and this subsidiary will concentrate new investments of Quiñenco S.A. in order to achieve a strategic segmentation of its businesses".

On October 5, 2004, Quiñenco S.A. advised the SVS the following:

"I hereby advise the SVS, complementing the Material Information sent by letter on August 18, 2004, that on October 5, 2004, Quiñenco S.A. and its subsidiary Inversiones Río Azul S.A. have acquired all the share capital of Nahuel S.A., which is the holder of 68,489,407 shares in Empresas Almacenes París S.A., equivalent to 11.41% of that company's share capital.

This contract was signed in accordance with the terms of the Purchase Commitment Contract for 68,489,407 shares of Empresas Almacenes París S.A. signed on August 17, 2004 and informed as Material information to the SVS on August 18, 2004 and under the same conditions established in that Purchase Commitment, which has now been complied with.

Also on October 5, 2004, the Share Transfer Agreement was signed between Inversiones Río Azul S.A., Inmobiliaria Cerro Verde S.A., Lemoniz S.A. and Consorcio Financiero S.A., as informed as Material Information on August 18, 2004, referred to above. This agreement regulates future share transfers of Almacenes Paris among the parties to the agreement".

On October 12, 2004, Quiñenco S.A. advised the SVS the following:

"I wish to inform you that the Board has agreed to call an Extraordinary Shareholders' Meeting for November 5, 2004 in order to propose, inter alia, a reduction in the number of board members from 9 to 7.
As a result and in accordance with clause 9 and paragraph 2 of clause 10 of the Securities Market Law 18,045 and General Circular No.30 of the SVS, and being duly authorized for this purpose, I wish to advise you, as Material Information that , because of this proposal and in order to facilitate the statutory amendment this implies, the directors have agreed to place their respective positions at the disposal of this Extraordinary Shareholders' Meeting which will be effective once the meeting is closed so that, once the reduction is approved, the meeting is free to appoint new members of the board who would start their mandate once that meeting is concluded".

On November 5, 2004, Quiñenco S.A. advised the SVS the following:

"In accordance with clause 68 of the Corporations Law and the General Rule No.30 of the SVS, I inform you that the Extraordinary Shareholders' Meeting held today agreed to reduce the number of company directors from 9 to7.

As stated in the Material Information sent to the SVS on October 12, 2004, the Board of the company, in order to facilitate the bylaws amendment referred to, placed their respective positions at the disposal of that shareholders' meeting.

As a result, a Board of 7 members was elected, comprised of the following persons: Andrónico Luksic Craig, Guillermo Luksic Craig, Jean Paul Luksic Fontbona, Hernán Büchi Buc, Juan Andrés Fontaine Talavera, Matko Koljatic Maroevic and Gonzalo Menéndez Duque.

The above Board was elected with the votes of the controlling shareholder and will remain until the next Ordinary Shareholders' Meeting.

As a result of this election of directors, at the next board meeting, the Chairman and Vice-Chairman and the new Directors' Committee of the company will be appointed, all of which will be informed in due course."

There have been no other events occurring between January 1 and December 31, 2004 that, by their nature or importance have the character of relevant or material information, as defined in General Rule No.30 of the SVS.

NET INCOME

Quiñenco reported net income of Ch$23,353 million in 2004, a reduction of Ch$15,285 million compared to 2003. The variation in net results between the two years is mainly explained by lower net non-operating results (the sum of non-operating income and other items), which in 2003 included non-recurring income of Ch$36,936 million associated with an arbitration settlement payment received from Quiñenco's ex-partner in IRSA, Schörghuber. The lower level of net non-operating results in 2004 was partially offset by an increase in operating income and lower interest expense reported during the period, among other things.

Table N° 1: Composition of net income — In millions of Ch$ as of December 31, 2004

	2004	2003
Operating income	**27,197**	**13,066**
Non-operating income	2,014	182
Other* (1)	(5,858)	25,390
Net non-operating results	**(3,844)**	**25,572**
Net income for the year	**23,353**	**38,637**

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

OPERATING INCOME

In 2004, Quiñenco reported operating income of Ch$27,197 million, up by 108.2% compared to 2003. Table N° 2 shows a comparison of consolidated operating income:

Table N° 2: Composition of consolidated operating income — In millions of Ch$ as of December 31, 2004

	2004	2003
Madeco	25,176	7,643
Telsur	12,561	12,625
Indalsa (ex-Lucchetti)	(329)	2,967
Quiñenco and others (1)	(10,211)	(10,169)
Total operating income	**27,197**	**13,066**

(1) Includes Quiñenco, Hoteles Carrera, intermediate holding companies and eliminations

Consolidated operating income increased by 108.2% reaching Ch$27,197 million in 2004, primarily due to an increase in Madeco's operating income, the effect of which was partially offset by a reduction in Indalsa's operating income owing to the divestment of its Chilean operations in March of 2004.

Madeco's operating income increased by 229.4% to Ch$25,176 million, attributable to higher sales of the cable and brass mill business units and production efficiencies achieved during the period as well as a stable level of SG&A expenses.

Indalsa reported an operating loss in 2004 due to the divestment of its principal activity, Lucchetti Chile, in the first quarter of the year.

NET SALES

During 2004, consolidated sales amounted to Ch$382,511 million, an increase of 4.4% compared to 2002. This increase is explained by higher sales at Madeco, the effect of which was partially offset by the de-consolidation of Indalsa's (ex- Lucchetti) Chilean operations that were sold in the first quarter of the year. The composition of consolidated sales is shown in Table N° 3:

Table N° 3: Composition of consolidated sales — In millions of Ch$ as of December 31, 2004

	2004	2003
Madeco	324,035	243,608
Telsur	52,940	52,755
Indalsa (ex-Lucchetti)	1,090	60,593
Quiñenco and others (1)	4,447	9,358
Total sales	**382,511**	**366,314**

(1) Includes Quiñenco, Hoteles Carrera, intermediate holding companies and eliminations

Madeco's sales grew by 33.0% in 2004, mostly due to the higher sales associated with the cable and brass mill business units. At the consolidated level, Madeco's sales volume increased by 12.7% compared to 2003, represented by an increase in volumes sold in all of Madeco's business units. Additionally, cable and brass mill sales further benefited from the increase in copper prices, although this effect was partially offset by lower average prices associated with the flexible packaging and aluminum profiles business units.

Telsur's revenues increased slightly compared to 2003, primarily attributable to the increase in revenues associated with non-regulated services such as Internet, security services and business services. The growth in revenues of non-regulated services was partially offset by a reduction in revenues related to fixed telephony, access charges, long distance and public telephones.

Due to the divestment of its principal business, Lucchetti Chile, in early 2004, Indalsa's sales figures are not comparable.

