2008 Annual Report

QUIÑENCO S.A.

**Quiñenco S.A.**

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**Stock Exchanges (Quinenco)**

Bolsa de Comercio de Santiago
Bolsa de Comercio de Valparaíso
Bolsa de Valores de Chile

**Auditors**

Ernst & Young Ltda.
Huérfanos 770, 5th Floor
Santiago, Chile
Telephone: (562) 676-1000

## CORPORATE IDENTIFICATION

QUIÑENCO is an open stock company, which was incorporated as Forestal Quiñenco S.A. by public deed on January 28, 1957 and modified by public deed on April 15, 1957, both in the Valparaíso Notary Office of Mr. Carlos Calderón Cousiño. 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 Valparaíso 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 González 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 Quiñenco 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. René 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 May 11, 2007, granted before the Santiago Notary Office of Mr. Andrés Rubio Flores. An abstract of this reform was registered on page 20,649, number 15,082 of the Santiago Register of Commerce of 2007, and it was published in the Official Gazette on May 25, 2007.

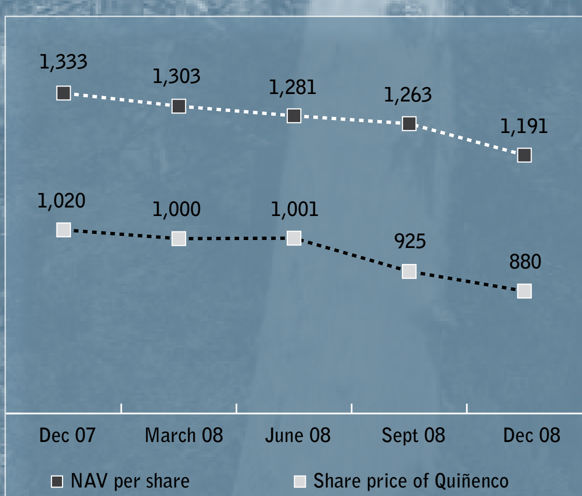
In accordance with Law N°18,046, QUIÑENCO S.A. (Quiñenco), an open stock company registered in the Securities Register under number 0597, is subject to regulation by the Chilean Superintendency of Securities and Insurance (SVS).

# 5 YEAR FINANCIAL HIGHLIGHTS

| In millions of constant Ch$ as of December 31, 2008 | | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|
| CONSOLIDATED RESULTS | | | | | | |
| Net sales revenue | MCh$ | **760,333** | 763,136 | 720,584 | 503,891 | 473,218 |
| Operating income | | **34,585** | 43,169 | 62,877 | 36,595 | 33,589 |
| EBITDA | | **79,701** | 80,719 | 96,613 | 67,814 | 65,237 |
| Proportionate share of net income of equity method investments | | **138,719** | 106,764 | 91,700 | 85,747 | 72,334 |
| Other non-operating losses | | **177,269** | (9,272) | (60,441) | (44,256) | (69,785) |
| Net income for the year | | **232,052** | 114,607 | 66,717 | 60,996 | 28,890 |
| FINANCIAL POSITION | | | | | | |
| Total assets | MCh$ | **2,505,324** | 1,969,023 | 1,743,343 | 1,627,051 | 1,652,815 |
| Total liabilities | | **465,078** | 674,074 | 643,831 | 620,018 | 733,154 |
| Minority interest | | **715,637** | 210,537 | 199,016 | 166,053 | 134,023 |
| Shareholders' equity | MCh$ | **1,324,609** | 1,084,412 | 900,496 | 840,981 | 785,638 |
| Current ratio (current assets/current liabilities) | | **2.76** | 2.55 | 3.01 | 2.69 | 1.47 |
| Leverage (total liabilities/SH equity) | | **0.35** | 0.62 | 0.71 | 0.74 | 0.93 |
| Earnings per share | Ch$ | **202.74** | 100.13 | 61.79 | 56.49 | 26.76 |
| OTHER INFORMATION | | | | | | |
| Number of shareholders | | **1,507** | 1,613 | 1,867 | 2,009 | 2,405 |
| Number of shares outstanding | | **1,144,577,775** | 1,144,577,775 | 1,079,740,079 | 1,079,740,079 | 1,079,740,079 |

# NAV/SHARE PRICE EVOLUTION

as of December 31, 2008
NAV US$2,142 mln
Market Cap US$1,583 mln
Share price in Ch$



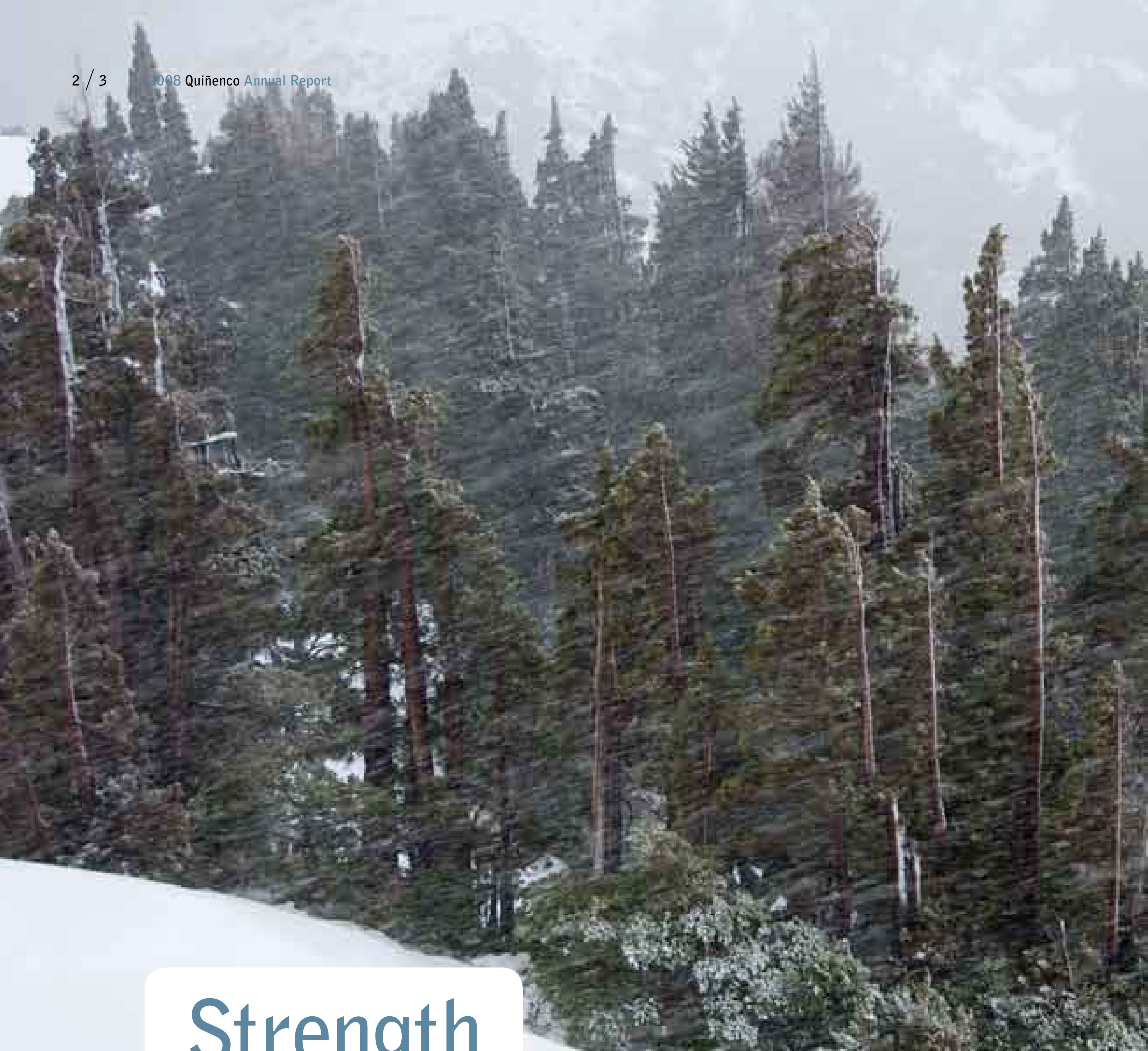

**26%**

is the discount between Quiñenco's NAV value and the price of its shares as of December 31, 2008.

The Alerce *(Fitzroya cupressoides)* is one of the most emblematic trees of South American rainforests. Its large size and ability to grow in extremely-rigorous climatic conditions, make it one of the most impressive and longest-living species in the world, individual trees having been found of over 3,600 years old.

This symbol of strength, permanence throughout time and capacity to adapt, reflect the spirit that has guided Quiñenco since its formation.