COST OF SALES

Consolidated cost of goods sold increased by 6.1% compared to 2003, slightly above the 4.4% increase in sales. This is mainly explained by an increase of 29.5% in the cost of goods sold at Madeco, proportionally lower than its increase in sales. The rise in cost of sales was partially offset by a reduction in cost of sales at Indalsa following the divestment of its main business. The composition of consolidated cost of goods sold is presented in Table N° 4:

Table N° 4: Composition of consolidated cost of goods sold — In millions of Ch$ as of December 31, 2004

	2004	2003
Madeco	(276,621)	(213,648)
Telsur	(26,264)	(25,896)
Indalsa (ex-Lucchetti)	-	(41,825)
Quiñenco and others (1)	(7,201)	(10,784)
Total cost of goods sold	**(310,086)**	**(292,153)**

(1) Includes Quiñenco, Hoteles Carrera, intermediate holding companies and eliminations

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated SG&A expenses declined by 26% to Ch$45,228 million in 2004, mainly due to elimination of Lucchetti's expenses as a result of the sale of its main business in Chile.

NON-OPERATING RESULTS AND OTHER ITEMS

Quiñenco reported non-operating losses and other items of Ch$3,844 million, compared to non-operating income and other items of Ch$25,572 million in 2003. The variation between the two years is largely explained by a non-recurring arbitration settlement payment received from Quiñenco's ex-partners Schörghuber in IRSA, which boosted other non-operating income by an additional Ch$36,936 million in 2003. The decline in non-operating results was partially offset by a decrease in interest expense as a consequence of a reduction in the consolidated debt level as well as low prevailing interest rates.

Worth mentioning is that in 2003 non-operating expenses included a loss related to the non-subscription of Madeco's capital increase of Ch$21,658 million, the effect of which was completely offset by an extraordinary amortization to negative goodwill for the same amount in that year.

Other non-operating income in 2004 included the gain on sale of Lucchetti's Chilean operations of Ch$2,946 million (net of the loss provision for the guarantee granted).

As a consequence of the ruling of the international arbitration panel (ICSID), Indalsa proceeded to write-down the accounts receivable it maintained with Lucchetti Perú for an amount of Ch$2,381 million.

Table N° 5 shows the composition of non-operating results and other items:

Table N° 5: Breakdown of non-operating results and other items — In millions of Ch$ as of December 31, 2004

	2004	2003
Interest Income	1,962	3,002
(Net) Income from related companies	58,469	58,831
Goodwill amortization	(20,572)	(20,597)
Other non-operating income	6,942	38,959
Other non-operating expenses	(16,006)	(46,889)
Interest expense	(28,723)	(36,072)
Price-level restatement	(357)	1,939
Foreign exchange differences	299	1,009
Non-operating income (loss)	**2,014**	**182**
Income taxes	(1,955)	(2,633)
Extraordinary items	-	-
Minority interest	(6,724)	3,911
Negative goodwill amortization	2,822	24,111
Total non-operating income (loss) and other items*	**(3,844)**	**25,572**

*Net non-operating results

COMPOSITION OF NET INCOME:

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

Table N° 6: Net income contribution — **In millions of Ch$ as of December 31, 2004**

Sector/Company			Net Income (loss) 2004	Net Income (loss) 2003	Quiñenco's Ownership 2004	Quiñenco's Ownership 2003	Quiñenco's Proportionate Share 2004	Quiñenco's Proportionate Share 2003
Financial Services								
	Banco de Chile	(1)	152,628	133,817	53.5%	52.2%	45,612	38,998
Food & Beverages								
	CCU	(2)	45,394	55,440	30.8%	30.8%	13,985	17,073
	Indalsa (ex Lucchetti)	(3)	(4,107)	(2,189)	97.0%	95.9%	(3,962)	(2,082)
Telecommunications								
	Telsur	(4)	6,861	7,616	73.7%	73.6%	5,053	5,604
	Entel	(5)	47,364	61,477	5.7%	5.7%	2,695	3,499
Manufacturing								
	Madeco	(6)	8,512	(17,153)	51.2%	55.2%	4,615	(10,984)
Other operating companies		(7)					(4,528)	(5,246)
Total operating companies							**63,470**	**46,862**
Others (corporate level)							(40,117)	(8,225)
Net income (loss) for the year							**23,353**	**38,637**

Notes:
(1) Indirect ownership through LQ Inversiones Financieras S.A. As a consequence of the share repurchase carried out by Banco de Chile in 2004, economic rights associated with the ownership of Banco de Chile increased from 29.2% to 29.9%.
(2) Indirect ownership through Inversiones y Rentas S.A.
(3) Direct and indirect ownership through Inversiones Río Bravo Ltda. In 2004, Empresas Lucchetti changed its name to Indalsa.
(4) Direct and indirect ownership through VTR S.A.
(5) Direct and indirect ownership through VTR S.A. and Comatel S.A.
(6) Direct and indirect ownership through Inversiones Río Grande S.A.
(7) Other operating companies include the results of Habitaria S.A. and Hoteles Carrera S.A.

NET INCOME CONTRIBUTION OF MAIN OPERATING COMPANIES

As shown in Table N° 6, the contribution of operating companies to Quiñenco's net income increased by 35.4% or Ch$16,608 million to Ch$63,470 million in comparison with 2003, mostly explained by the sharp increase in Banco de Chile's 2004 net income and the reversal of Madeco's prior year losses, the effect of which was partially offset by a reduction in the contribution from CCU and higher losses associated with Habitaria's operations.

Banco de Chile experienced an increase of 14.1% in its net earnings reaching Ch$152,628 million for the year. The increase in net profit was primarily attributable to a higher level of operating revenues from interest income and fee income, the effects of which more than offset the increase in loan loss provisions and operating expenses reported during the period.

CCU's net profit amounted to Ch$45,394 million, a decline of 18.1% compared to 2003. The variation in net earnings is explained by lower non-operating results in 2004, the effect of which was partially offset by a significant increase in operating income. 2003 non-operating results included a gain on the sale of the Croatian brewery of Ch$20,617 million, largely explaining the difference in non-operating results between the two years. Operating income, which increased 24.9% in 2004, benefited from higher volumes sold and average prices as well as a reduction in the cost of goods sold as a consequence of the revaluation of the Chilean peso.

Other operating companies, which include the results of Habitaria and Hoteles Carrera, contributed a loss of Ch$4,528 million to Quiñenco's net results for the year. This loss mainly corresponded to Quiñenco's 50% share of Habitaria's net loss, which amounted to Ch$4,305 million and was attributable to write-downs of several real estate projects to their net realizable value (Ch$3,484 million of this amount corresponded to Quiñenco's interest).

QUIÑENCO AND OTHERS

As shown in the line Quiñenco and Others in Table N° 6, losses at the corporate level amounted to Ch$40,117 million in 2004, compared to Ch$8,225 million in 2003. The variation between 2004 and 2003 is mainly explained by the Ch$36,936 million arbitration settlement payment obtained by Quiñenco from its ex-partner in IRSA, Schörghuber, in 2003.

BALANCE SHEET

Assets

As of December 31, 2004, Quiñenco had consolidated assets of Ch$1,335,698 million, a reduction of 6.3% compared to 2003. This change was mainly due to (i) a reduction in Indalsa's (ex-Lucchetti) fixed assets as a result of the sale of its main business, the proceeds of which were applied to cancel outstanding debt; (ii) a reduction in Madeco's assets due to the revaluation of the Chilean peso on foreign investments. The reduction in current assets was attributable to the liquidation of some cash positions and repurchase agreements in order service debt and finance dividends.

As of December 31, 2004, current assets at the end of the year represented 15.8% of total consolidated assets. Table N° 7 shows a comparison of the composition of the consolidated assets at the close of each year:

Table N° 7: Composition of Consolidated Assets — In millions of Ch$ as of December 31, 2004

	2004	2003
Madeco	342,910	362,518
Telsur	137,831	135,091
Indalsa (ex-Lucchetti)	25,043	81,443
Quiñenco and others (1)	829,913	847,093
Total consolidated assets	**1,335,698**	**1,426,144**

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

Liabilities

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

Table N° 8: Composition of consolidated liabilities and shareholders' equity — In millions of Ch$ as of December 31, 2004

	2004	2003
Current liabilities	143,903	165,959
Long-term liabilities	448,416	511,544
Total liabilities	592,319	677,504
Minority interest	108,333	98,768
Shareholders' equity	635,045	649,873
Total liabilities and shareholders' equity	**1,335,698**	**1,426,144**

As of December 31, 2004, consolidated liabilities amounted to Ch$592,319 million, a 12.6% decrease compared to year end 2003. The sharp reduction is attributable to (i) lower indebtedness at Indalsa as a result of the sale of its main business; (ii) lower indebtedness at Madeco as a result of its 2003 financial restructuring, and to a lesser extent, at the corporate level and others.

Table N° 9 shows the composition of consolidated liabilities at the close of each year:

Table N° 9: Composition of consolidated liabilities — In millions of Ch$ as of December 31, 2004

	2004	2003
Madeco	174,066	201,072
Telsur	73,000	71,799
Indalsa (ex-Lucchetti)	438	52,859
Quiñenco and others (1)	344,816	351,773
Total liabilities	**592,319**	**677,504**

(1) Includes Quiñenco, intermediate holding companies and eliminations

Consolidated leverage decreased from 1.04:1 at the close of 2003 to 0.93:1 in 2004, mainly explained by the 12.6% reduction in liabilities, (mostly composed of debt obligations), the effect of which was partially offset by a reduction in shareholders' worth. Current liabilities represented 24% of total liabilities as of December 31, 2004.

Minority interest at the end of 2004 was Ch$108,333 million, 9.7% higher than the year before, principally related to minority shareholders in Madeco.

Shareholders equity

At the close of 2004, shareholders' equity amounted to Ch$635,045 million, a decrease of 2.3% compared to 2003. The reduction in shareholders' equity mainly corresponded to adjustments in Other Reserves to reflect the effect of Banco de Chile's stock repurchase on net worth (1,701,994,590 shares at Ch$31 per share, equivalent to 2.5% of total outstanding shares) and exchange rate differences (in connection with Bulletin 64 under Chilean GAAP). Dividend distributions also contributed to the reduction in shareholders' equity in 2004.

The book value of Quiñenco's shares as of December 31, 2004 was Ch$588.15 per share and the earnings per share for the year amounted to Ch$21.63.

FINANCIAL INDICATORS

	Financial Indicators		12.31.04	9.30.04	12.31.03
Liquidity					
	Current ratio		1.5	1.2	1.5
	Acid test ratio		0.3	0.3	0.5
Indebtedness					
	Debt/equity ratio		0.93	0.90	1.04
	Short-term debt/Total debt		24.29%	36.03%	24.50%
	Long-term debt/Total debt		75.71%	63.97%	75.50%
	Interest coverage ratio	Times	1.88	2.06	2.14
Balance sheet					
	Total assets	MCh$	1,335,698	1,326,840	1,426,144
	Inventory rotation	Times	5	4	5
	Inventory turnover/days		79	103	80
Income statement					
	Sales	MCh$	382,511	293,589	366,314
	Cost of goods sold	MCh$	(310,086)	(236,954)	(292,153)
	Operating income	MCh$	27,197	22,269	13,066
	Interest expense	MCh$	(28,723)	(21,261)	(36,072)
	Non-operating income (loss)	MCh$	2,014	4,620	182
	Net income (loss) for the year	MCh$	23,353	21,265	38,637
Profitability					
	ROE		3.6%	3.2%	5.9%
	ROA		1.7%	1.5%	2.6%
	Return on operating assets (*)		5.1%	3.7%	2.1%
	Earnings (loss) per share	Ch$	21.63	19.69	35.78
	Dividend yield		2.5%	2.5%	0.0%

(*) Excludes other consolidated assets

DIFFERENCE BETWEEN BOOK VALUE AND FAIR VALUE OF MAIN ASSETS

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

MARKET ANALYSIS

Quiñenco is an investment company and as such it does not directly participate in any market. As of December 31, 2004, its investments in operating companies were concentrated in five sectors as shown in Table N° 6 "Net income contribution" which makes a comparative analysis of the contribution of each of these sectors to Quiñenco's net results. For further details about consolidated sales trends, see the analysis related to Table N° 3 "Composition of consolidated sales".

CASH FLOW SUMMARY

	In millions of Ch$ as of December 31, 2004	
	2004	2003
Net cash flow provided by operating activities	57,831	66,463
Net cash flow (used) provided by financing activities	(37,809)	(102,186)
Net cash flow provided (used) by investing activities	(34,645)	12,260
Total net cash flow for the year	**(14,623)**	**(23,463)**
Price-level restatement on cash and cash equivalents	(663)	(15,189)
Net increase (decrease) in cash and cash equivalents	**(15,286)**	**(38,652)**
Cash and cash equivalents at the beginning of the year	57,716	96,368
Cash and cash equivalents at the end of the year	**42,430**	**57,716**

As of December 31, 2004, Quiñenco generated a consolidated net cash flow deficit of Ch$14,623 million, due to the cash flow used in financing and investing activities of Ch$37,809 million, and Ch$34,645 million, respectively. Cash flow provided by operating activities of Ch$57,831 million partially offset the cash flow deficit.

The cash flow provided by operating activities of Ch$57,831 million was mostly composed of dividends received from Banco de Chile and CCU and other investments, which amounted to Ch$49,052 million as well as collection of accounts receivable (net of supplier and personnel payments) of Ch$42,728 million. Operating cash flow was partially offset by interest and taxes paid of Ch$40,212 million.