Quiñenco S.A.



# Strength

Quiñenco, like the Alerce, which grows in places that are inhospitable for other species, is established in highly-demanding areas and is noted for its strength and ability to adapt. It is the sap that keeps all the companies of the conglomerate united, driving them to work toward the same goal, constantly developing different projects that enable it to move forward and grow every day with renewed force, thanks to a solid team that works in pursuit of an objective consequent with its lines of business and commitment with the community.


Financial Services

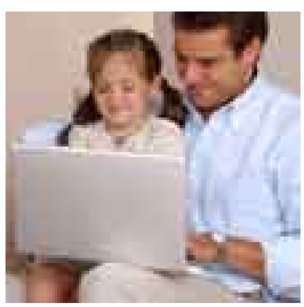

Beverage and Food

Telecommunications

Manufacturing

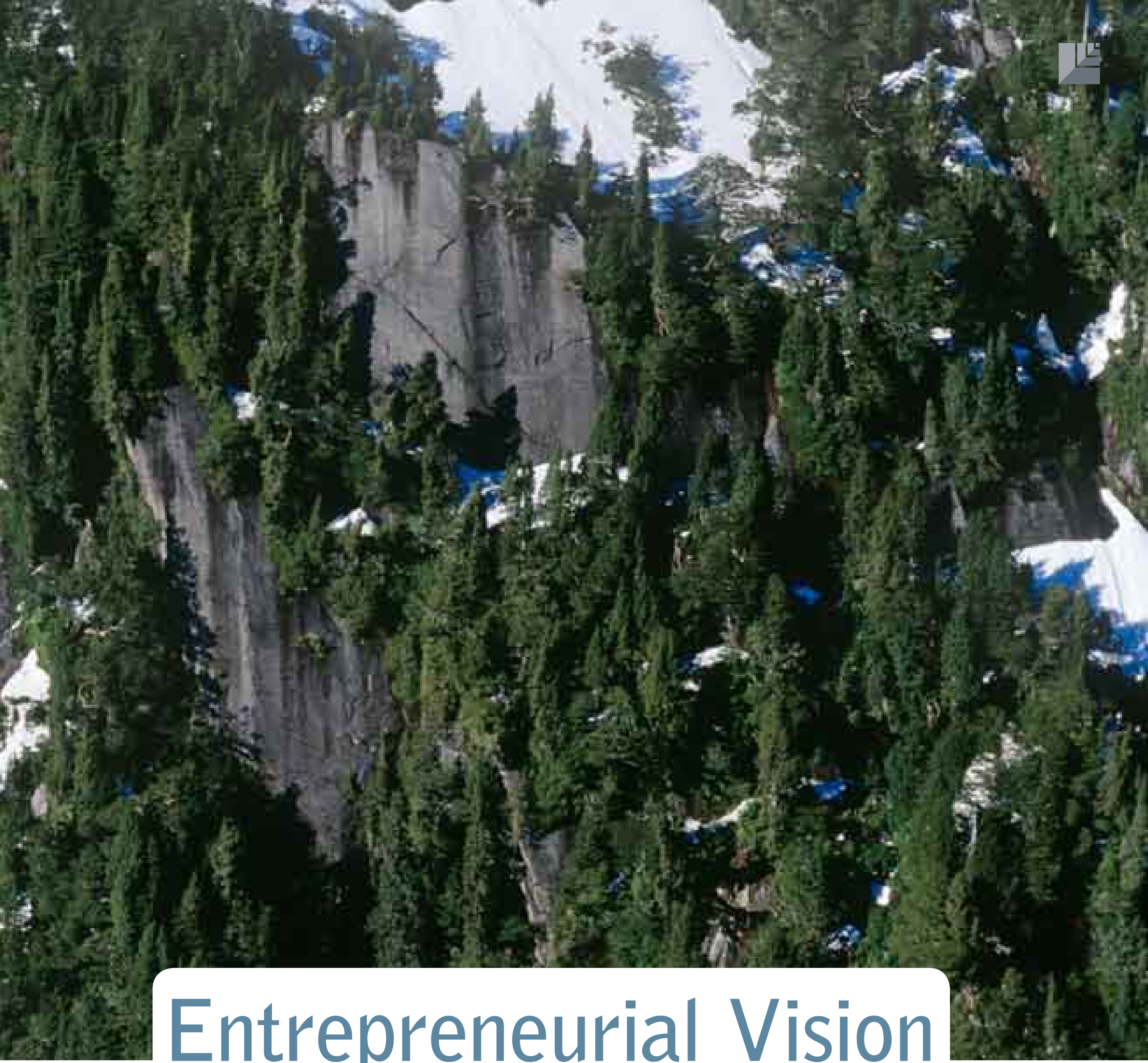

Financial Services

Beverage and Food



Telecommunications

Manufacturing



# Entrepreneurial Vision

Alerce forests often climb up the steep slopes of the Southern Andes. They populate the previously sterile rocks, transforming them into green mountains.

Quiñenco implements its business with this long-term vision, its main emphasis placed on turning challenges into opportunities that translate, over time, into profitable businesses for its shareholders.

# Letter from the Chairman

DEAR SHAREHOLDERS, I am pleased to share with you the results of the Quiñenco group for 2008.

The excellent results achieved fill us with pride and satisfaction, bearing in mind the international financial crisis that began to emerge in the last quarter of 2008 and has already started to affect the local economy. However, the present circumstances also generate new business opportunities that Quiñenco, with its capacity for innovation, management and dynamism, will be able to translate into growth and the creation of value, always contributing to the country's development.

Agreements and transactions beneficial to the group's development were executed during 2008, which reflected in a net income of Ch$232,052 million, twice that obtained the previous year. Banco de Chile successfully completed its merger with Citibank Chile, effective as of January 1. This implied not only a 1.7% increase in its market share, gaining over fifty thousand new customers and adding more than 100 branches, but also brought important synergies and economies of scale which were reflected in improved profitability and efficiency ratios. At the same time, more sophisticated processes were introduced in the areas of compliance and audit, as well as improvements in financial and market risk management control systems.

The sale of Madeco's cable unit to Nexans, the French cable producer -world leader in its field-, is one of the most important business transactions completed in recent years. It provided Madeco with a global presence and access to higher technological level products through the world's largest cable manufacturer, in which it is also the principal individual shareholder, with an active participation in its board of directors.

CCU's business vision, based on profitability, growth and sustainability as its strategic pillars, has enabled it to seal important business deals in the areas of wine, beer, snacks, etc. Late in the year, the merger of Viña Tarapacá with Viña San Pedro was completed. The resultant synergy and optimization of resources and knowledge will propel CCU in the domestic and international markets, positioning itself as Chile's second largest exporter with 12% of total export volumes and achieving leadership in the premium wine category. CCU also completed the purchase of ICSA in Argentina, thus adding the Bieckert, Palermo and Imperial beer brands, which represent a 5.8% share of the Argentine beer market. In the snacks segment, a 50% holding in Nutrabien was acquired to complement the brands portfolio of the affiliate Foods.

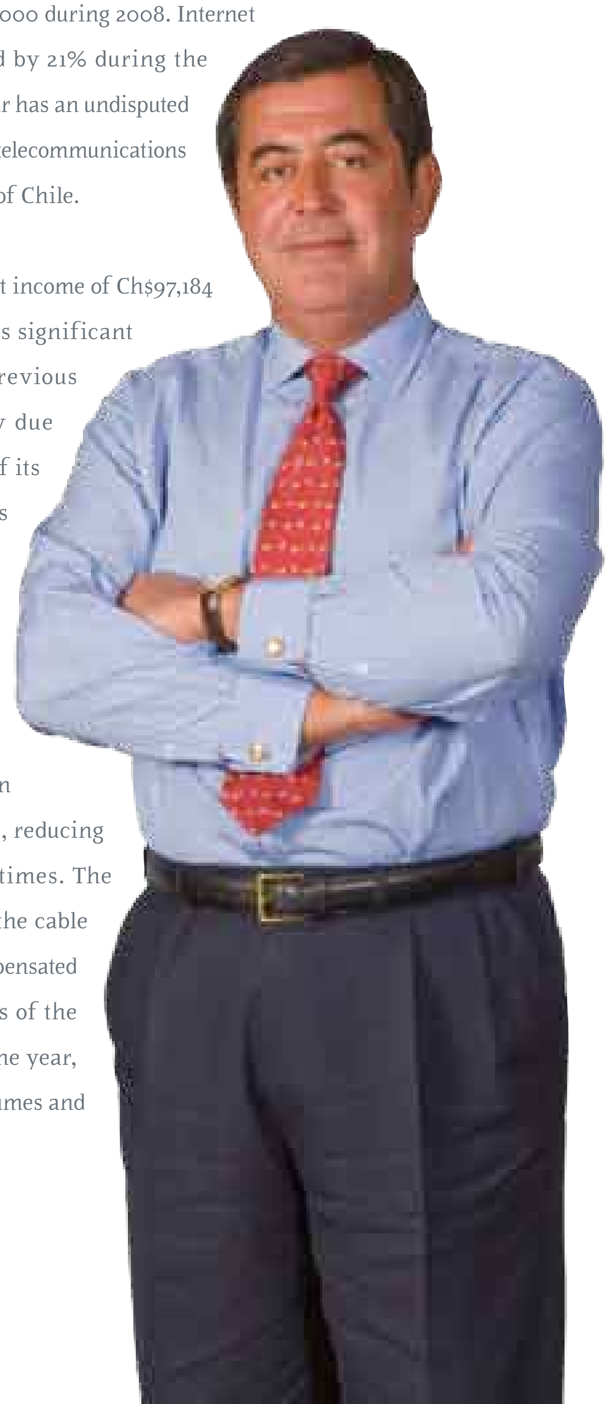
CCU's principal business segments showed significant growth in their sales volumes which, accompanied by higher average prices, translated into a 9.7% increase in operating income and a 10% increase in operating cash flow. CCU's constant innovation and expansion has enabled it to attain and maintain high market shares in the various segments in which it participates.