The cash flow used in financing activities of Ch$37,809 million was made up of dividend payments amounting to Ch$20,252 million, bond payments made by Quiñenco, Madeco and Telsur of Ch$81,173 million, other bank debt payments (net) of Ch$53,882 million and cancellation of related company debt of Ch$40,614 million. Net cash flow used in financing activities was partially offset by bond placements and capital increases amounting to Ch$158,935 million.

The cash flow used in investing activities amounting to Ch$34,645 million mainly consisted of an investment in Almacenes Paris and others as well as the incorporation of fixed assets at Telsur and Madeco, the effect of which was partially offset by Madeco's sale of financial instruments, which were used to service its bond obligations.

EXCHANGE RATE RISK AND INTEREST RATE RISK

Table N° 11 Foreign currency exchange rate risk exposure — In millions of Ch$ as of December 31, 2004

2004	US dollar	Euro	Argentine peso	Peruvian sol	Brazilian real	Other currencies
Assets	137,676	185	6,841	1,949	32,861	9,465
Liabilities	(44,865)	(113)	(2,437)	(1,012)	(11,818)	(1,433)
FX forwards	11,778	-	-	-	(10,677)	-
Net exposure in assets (liabilities)	**104,589**	**71**	**4,404**	**937**	**10,366**	**8,033**

2003	US dollar	Euro	Argentine peso	Peruvian sol	Brazilian real	Other currencies
Assets	196,607	799	4,064	1,957	18,274	2,482
Liabilities	(115,261)	(23)	(2,705)	(834)	(10,439)	(779)
FX forwards	58,357	-	-	-	(4,832)	-
Net exposure in assets (liabilities)	**139,702**	**777**	**1,359**	**1,124**	**3,002**	**1,704**

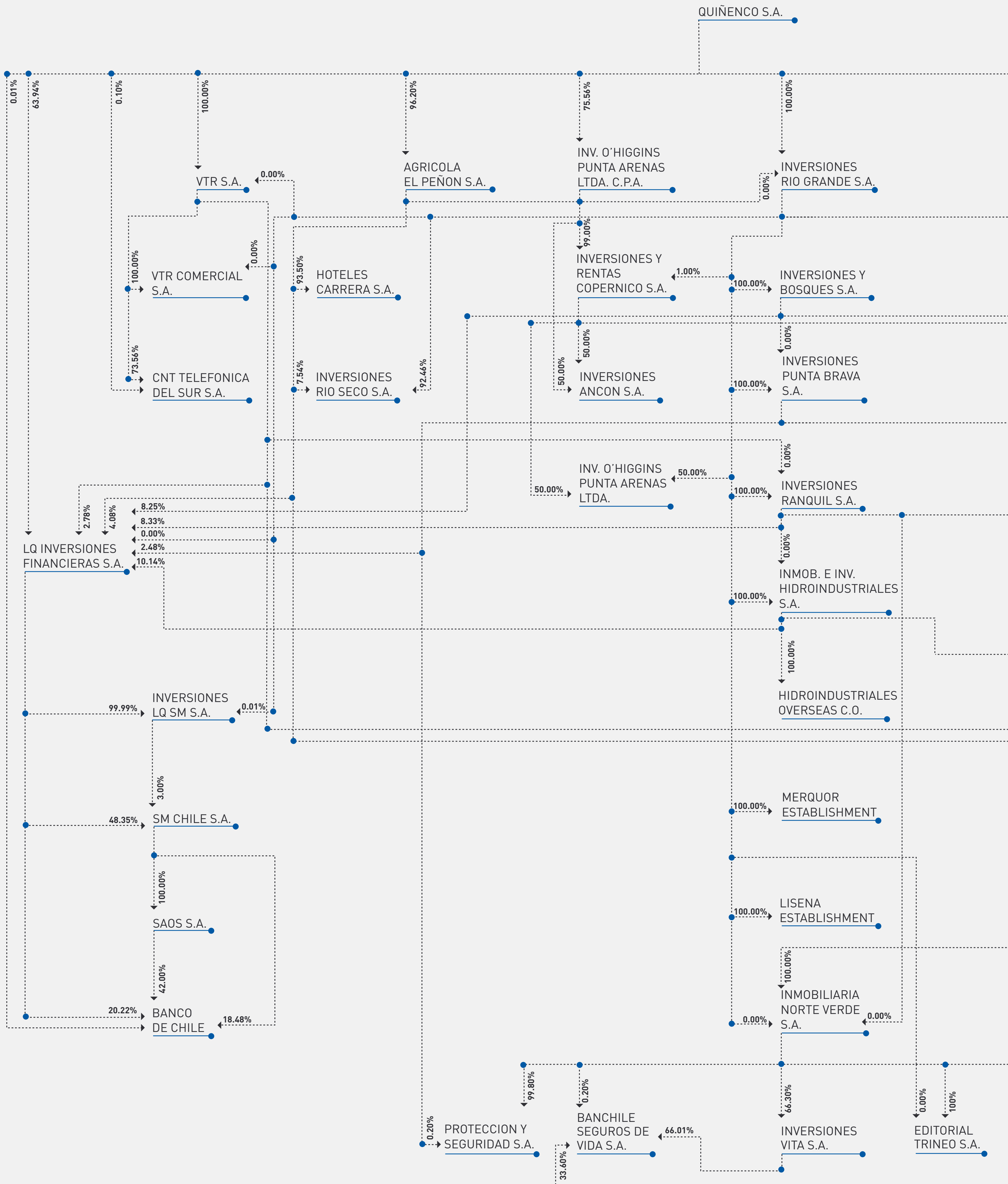
With respect to interest rate risk, 65.7% (36.3% in 2003) of Quiñenco's interest bearing debt has been contracted at fixed rates and amounts to Ch$351,607 million (Ch$212,309 million in 2003). The remaining 34.3% (63.7% in 2003) corresponds to variable rates, equivalent to Ch$183,346 million (Ch$371,858 million in 2003). The exposure in terms of interest rate risk was equivalent to 13.7% of consolidated assets at the end of 2004 (26.1% in 2003). Management believes the exposure is reasonable and has not therefore covered this risk.

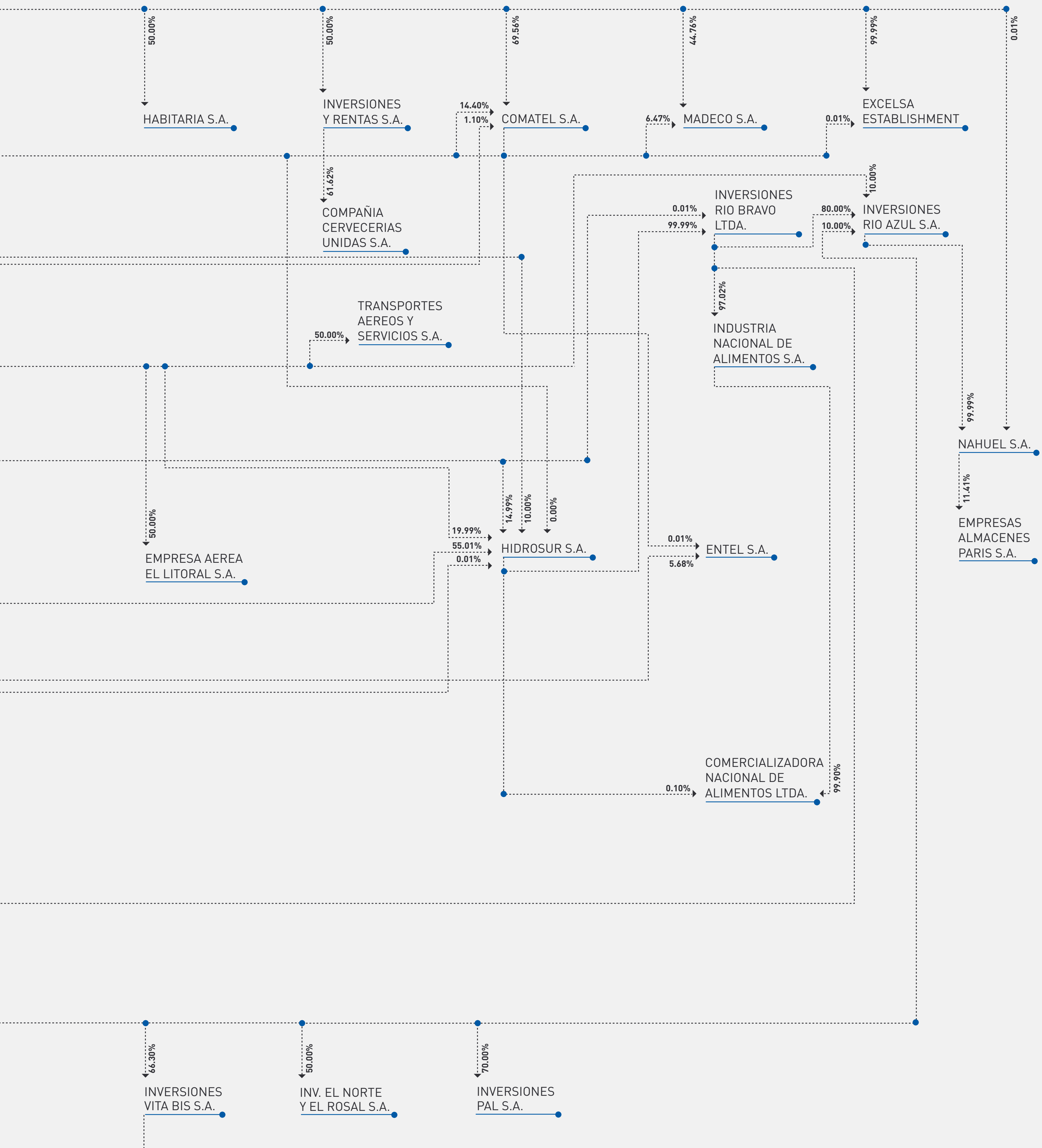
Francisco Pérez Mackenna
Chief Executive Officer

Corporate Structure
Subsidiaries and affiliate companies
AT DECEMBER 31, 2004

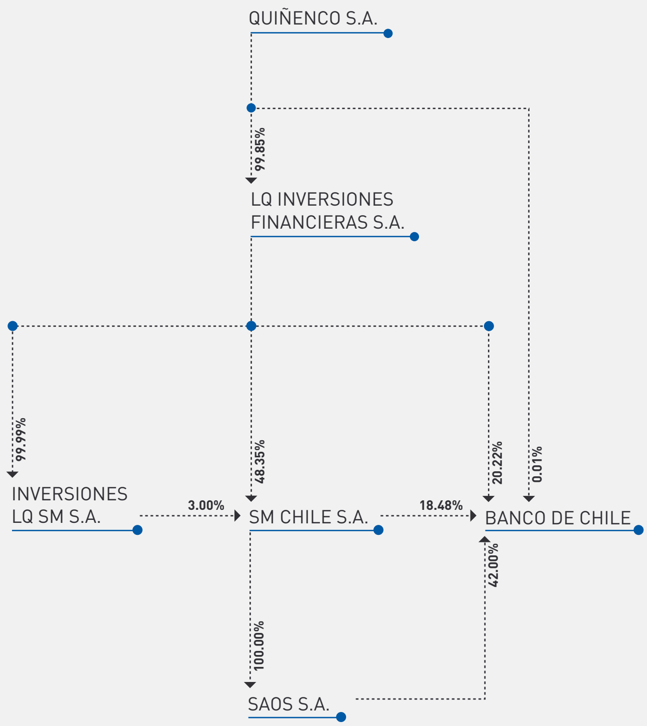
QUIÑENCO S.A.