In 2008, Banco de Chile, our financial sector subsidiary, produced record earnings despite the global financial crisis that was felt in the last quarter, reflecting the successful merger with Citibank Chile and supported by organic growth. Its net income reached Ch$272,427 million, based on significant growth in operating revenues, resulting from its focus on the quality of service, efficiency and the expansion of its customer base. This growth compensated the increase in provisions, particularly during the last quarter due to the global and local financial scenario.

In 2008, Telefónica del Sur successfully launched the "Uno Móvil" service following the incorporation of a cellular line to its "Superinalámbrico" product. This service, unique in South America, permits the double functioning in one telephone of fixed wireless telephony and mobile cellular telephony. It also obtained important achievements by becoming the first Virtual Mobile Operator in the country and in Latin America through an alliance with Movistar, which enabled it to rent its antenna network. The benefit for customers consists in the possibility of using the mobile service of Telefónica del Sur anywhere in the country and the world through international roaming.

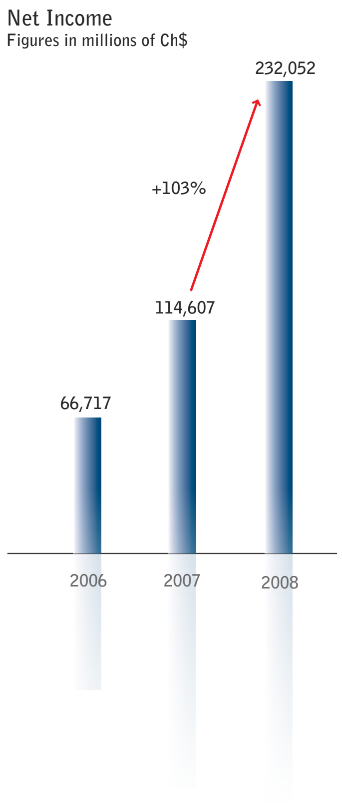
Telefónica del Sur reported a net income of Ch$4,005 million for 2008. This compares unfavorably with the previous year, principally due to the higher depreciation of the investments made by the company to develop its new products, such as the launching of its wireless network, the investment in end-user equipment and the readjustment of the fiber-optic infrastructure for internet and IP digital television services. These investments, together with an orientation to service quality and differentiation are reflected in the stable level of sales in a highly-competitive environment, and in a 4% growth in the number of customers. IP digital television (WiTV) service customers, with the exclusive advantage of wireless distribution within the home, increased by 144% to more than 13,000 during 2008. Internet customers increased by 21% during the year. Telefónica del Sur has an undisputed leadership position in telecommunications services in the south of Chile.

Madeco obtained a net income of Ch$97,184 million in 2008. This significant increase over the previous year was primarily due the successful sale of its cable unit to Nexans in September, which contributed a profit of Ch$89,565 million. The transaction also enabled the company to strengthen its financial position, reducing its debt ratio to 0.3 times. The profit on the sale of the cable unit comfortably compensated the reduced earnings of the brass mills unit for the year, due to lower sales volumes and



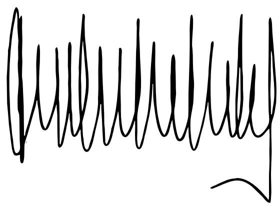
the sharp fall in the copper price in the last quarter. The flexible packaging unit, on the other hand, recorded growth in its results following larger sales volumes in Peru, Chile and Argentina, higher prices, and the positive effects of a cost control plan implemented by Management.

Quiñenco, as corporate center, has benefited from the positive results of its past investments and the materialization of agreements reached. Its financial position is very solid, perhaps the best in the last ten years, with a financial debt of approximately Ch$217,000 million



which, after deducting available funds of Ch$54,000 million, results in a net debt of Ch$163,000 million. A conservative and cautious policy, giving priority over the last two years to reducing the level of debt and strengthening the liquidity position, has shown to be beneficial in the present economic and financial context. The good performance of group companies, showing signs of the solidity with which they operate, has guaranteed the parent company a sustained dividend flow that enables us to be prepared to undertake new projects and investments and face the dynamics of our businesses from a very favorable position.

I wish to conclude by expressing my sincere appreciation to everyone in Quiñenco's work team for their dedication and commitment, as their valuable support was fundamental to achieving the results obtained for the year 2008.



Guillermo Luksic Craig

Chairman

# Board of Directors

**Andrónico Luksic Craig**
VICE CHAIRMAN

Director of Companies

**Guillermo Luksic Craig***
CHAIRMAN

Director of Companies

**Hernán Büchi Buc**
DIRECTOR

Civil Mining Engineer,
Universidad de Chile

**Gonzalo Menéndez Duque***
DIRECTOR

Business Administrator,
Universidad de Chile

* Member of the Directors' Committee

**Jean - Paul Luksic Fontbona**
DIRECTOR

Director of Companies
B.Sc. Management and Science,
London School of Economics,
England

**Juan Andrés Fontaine Talavera**
DIRECTOR

Business Administrator
Universidad Católica de Chile
Master of Economics
University of Chicago, U.S.A.

**Matko Koljatic Maroevic***
DIRECTOR

Business Administrator,
Universidad Católica de Chile
ICAME Certificate in Marketing
Management,
Stanford University, U.S.A.

## Corporate Governance

The Board of Directors of Quiñenco, its Directors' Committee and the Chief Executive Officer are responsible for defining and upholding corporate governance practices. The Board of Directors is made up of seven members, elected for a period of three years. The current Board was elected in 2008, and new elections will be held at the General Ordinary Shareholders' Meeting in 2011.

Quiñenco is permanently committed to the highest standards of corporate governance, in accordance with its bylaws and legal norms in Chile, in particular, the Law of Open Stock Corporations and the Securities Law. Its code of ethics, applicable to all employees, strives to promote honest behavior in every circumstance, avoidance of conflict of interests, principles of transparency in relations and respect for the rights of others.

# Quiñenco's Profile

Throughout the course of its successful business record, Quiñenco has become one of the most important and diversified conglomerates in the country, entering into different but important areas of the economy, with current investments in the financial, beverage and food, telecommunications and manufacturing sectors. During 2008, group companies generated sales of over US$4.1 billion, of which 71% of the total value and 77% of assets

QUIÑENCO S.A.

- Financial Services
- Beverage and Food
- Telecommunications
- Manufacturing

US$ billion

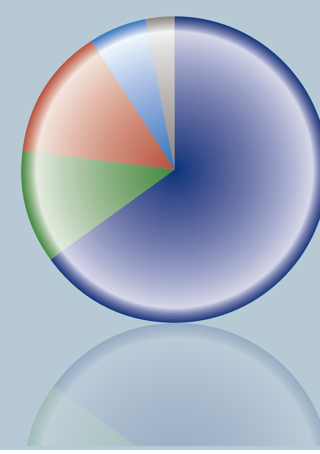
31.3

totalize the assets managed by Quiñenco, belonging to a select group of companies leaders in their industries

INVESTMENTS BY SECTOR

MCh$1,365,908 as of 12.31.08
(Book value at corporate level)

| | |
|---|---|
| Financial Services | 65% |
| Beverage and Food | 12% |
| Manufacturing | 14% |
| Telecommunications | 6% |
| Other | 3% |



at the corporate level were generated by the two most significant sectors of the group: financial and beverage and food. The Quiñenco group employs around 18,000 people in Chile and abroad.