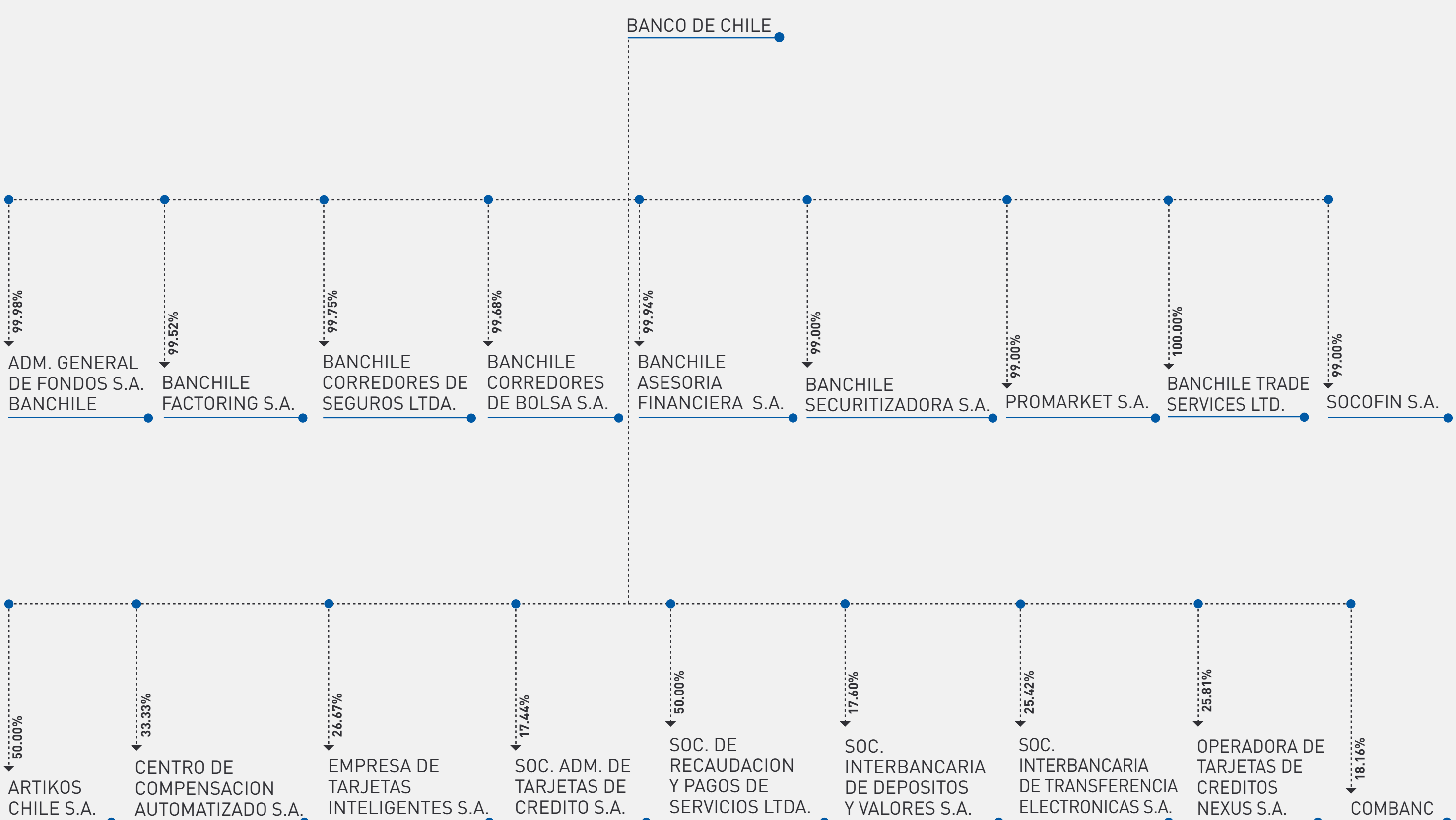
QUIÑENCO S.A. SUBSIDIARIES AND AFFILIATES



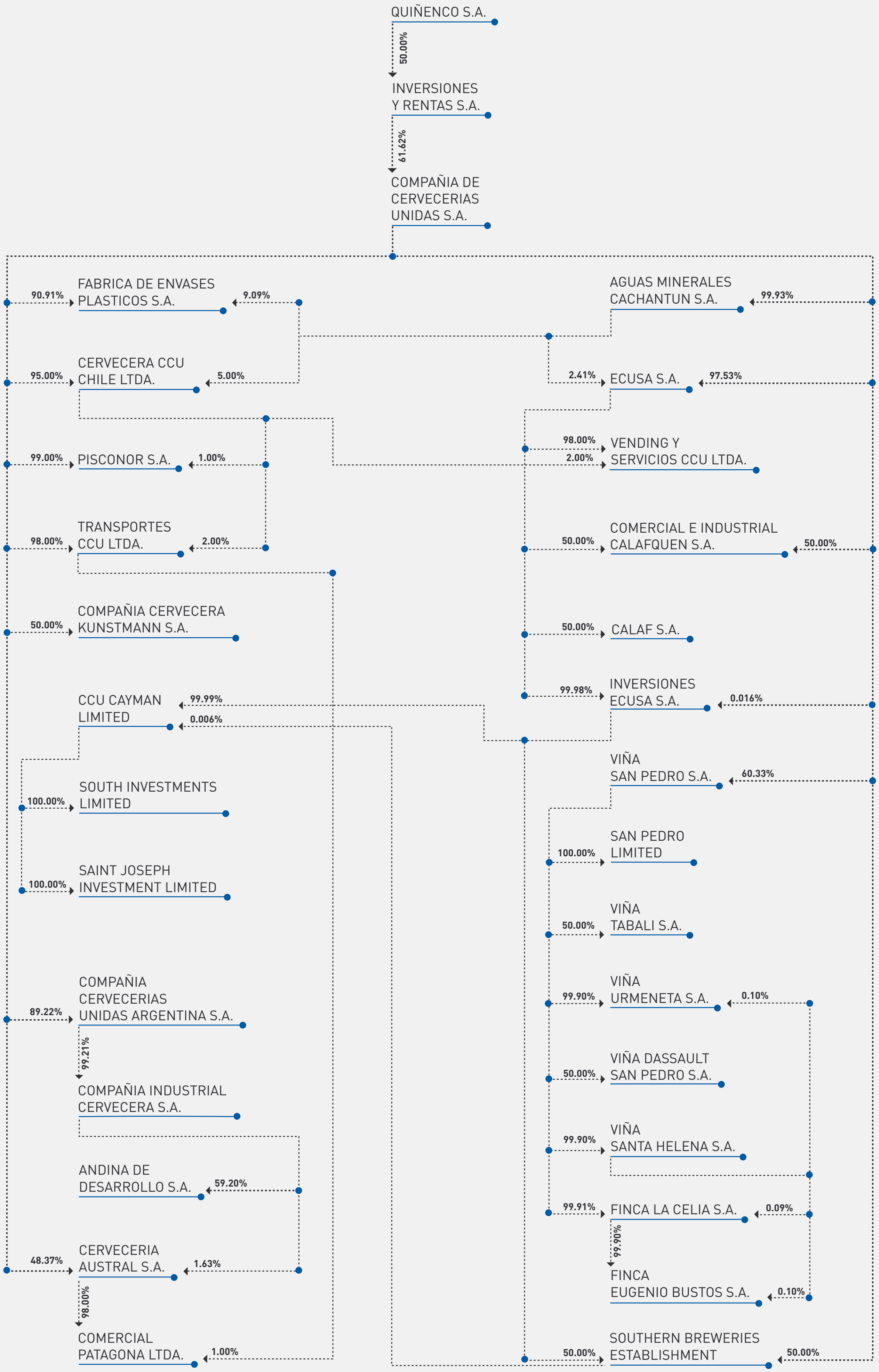

50.00%
HABITARIA S.A.
50.00%
INVERSIONES Y RENTAS S.A.
61.62%
COMPAÑIA CERVECERIAS UNIDAS S.A.
69.56%
14.40%
1.10%
COMATEL S.A.
44.76%
6.47%
MADECO S.A.
99.99%
0.01%
EXCELSA ESTABLISHMENT
0.01%
10.00%
0.01%
99.99%
INVERSIONES RIO BRAVO LTDA.
80.00%
10.00%
INVERSIONES RIO AZUL S.A.
97.02%
INDUSTRIA NACIONAL DE ALIMENTOS S.A.
50.00%
TRANSPORTES AEREOS Y SERVICIOS S.A.
99.99%
NAHUEL S.A.
11.41%
EMPRESAS ALMACENES PARIS S.A.
50.00%
EMPRESA AEREA EL LITORAL S.A.
14.99%
10.00%
0.00%
19.99%
55.01%
0.01%
HIDROSUR S.A.
0.01%
5.68%
ENTEL S.A.
COMERCIALIZADORA NACIONAL DE ALIMENTOS LTDA.
0.10%
99.90%
66.30%
INVERSIONES VITA BIS S.A.
50.00%
INV. EL NORTE Y EL ROSAL S.A.
70.00%
INVERSIONES PAL S.A.