Our investment criteria is directed to the development of mass consumer brands and franchises, generating synergies between the different businesses and their distribution networks, creating economies of scale and achieving greater efficiency. Our leadership position has provided the opportunity to work with world-class

17,937

people are employed by the group's companies in Chile and abroad strategic partners, broadening our experience, resources and knowledge. This strategy has permitted us to offer world class products and services and over time, create value and attractive returns for our shareholders.

As parent company, we work together with each of our companies' administration, enhancing their management capacity and ability, seeking their success, growth and perfection. We therefore define long-term strategies, projecting annual targets, controlling the financial and operational management, structuring and directing significant mergers and acquisitions, as well as identifying synergies between the different business units.

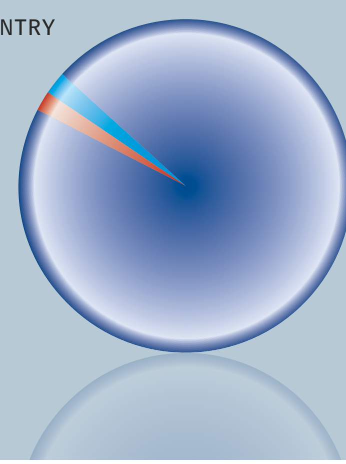
The focus of our business model consists in strengthening the companies in which we have invested in order to increase their value and the return for Quiñenco, through dividends and potential divestments. Our track record in this sense speaks for itself, with proceeds from divestments of over US$2.3 billion during the last twelve years. The dividends received at the corporate level in 2008 amounted to US$167 million. These funds are fundamental when financing future acquisitions and supporting the development of our subsidiaries.

**+18%**
growth in the aggregate sales of group companies, exceeding US$4.1 billion in 2008

CONSOLIDATED ASSETS BY COUNTRY

MCh$2,505,324 as of 12.31.08

| | |
|---|---|
| Chile | 96% |
| Argentina | 2% |
| Peru | 2% |



**23%**
reduction in net corporate debt, to US$257 million

# History

## 1957
Sociedad Forestal Quiñenco S.A. is created to exploit eucalyptus forests and produce wood supports for underground coal mines.

## 1960's
In order to diversify its field of action, Sociedad Forestal Quiñenco S.A. invests in Empresas Lucchetti S.A. and Forestal Colcura S.A.

## 1970's
The business areas are expanded with the incorporation of Hoteles Carrera S.A.

## 1980's
Throughout this decade, Quiñenco consolidates its risk diversification policy. Shareholdings in Banco O'Higgins and Banco Santiago are acquired, so as to enter the financial sector.

A majority shareholding is also acquired in Madeco.

Later, it takes over Compañía Cervecerías Unidas S.A. (CCU) jointly with the German group, Schörghuber.

Finally, it enters the telecommunications sector, thus completing the expansion of its web of activities in this decade, acquiring a majority shareholding in VTR S.A.

## 1997
Quiñenco raises US$279 million in a public share offering on the New York Stock Exchange and the Santiago Stock Exchange.

100% of Startel S.A. is sold to CTC.

## 1998
VTR S.A. sells the company VTR Larga Distancia S.A.

Quiñenco enters the real-estate sector by forming Habitaria S.A. together with the Spanish construction company Ferrovial Inmobiliaria.

## 1999
Quiñenco sells its holding in the OHCH banking group, and then acquires 51.2% of Banco de A. Edwards and 8% of Banco de Chile.

In another area, Quiñenco sells its 66% shareholding in VTR Hipercable S.A. to the UIH Latin America group. At the same time, it acquires a 14.3% shareholding in Entel S.A.

## 2000
LQ Inversiones Financieras S.A. (LQIF) is created as a subsidiary of Quiñenco in order to concentrate all financial investments.

## 2004
In the food and beverage sector, Quiñenco completely disposes of Lucchetti Chile S.A., and then acquires Calaf through a joint venture with CCU.

At the end of 2004, the Company buys 11.4% of Almacenes París.

## 2005
Quiñenco obtains a large profit through the sale of its holding in Almacenes París.

## 1993
Reaffirming its presence in the financial sector, the OHCH group is formed through the alliance between Quiñenco and Banco Central Hispanoamericano.

## 1995
Quiñenco enters into a strategic alliance with SBC Communications Inc. to strengthen VTR in the telecommunications sector.

OHCH becomes the controlling shareholder of Banco de Santiago.

## 1996
The Company is restructured, leaving Quiñenco as the financial and industrial parent company and Antofagasta Holdings as the center for the mining and railway investments.

## 2001
Quiñenco becomes the controller of Banco de Chile following the acquisition of 52.7% of the voting rights.

Quiñenco sells its 39.4% holding in Plava Laguna d.d., a tourist complex on the coast of Croatia and sells a 8% holding in Entel S.A., in the telecommunications area.

## 2002
The merger between Banco de Chile and Banco de A. Edwards is completed at the start of the year, creating the largest financial institution in Chile at the time.

## 2003
Heineken joins with Quiñenco by acquiring 50% of IRSA, holding company controller of CCU.

The company sells the Hotel Carrera, Santiago, to the Chilean Ministry of Foreign Affairs.

## 2006
Quiñenco begins the process of de-listing its shares on the New York Stock Exchange, putting an end to its ADR program.

## 2007
Quiñenco and Citigroup announce their alliance in the financial sector.

Quiñenco carries out a capital increase of Ch$64,838 million.

In the telecommunications area, Quiñenco sells a 2.8% shareholding in Entel.

## 2008
The merger between Banco de Chile and Citibank Chile became effective as of January 1.

The historic transaction between Madeco and the French cable manufacturer, Nexans, is completed.

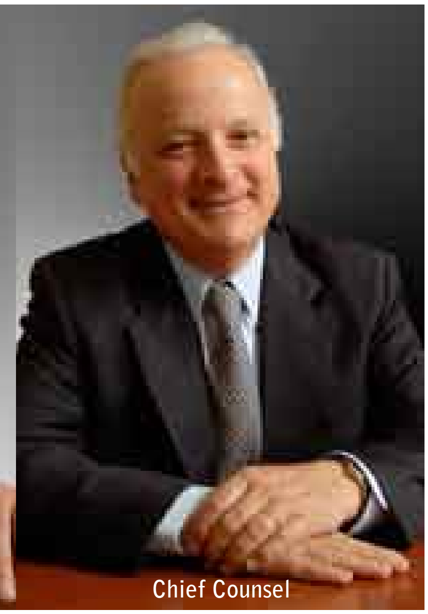
# Organization


Chief Executive Officer

**Francisco Pérez Mackenna**
Business Administrator,
Universidad Católica de Chile
MBA, University of Chicago, U.S.A.


Manager of Strategy and Performance Appraisal

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


Chief Counsel

**Manuel José Noguera Eyzaguirre**
Attorney,
Universidad Católica de Chile


Investor Relations Manager

**Pilar Rodríguez Alday**
Business Administrator,
Universidad Católica de Chile


Manager of Business Development

**Felipe Joannon Vergara**
Business Administrator,
Universidad Católica de Chile
MBA, The Wharton School,
University of Pennsylvania, U.S.A.


Chief Financial Officer

**Luis Fernando Antúnez Bories**
Civil Industrial Engineer,
Universidad Católica de Chile
MBA, Georgia State University, U.S.A.


General Accountant

**Oscar Henríquez Vignes**
Certified Public Accountant,
Universidad de Chile
Graduate Degree in Tax Planning,
Universidad Católica de Chile
Master of Tax Management,
Universidad Adolfo Ibáñez


Legal Advisor

**Davor Domitrovic Grubisic**
Attorney,
Universidad de Chile


Manager of Performance Appraisal

**Pedro Marín Loyola**
Business Administrator,
Universidad Católica de Chile
M.S. Finance, London School
of Economics, England

- Board of Directors
  - Chief Executive Officer
    - Strategy and Performance Appraisal
    - Business Development
    - Finance, Administration and Human Resources
    - Legal Counsel

# 2008 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 highly 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.

In 2008 Quiñenco obtained a net income of Ch$232,052 million, twice that reported the previous year. This excellent result reflects the execution of important agreements and transactions initiated the year before, as well as sound performance of the operating companies during the year, allowing Quiñenco to reach a new milestone in its successful history.

Quiñenco reported consolidated sales of Ch$760,333 million in 2008, a slight 0.4% below 2007. This variation mainly owes to Madeco's operations, which also decreased by 0.4% to Ch$692,958 million due to lower sales volumes of the brass mills unit and of the cable unit that was sold at the end of the third quarter of 2008. These lower volumes were compensated by higher average prices of copper and aluminum in comparison to 2007.

**+102.5%**

grew Quiñenco's net income reaching Ch$232,052 million in 2008, based on the execution of agreements and transactions and the sound performance of Banco de Chile and CCU.

Operating income was affected by both Madeco and Telefónica del Sur, reporting a decrease of 19.9% to Ch$34,585 million. Madeco's operating income diminished mainly due to the sale of the cable unit at the end of the third quarter of 2008, and to lower performance of brass mills, adversely affected by lower sales volumes and the sharp fall in copper prices during the last quarter of the year. Telefónica del Sur's operating income reflects a flat sales level together with higher depreciation, owing to investments in its wireless network and fiber-optic infrastructure for internet and digital IP television services, as well as higher costs related to digital television programming and broadband internet, the latter due to speed upgrades and client growth.

Equity income (net) totaled Ch$138,719 million, reaching a new high point due to the sound results achieved by Quiñenco's two main investments, Banco de Chile and CCU, which contributed Ch$110,193 million and Ch$27,314 million, respectively, at a consolidated level.

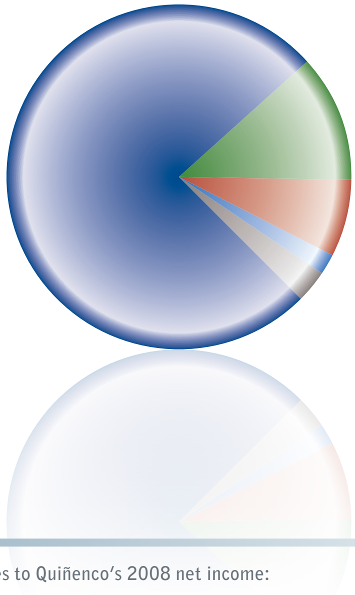
Consolidated dividend cash flow amounted to Ch$121,033 million in 2008, as compared to Ch$59,626 million the year before. In 2008 Banco de Chile increased its dividend payout ratio from 70% to 100 %. Sustained dividend cash flow and proceeds from the sale of investments have fortified Quiñenco's financial position, with a net consolidated debt down by 32% to Ch$376,982 million, placing the company in a favorable position to take advantage of new investment opportunities.

At the Corporate level, dividends received from its related companies LQIF, IRSA, Madeco, Telefónica del Sur and other companies, amounted to Ch$106,423 million, significantly higher than the Ch$27,182 million received in 2007.

## COMPOSITION OF CONSOLIDATED DEBT

| | 2007 MCh$ | 2008 MCh$ |
|---|---|---|
| Corporate level (*) | 375,674 | 256,109 |
| Madeco | 120,579 | 49,627 |
| Telefónica del Sur | 56,672 | 71,246 |
| Total consolidated debt | 552,925 | 376,982 |

(*) Does not include the debt of the affiate company, IRSA, amounting to MCh$34,495 in 2008 (MCh$41,294 in 2007), in which Quiñenco's stake is 50%. Includes 100% of the debt of the subsidiary LQIF, amounting to MCh$170,625 in 2008 (MCh$184,277 in 2007), in which Quiñenco's stake is 67.04%.



## COMPOSITION OF DIVIDEND INCOME

MCh$106,423 (corporate level)

| | |
|---|---|
| LQIF | 76% |
| IRSA | 12% |
| Madeco | 7% |
| Telsur | 2% |
| Entel | 3% |

## NET INCOME CONTRIBUTION FROM OPERATING COMPANIES

The following table shows the contribution of the main operating companies to Quiñenco's 2008 net income:
(In millions of Ch$ pesos as of December 31, 2008)

| Companies | Quiñenco's Ownership (1) | Sales Revenue | Net Income | Quiñenco's Proportionate Share of N.I. | Total Assets | S/H Equity |
|---|---|---|---|---|---|---|
| Financial Services | | | | | | |
| Banco de Chile | 27.1% (2) | 1,097,480 (3) | 272,427 | 73,873 | 18,128,442 | 1,297,743 |
| Beverage & Food | | | | | | |
| CCU | 33.1% | 781,789 | 82,631 | 27,314 | 1,072,953 | 496,246 |
| Telecommunications | | | | | | |
| Telsur | 74.4% | 66,133 | 4,005 | 2,981 | 178,953 | 85,360 |
| Manufacturing | | | | | | |
| Madeco | 47.7% | 692,958 | 97,184 | 44,144 | 551,642 | 415,179 |
| Other Operating Companies | | | | (621) | | |
| Total Operating Companies | | | | 147,691 | | |
| Quiñenco & Holding Companies | | | | 84,361 | | |
| **Net Income for the Year** | | | | **232,052** | | |

(1) Direct and/or indirect.
(2) Corresponds to Quiñenco's economic rights. Voting rights held by LQIF were 61.7% as of December 2008.
(3) Corresponds to the Bank's operating revenues.

# Human Resources

The successful results that have differentiated Quiñenco in Chile's economy over time would not have been possible without the outstanding group of people who make up the organization. First-class professionals who, by combining their different skills, knowledge and values, plus a considerable amount of effort and dedication, have made these achievements possible. All of them have characteristics essential to the company, such as team work, leadership and energy, plus valuable human traits like creativity, perseverance, loyalty and confidence. All this makes our team not only one of an excellent professional level but also a team with outstanding human qualities.

The Human Resources area includes staff recruitment, retaining, evaluation and development. A rigorous selection process is complemented by a thorough evaluation system that measures the levels of responsibility within the company, the performance of each one and their results, thus being able to provide a remuneration according to personal development and offer benefits that reward their outstanding work. A chain effect is therefore created where everyone, individually, tries to excel and improve their performance, which in turn motivates growth and development among their colleagues, generating a synergy of knowledge and unique skills.

We have top-class training programs that reinforce our professionals and maximize the results of Quiñenco, which in turn generates a positive impact on the company, our insertion in the community and the environment. At the same time, we raise the level of our human resources, generating job opportunities, a greater link of unity and a high degree of safety and welfare.

## PERSONNEL QUIÑENCO AND SUBSIDIARIES

As of December 31, 2008

| Company | Executives | Professionals and Technicians | Other Workers | Total |
|---|---|---|---|---|
| Quiñenco | 9 | 12 | 14 | 35 |
| Banco de Chile (*) | 448 | 5,308 | 8,819 | 14,575 |
| Madeco | 51 | 665 | 1,688 | 2,404 |
| Telsur | 25 | 474 | 327 | 826 |
| Other subsidiaries | 13 | 60 | 24 | 97 |
| Total | 546 | 6,519 | 10,872 | 17,937 |

(*) Does not consolidate with Quiñenco as authorized by the Chilean Superintendency of Securities and Insurance.

Additionally, as of December 31, 2008, the affiliate companies CCU and Habitaria, had 5,375 and 2 employees, respectively.

# Social Responsibility

The active contribution to social, economic and environmental improvement is a fundamental part of Quiñenco's business vision. We integrate business strategy with environmental care and sustainable development. We work with full respect for the community in which we operate, with a welfare commitment to our employees.

We believe in responsible development and production, in the importance of the inter-action between Quiñenco and the various stakeholders. But above all, we believe that development today should not compromise development tomorrow, so the correct way to do business is caring for our resources and providing a decent place for those who will come after us.

We carry out activities and programs throughout the country, in various areas. In addition, by being always present, we know our community and can provide help in times of need.

This year, Chile suffered a great tragedy with the eruption of the Chaitén volcano. As a group, we supported the residents of the area, providing them with communication facilities and collaborating in other areas in order to quickly overcome the situation.

Conservation programs for creating awareness and promoting the conservation of native forests.

## SOLIDARITY ACTIONS

The number of people in Chile who suffer some degree of disability, and the conditions of abandonment and poverty in which most of them live, is a tangible reality. As a group, we are involved in various activities throughout the country to alleviate this situation, such as sports events for the disabled and attention centers for disabled children. The Quiñenco group also participates with great enthusiasm, not only through economic help, but also by providing time and dedication, team work and willingness, as in the special case of the Teletón.

## EDUCATION

We are aware that the development of education is of vital importance to the country's growth. For this reason, we provide scholarships to individuals and institutions throughout the country and help in equipping schools and training centers.

Among other measures, Quiñenco group companies have a program for financing a percentage of the education of employees' children who excel in their academic achievements.

## SPORTS

The companies forming our group have made great efforts to promote sports at a national level, sponsoring athletes and teams, organizing competitions and events and integrating sports as a part of our community's life.