LQ INVERSIONES FINANCIERAS S.A. SUBSIDIARIES AND AFFILIATES

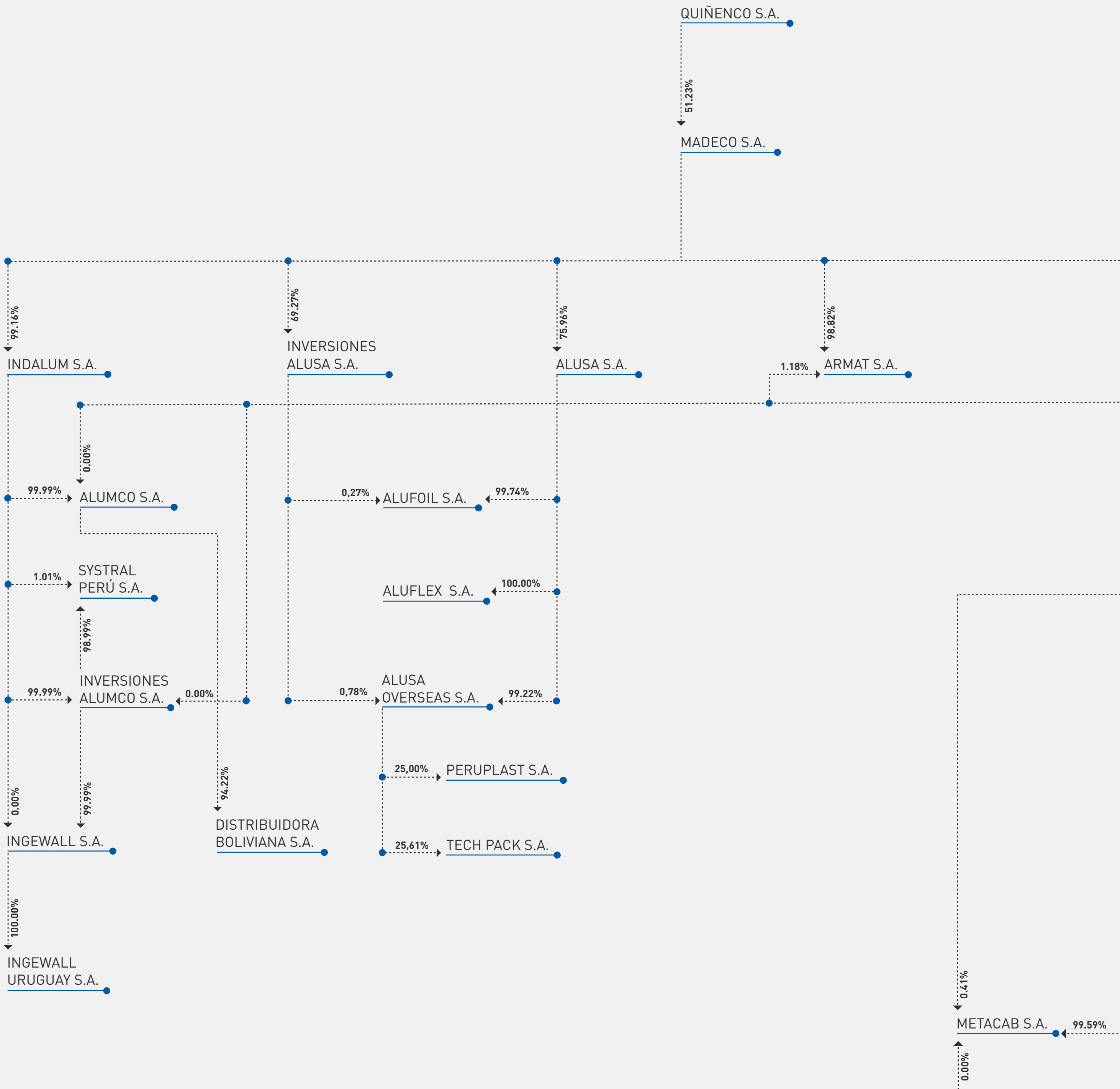




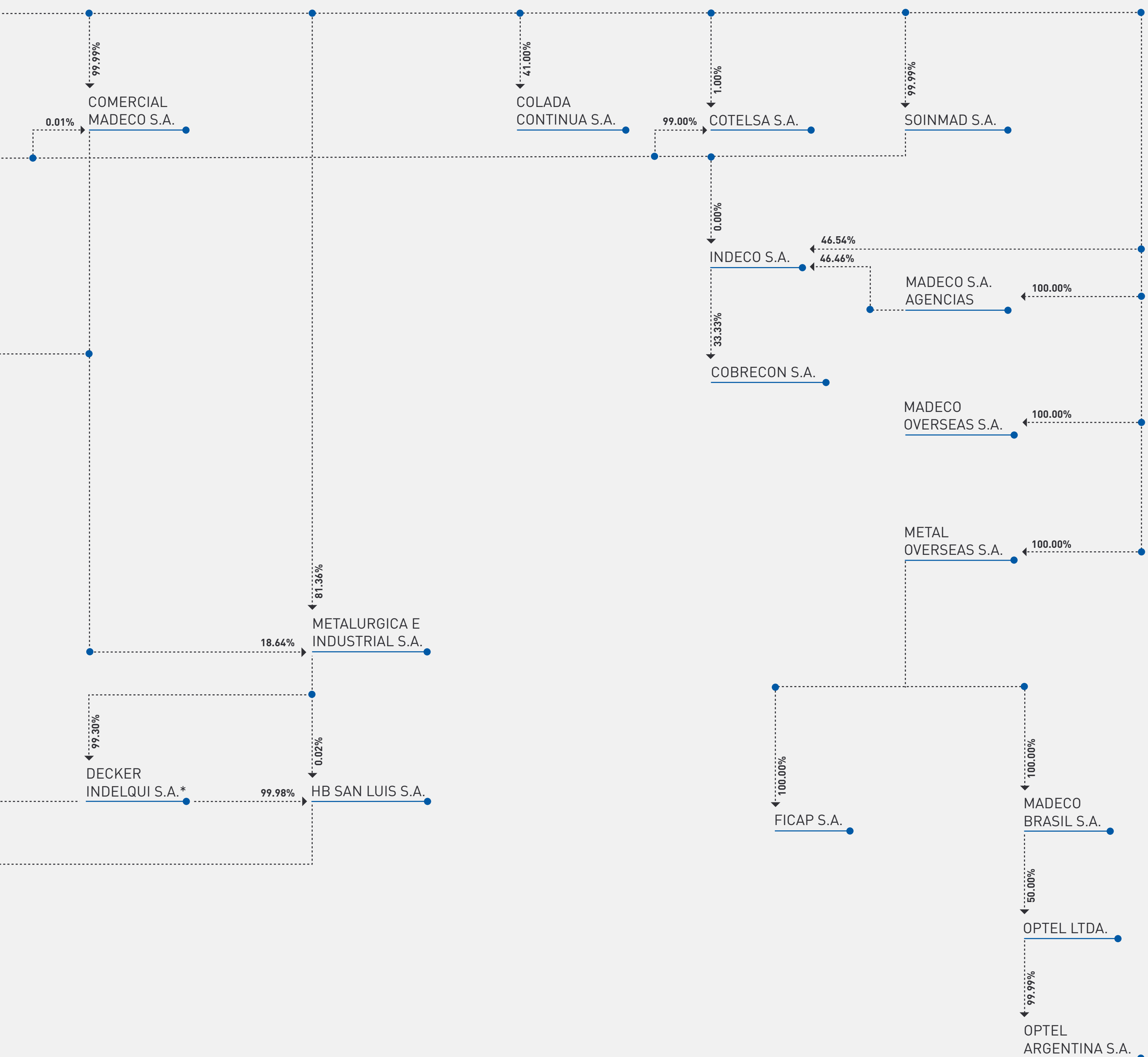
COMPAÑIA CERVECERIAS UNIDAS S.A. SUBSIDIARIES AND AFFILIATES



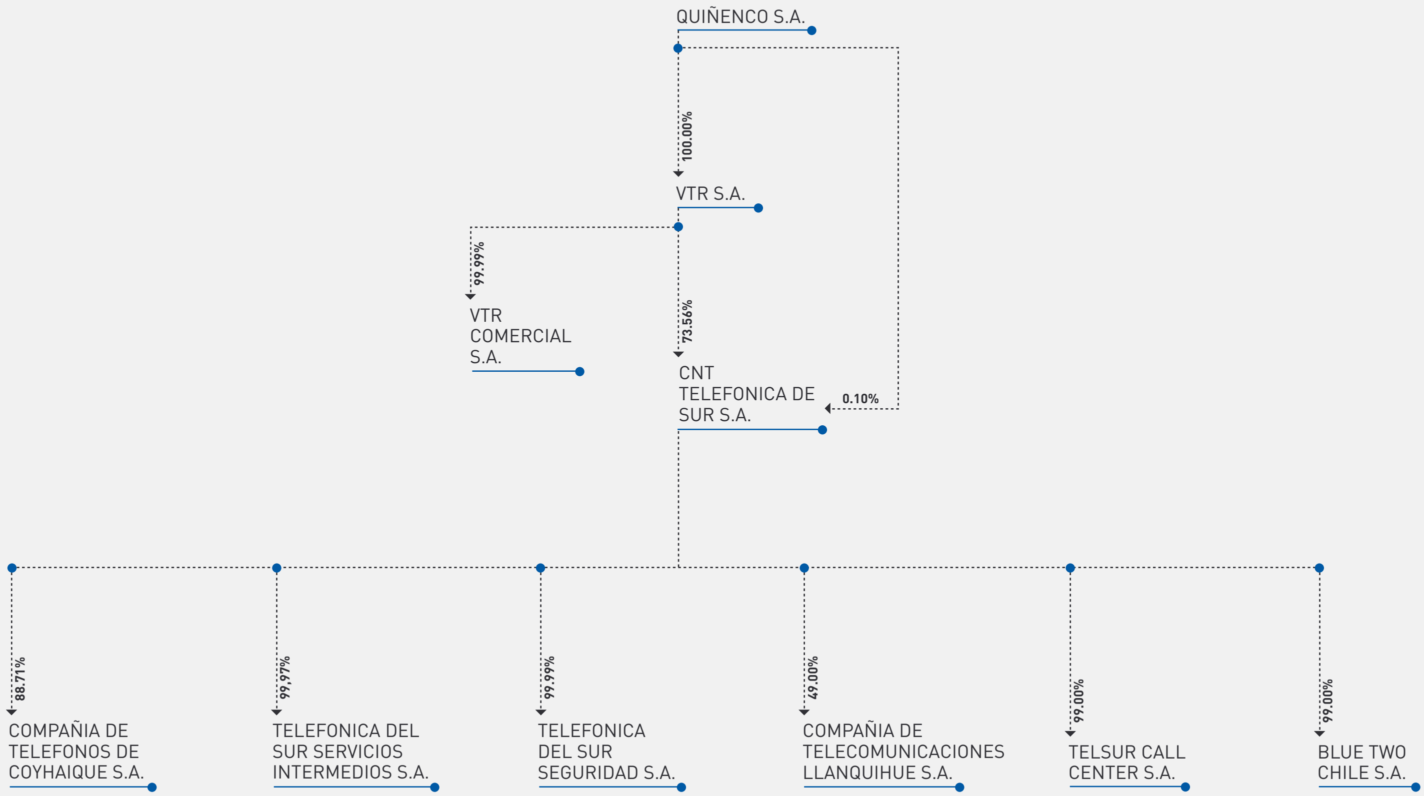
MADECO S.A. SUBSIDIARIES AND AFFILIATES



* At December 31, 2004, the subsidiary owned 0.091% of its own shares.


99.99%
COMERCIAL MADECO S.A.
0.01%
41.00%
COLADA CONTINUA S.A.
1.00%
99.00%
COTELSA S.A.
99.99%
SOINMAD S.A.
0.00%
INDECO S.A.
46.54%
46.46%
MADECO S.A. AGENCIAS
100.00%
33.33%
COBRECON S.A.
MADECO OVERSEAS S.A.
100.00%
METAL OVERSEAS S.A.
100.00%
81.36%
METALURGICA E INDUSTRIAL S.A.
18.64%
99.30%
0.02%
DECKER INDELQUI S.A.*
99.98%
HB SAN LUIS S.A.
100.00%
FICAP S.A.
100.00%
MADECO BRASIL S.A.
50.00%
OPTEL LTDA.
99.99%
OPTEL ARGENTINA S.A.

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



HABITARIA S.A. SUBSIDIARIES AND AFFILIATES