## CULTURE

Culture is the set of ways in which a society expresses itself, while simultaneously opening that society to the rest of the world. In the Quiñenco group, we are aware of the importance of this phenomenon, which seeks meanings and expresses latent social questions. This has given rise to participation in various events that represent the different forms of expression of the arts, such as exhibitions, concerts, opera, theatre and various works by new and independent artists.

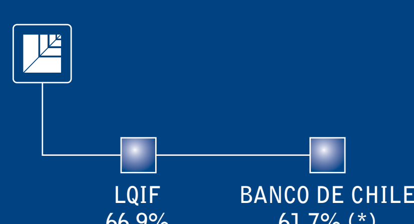
## RESPONSIBILITY

Quiñenco is concerned about creating a social awareness with respect to the issue of alcohol, both within our companies and in society as a whole. Therefore, we work actively as a group in creating responsibility campaigns and programs regarding alcohol consumption.

## ENVIRONMENT

Quiñenco group makes its best efforts towards environmental preservation. All group companies follow the criterion of considering the importance of working in harmony with nature and living together with the ecosystem. There is an overall concern regarding native forests, forestation programs, maintaining a clean environment and spreading our ideals in society.

# Banco de Chile




(*) Voting rights

# LQIF

LQ INVERSIONES FINANCIERAS

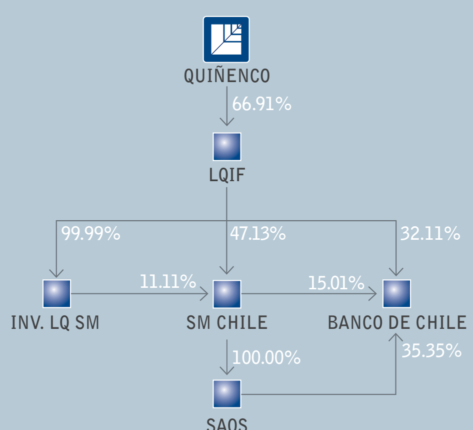
LQ Inversiones Financieras S.A. (LQIF), constituted in 2000, channels Quiñenco's investments in the financial sector. Since 2001, its principal investment is the controlling shareholding in Banco de Chile, one of the largest financial institutions in the country.

An important agreement with Citigroup was executed in 2008, whereby Citigroup acquired a 32.96% shareholding in LQIF at the beginning of the year, and the merger of Banco de Chile and Citibank Chile was successfully carried out. This merger implied a positive impact on Banco de Chile's results, driven by important synergies between both banks.

The group has a long and successful experience in the Chilean financial sector. Noteworthy are: the merger of Banco Santiago with Banco O'Higgins in 1997; the sale of the resultant entity to Banco Santander Central Hispano (BSCH) in 1999; the acquisition of Banco Edwards in 1999 and of Banco de Chile in 2001, which were subsequently merged in 2002; and finally the merger with Citibank Chile effective from January 1, 2008, forming the principal bank with Chilean capital in the country and the first in terms of return on equity.

## 2008 Results

LQIF recorded a net income of Ch$62,615 million in 2008, an increase of 21.0% over the previous year. This increase is mainly due to the higher income from investments in related companies, which reached Ch$110,193 million due to an increased ownership and improved profits of its investment in Banco de Chile. This increase was partially compensated by an increase in the amortization of goodwill amounting to Ch$38,065 million, due to the increase in economic rights in Banco de Chile, from 30.7% in 2007 to 40.4% in 2008. In addition, the merger with Citibank Chile generated an increase in the amortization of intangible assets of Ch$8,899 million resulting from the adjustment to fair value of the assets acquired in said transaction.




LQIF'S STAKE IN BANCO DE CHILE

| As of December 31 | 2008 |
| --- | --- |
| Voting rights | 61.7% |
| Dividend rights | 40.4% |
| % of shares owned | |
| SM Chile | 58.2% |
| Banco de Chile | 32.1% |

# Banco de Chile

Banco de Chile is the principal bank with Chilean capital and the second largest financial institution in the country, with a market share in loans of 19.4%. With more than US$18 billion in deposits, it has an 18.8% market share in demand and time deposits, and close to 570 thousand checking accounts, equivalent to a 25.6% market share, as of November 2008. As of December 2008, its total assets exceeded US$28 billion, and its net equity exceeded the equivalent of US$2 billion.

Banco de Chile has penetrated international markets, its shares being traded on various stock exchanges around the world; particularly noteworthy are the ADS (American Depositary Shares) program on the New York Stock Exchange (NYSE) and its presence on the Madrid and London stock exchanges.

The merger between Banco de Chile and Citibank Chile was completed, becoming effective as of January 1, 2008. In this process, Banco de Chile sold its international branches in the United States to Citibank N.A. and signed a commercial agreement with that institution to provide joint financial services to customers in Chile.

During 2008, Banco de Chile successfully achieved the merger with Citibank Chile, which raised its market share of loans by 1.7%, incorporating more than 50 thousand new customers, especially in multinational companies and consumer banking. The distribution network was also strengthened by more than 100 branches and sales points as of January 2008.

Banco de Chile not only gained in size and market share from the merger. An important contribution was the reinforcement of financial know-how in the treasury, investment banking and private banking areas. At the same time, more sophisticated processes were introduced regarding the compliance and internal audit areas, plus financial and market risk control and management systems.

As a result of the merger, an internal reorganization of the bank was carried out whereby the Large Corporations Division and Finance Division complement each other in providing customer service, coordinating jointly with the International Area and Investment Banking. The Atlas and CrediChile brands, the respective consumer divisions of Citibank Chile and Banco de Chile, were also merged under the CrediChile name.

Banco de Chile is a commercial bank that offers an extensive range of financial products and services to meet the diverse needs of its customers. Operations are organized around six business areas: Large Corporations, Wholesale and Large Businesses, Individuals and Businesses, Treasury, Banco CrediChile, and Capital Markets and Investments. The subsidiaries also provide additional services including securitization, securities trading, mutual funds, insurance, financial advice and factoring.

Banco de Chile has 371 branches throughout the country, 1,584 automated teller machines, and other electronic distribution channels. It also has representative offices and an extensive network

**2008**

net income was the highest in the Bank's history.

**27.4%**

share of aggregate net income of the Chilean financial system in 2008.


of correspondent banks, providing products and services easily and conveniently to its customers around the world, offering the highest standards of quality and competitiveness.

## 2008 Results

Banco de Chile reported a net income of Ch$272,427 million for 2008, the best result in its history. The 3.3% increase over 2007 was achieved despite the impact of the global financial crisis on the results of the last quarter of the year and reflects the successful integration with Citibank Chile, even after considering merger costs, plus organic growth.

Operating revenues rose to Ch$1,097,480 million, a 39.9% increase over the Ch$784,678 million generated in 2007. One of the principal drivers of growth in revenues was the 41.9% increase in net financial income to Ch$813,230 millions, plus an 18% increase in average interest-bearing assets and an improvement in the net financial margin from 4.7% in 2007 to 5.6% in 2008. This margin shows a significant increase as a result of the active management of UF/Ch$ exposures that benefited from the higher inflation in the year, a greater contribution from demand deposits due to higher nominal interest rates, a more favorable financing structure, and an increase in average loan spreads as a result of the incorporation of the Citibank Chile portfolio.

Fee income, which represented 19.7% of operating revenues in 2008, increased by 15.0% to Ch$215,864 million, mainly reflecting higher fee income from the principal banking products like credit cards and checking accounts, plus insurance, advisory services and private banking business.

Other operating income rose from Ch$23,941 million in 2007 to Ch$68,386 million in 2008, mainly the result of non-recurring income from the sale of foreign branches, amounting to Ch$38,459 million, and from the sale of shares in Visa Inc., as a result of its public offering on the NYSE, of approximately Ch$10,352 million.

The provisions for loan losses rose by Ch$81,915 million to Ch$138,593 million in 2008. This pronounced increase is explained by the greater risk profile relating to the individuals segment, reflecting economic deceleration, higher inflation, higher interest rates and an increase in unemployment, added to the expansion of the bank's loan portfolio and, to a lesser extent, the impact of the standardization of credit risk criteria and classifications between the loan portfolios of the merged banks.

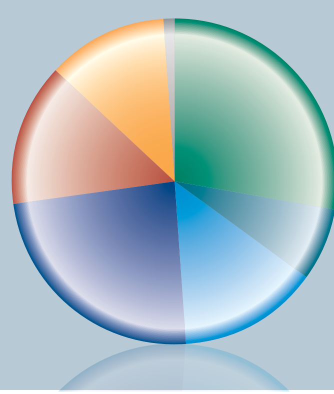
Operating expenses increased by 46.7% to Ch$573,848 million, compared to 2007, mainly due to the incorporation of the cost base of Citibank Chile, organic growth and additional loan provisions of approximately Ch$17,000 million in the fourth quarter of 2008. Non-recurring charges related to the merger, of approximately Ch$44,762 million, and related to the collective bargaining agreement signed in advance, of approximately Ch$13,000 million, also contributed to the increase in operating expenses during the year.

The loss for price-level restatement amounted to Ch$77,789 million, compared to a loss of Ch$41,324 million in 2007, as a result of the increase in net non-monetary liabilities due to the capitalization of the net income for 2007 and the capital increase related to the merger with Citibank Chile and, to a lesser extent, to the higher rate of inflation experienced during the year.

### NET INCOME CONTRIBUTION BY BUSINESS AREA*

2008 Net Income MCh$272,427

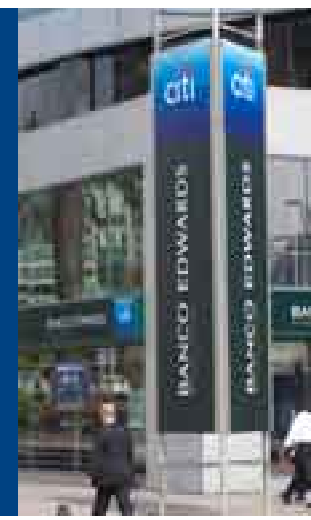
| | |
|---|---|
| Individuals and Small Businesses | 28% |
| Banco CrediChile | 7% |
| Large Companies | 14% |
| Treasury | 24% |
| Public Corporations | 14% |
| Subsidiaries | 12% |
| Investments and Capital Market | 1% |



(*) Before tax

**19.4%**

was the market share of total loans as of December 31, 2008.

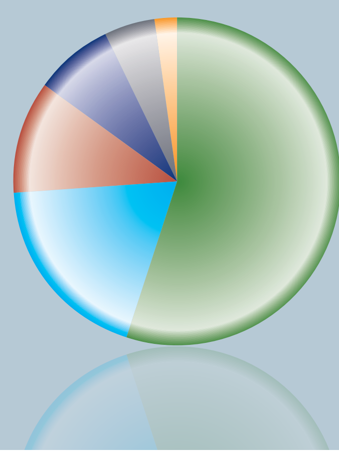


CCU
33.1%



**EBITDA BY SEGMENT**
MCh$176,648 in 2008

| | |
|---|---|
| Beer in Chile | 55% |
| Non-alcoholic beverages | 19% |
| Beer in Argentina | 11% |
| Wine | 8% |
| Spirits | 5% |
| Other | 2% |



Compañía Cervecerías Unidas (CCU) is the largest Chilean brewery and the second in Argentina. CCU's success is based on its tradition of constantly extending its market, maintaining a privileged position thanks to its innovation, anticipation of the requirements and habits of its consumers around the world and, above all, its notable concern for the community. In 2008, CCU won the prize of the Most Socially Responsible Company in Chile, awarded by Capital magazine, which brings it closer to Chilean society that has preferred its products for years.

CCU's business vision is based on three strategic pillars: profitability, growth, and sustainability. It is thanks to these three principles, plus the constant efforts of its employees and the team work focused on a clear target, that important transactions have been carried out in 2008 in the area of wines, beer, water and snacks.

At the end of the year, the merger through absorption of Viña Tarapacá by Viña San Pedro was executed. The resultant synergy and optimization of resources and skills will reinforce CCU in both the domestic and international markets by considerably expanding its portfolio of brands. This opens CCU's doors to a broader wine segment. The new group of vineyards achieved the leadership in Chile in the premium wine category, with a market share of 22.4%. Furthermore, it positioned itself as the second largest exporter, with a 12% share of the total volume exported as of December 2008.

In the beer segment, CCU acquired ICSA in Buenos Aires, Argentina, thus adding Palermo, Bieckert and Imperial brands to its already extensive portfolio, which enabled it to reach a market share in Argentina of over 20%.

products during 2008. These include non-alcoholic drinks such as Kem Light, Propel (a flavored energizing drink), Ice Fruit, Tuti Arándano and Watts Soya. CCU also expanded its range in alcoholic drinks, launching, among others, Sierra Morena Imperial Rum and its new variety of cocktails: Ruta Piña Colada, Campanario Chirimoya Colada, Campanario Melón and Campanario Melón Tuna, which have been very well received by the market.

CCU also launched a new beer, Cristal CERO,0°, which thanks to an elaborated process, maintains the incomparable flavor of Cristal beer but is completely alcohol-free. This new product is related to CCU's

**+ 14.3%**

growth in consolidated sales revenue shows the good performance of the main business segments.

trend toward a more healthy way of life, supporting today's society in the challenges it faces, stimulating responsibility within the community, always concerned to meet the growing needs of its customers.

In August 2008 CCU, through Foods Compañía de Alimentos CCU S.A. ("Foods"), acquired 50% of Alimentos Nutrabien S.A., a company producing high-quality snacks. Thus, Foods has three umbrella brands, Calaf, Natur and Nutrabien, through which it reaches consumers of different income segments with a wide variety of products for all tastes.

CCU's motivation to be constantly innovating and growing together with the desire to meet the needs of all its customers, is evidenced by the launching of new

Along similar lines, CCU joined Nestlé in launching Nestlé Pure Life, the first locally-produced purified water under license from Nestlé, thus reaching a notable place in the market for purified waters, a product of great growth potential in our country and which already has an important captive market on an international scale.

## 2008 Results

During 2008, CCU's principal business segments produced positive results which were reflected in operating income. Consolidated sales rose by 14.3% to Ch$781,789 million, due to a 10.8% increase in volumes and higher average prices. The increase in volumes sold was led by the beer segments in both Argentina and Chile, and the non-alcoholic drinks segment. Growth in Argentina was driven by the acquisition of ICSA.

Operating income rose by 9.7% to Ch$121,066 million in 2008, mainly explained by the increase in sales, although higher direct costs and administrative and selling

### MARKET SHARE

| As of December 31 | 2008 |
|---|---|
| Beer in Chile | 86% |
| Beer in Argentina | 21% |
| Soft drinks | 25% |
| Mineral water | 67% |
| Fruit juice | 56% |
| Pisco | 46% |
| Domestic wine (VSP) | 22% |
| Export wine (VSP)* | 12% |

* as of December includes VT

expenses partially offset this. EBITDA reached Ch$176,648 million, reflecting a 10.5% increase over 2007.

CCU reported a non-operating loss of Ch$21,253 million, compared to a loss of Ch$3,688 million in 2007. This change is mainly due to non-recurring income in 2007 from the association with Nestlé in the water business and, to a lesser degree, a higher net financial expense in 2008 as a result of increased debt.

In 2008, net income for CCU amounted to Ch$82,631 million, 4.2% below the previous year's level, mainly due to the absence of non-recurring profits received in 2007, which partially offset the 9.7% growth in operating income for the year.

# Telefónica del Sur

*Siempre más cerca*

TELSUR
74.4%

Telefónica del Sur is the principal telecommunications company in the south of Chile, providing services from Concepción to Coyhaique, with over 317,000 customers.

An important launching by Telefónica del Sur was the "Uno Móvil" service which incorporates the cellular service to its "Superinalámbrico" product. This service, unique in South America, permits the customer to have two functions in one telephone, by joining the characteristics of the "Superinalámbrico" service with the personal cellular number, whatever the company, just by inserting a chip.


**+31.4%**

**The internet and IP digital television customer base grew by 31.4%, reflecting the change toward integrated services**

During 2008, Telefónica del Sur focused on developing and perfecting the services offered. For this purpose, it made an alliance with Movistar, enabling Telefónica del Sur to rent its networks and antennas in order to commercialize the mobile telephone service throughout Chile under its own name, and offering international roaming as well. Telefónica del Sur is therefore the first Virtual Mobile Operator in the country and in Latin America, and the fourth mobile operator in Chile.

The agreement will allow Telsur customers to use the mobile service in any part of the country, with the possibility of moving about Chile and the world. In this way, Telefónica del Sur is expanding its communications services and strengthening its commercial range.

Throughout 2008, Telefónica del Sur focused on consolidating its wireless digital television service, WiTV, strengthening its triple play offer and reaching more than 13,000 IP digital television customers, with an annual growth of 144%. This system permits a unique interactivity between the customer and the system and merges the functions of the equipment. In addition to the standard paid television services, it provides access to video and music channels directly from the web, and navigation by internet is also available, while part of the programming grid can be seen on your PC, thanks to a growing number of non-codified channels.

The large volume of investments made in 2008 is worthy of notice, particularly in the broadband network and the television service, which accounted for 55% of total investments.

Telefónica del Sur won the FDT "Transmission network project for intermediate localities in the province of Palena" bidding, which accelerates the process to bridge the current digital gap experienced by inhabitants of the remotest parts of the south of Chile, facilitating access to the various telecommunications services.

In support of the inhabitants of Chaitén who were severely affected by the natural disaster of the volcano's eruption, Telefónica del Sur suspended its telephone service charges. It also made available a "Súper Inalámbrico" portable telephone to customers, installed with the same number they had in Chaitén or Futaleufú, so that they could receive calls made to their normal numbers and continue communicated despite being in another town.

## 2008 Results

Telefónica del Sur's revenues were Ch$66,133 million in 2008, slightly higher than the Ch$66,095 million reported in 2007. Sales have remained stable despite a 4% rise in the customer base, because of the migration to aggregated products (triple play) and a highly-competitive industry which has pushed prices downward. Telsur has been competing in the triple play segment since early 2007, strengthening its broadband and IP digital television services, and wireless telephony. Sales from basic and long-distance telephony, on the other hand, have declined due to the substitution by mobile telephony and voice over IP in internet.

IP digital television sales rose by 158.4% to Ch$2,163 million in 2008 representing 3.3% of total sales. This growth was due to an increase in the number of customers from 5,472 in 2007 to 13,343. Internet sales also continued their positive trend, growing by 5.7% in 2008, with a 20.9% rise in the number of customers. During 2008, Telsur doubled, and then tripled, the broadband navigation speed without any additional cost to customers.

Operating income declined by 30.2% to Ch$7,999 million, mainly due to the depreciation of the investments made by Telefónica del Sur in extending its wireless network, in user-end equipment, and re-adjustment of the fiber-optic network and infrastructure for internet and digital television services. Costs also rose following the programming costs of the new IP digital television, a product that is still in its development stage and which has not reached its break-even point, higher international broadband costs due to faster speed and growth in the number of customers and higher energy costs.

Non-operating losses rose from Ch$2,725 million in 2007 to Ch$2,814 million in 2008. This is mainly explained by a greater charge for price-level restatement as a result of the higher inflation during the year, which was partially offset by higher non-operating income and lower financial expenses.

The net income for 2008 was Ch$4,005 million, a fall of 40.8% compared to the Ch$6,764 million reported in 2007. This decrease is attributable to the reduction explained in operating income, plus the larger non-operating loss, partially offset by a reduced tax charge.

# MADECO

MADECO
47.7%

MCh$89,565

reached the profit generated by the sale of the cable unit to Nexans in September 2008

Madeco's activities are managed through three principal businesses: the manufacture of brass mills, flexible packaging, and aluminum and PVC profiles. It has 12 manufacturing plants in Chile, Peru and Argentina. It also has a global presence by exporting a wide variety of products to 20 countries with more than 3,000 large customers.

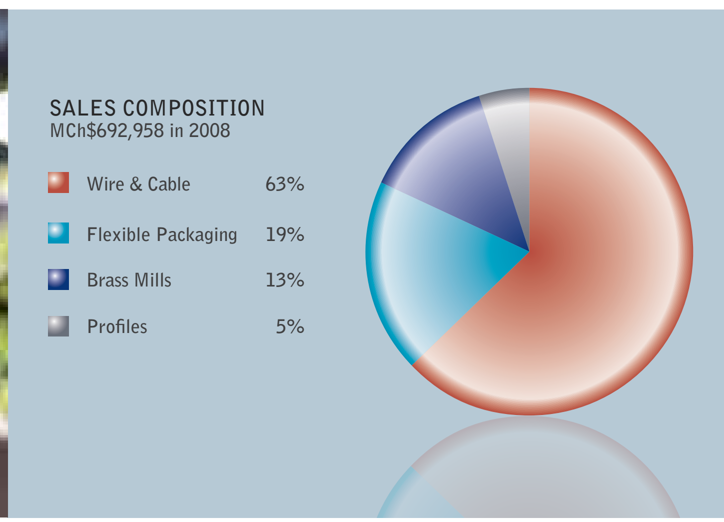
On September 30, 2008, Madeco sold its cable unit to Nexans, the world's largest cable producer, for US$448 million in cash and 2.5 million shares of Nexans. Madeco has thus left the direct production of cables.

Through its shareholding in Nexans, Madeco obtains important benefits such as presence in the cable industry through a world leader, with reduced risks due to the access to product segments of a higher technological level and the replacement of a regional presence by a more diversified global one. Madeco thus became the principal individual shareholder in Nexans and has a seat on its board.

Madeco's profiles business in 2008 incorporated the sale of PVC systems and profiles, broadening this unit's range of products, which were complemented by the incorporation of a subsidiary for assembling PVC windows and doors.

# MADECO

Madeco is determined to continue consolidating the regional leadership of the flexible packaging unit which is showing a strong growth in the region, by using proceeds from the sale of the cable unit. New products are constantly being developed for Madeco's customers, according to their requirements and needs. As a result of its business activities during this year, Madeco aims to achieve operating efficiency in each of its business units, based on synergies between subsidiaries and supported by corporate management policies and practices that generate greater efficiency.




## 2008 Results

Madeco's sales declined slightly, by 0.4% to Ch$692,958 million in 2008, reflecting a 4.6% fall in consolidated sales volumes together with a 4.4% rise in average prices. The reduction in volume is mainly explained by the sale of the cable unit to Nexans at the end of the third quarter of 2008 and a weaker performance in the brass mills unit, partially compensated by larger volumes in the flexible packaging unit. The increase in average prices is attributable to higher copper and aluminum prices in the first three quarters and lower prices obtained by the flexible packaging unit.

Operating income decreased by Ch$3,671 million (8.4%) to Ch$40,014 million, mainly due to the brass mills unit, whose operating income fell by Ch$4,802 million as a result of reduced sales volumes and a sharp fall in the copper price towards the end of the year, which reduced the gross margin. The operating income of the cable unit also fell by 8.1% due to its inclusion only until the third quarter of 2008. The flexible packaging unit, however, showed a 55.0% growth in its operating income, reflecting

## MARKET SHARE

| As of December 31 | 2008 |
|---|---|
| **Brass Mills** | |
| Chile | 57% |
| Argentina | 9% |
| Coin blanks | 14% |
| **Flexible Packaging** | |
| Chile | 32% |
| Argentina | 7% |
| Peru | 59% |
| **Profiles** | |
| Chile (Aluminum) | 61% |
| Chile (PVC) | 11% |

higher sales together with a better gross margin following the cost controls implemented by Management. The reduced consolidated operating performance also affected EBITDA, which declined by 10.3% to Ch$54,599 million.

Madeco reported a non-operating profit of Ch$100,350 million, substantially better than the loss of Ch$17,599 million in 2007. This is mainly attributable to the profit on the sale of the cable unit to Nexans on September 30, 2008, amounting to Ch$89,565 million after taxes. Thus, net income for 2008 of Madeco was Ch$97,184 million, significantly higher than the Ch$21,410 million of the year before.

# Corporate Matters

## DIVIDEND POLICY

The Board of Directors of Quiñenco will propose to the Annual Shareholders' Meeting to be held on April 29, 2009, its agreement to set as the dividend policy for 2009 the distribution of a final dividend in cash of at least 30% of the annual (liquid) net income.

## DIVIDENDS PAID

| DIVIDEND NUMBER | PAYMENT DATE | DIVIDEND PER SHARE* | TOTAL DIVIDEND* | FOR THE YEAR ENDED DECEMBER 31ST |
|---|---|---|---|---|
| N° 17 and 18 | May 10, 2006 | Ch$14.44793 | ThCh$15,600,009 | 2005 |
| N° 19 and 20 | May 9, 2007 | Ch$15.84908 | ThCh$17,112,887 | 2006 |
| N° 21 and 22 | May 8, 2008 | Ch$45.97372 | ThCh$52,620,498 | 2007 |

* Historic figures

## DISTRIBUTION OF EARNINGS OF THE YEAR 2008

The net income for 2008 amounts to ThCh$232,052,031 which the Board has proposed to distribute as follows:

1) Payment of a dividend of ThCh$69,819,244 corresponding to the distribution of 2008 net income as follows:
   a) Payment of a minimum obligatory dividend of ThCh$69,066,948 payable on the date established by the Annual Shareholders' Meeting.
   b) Payment of an additional dividend of ThCh$752,296 payable on the date established by the Annual Shareholders' Meeting.
2) Allocation of ThCh$162,232,787 to increase retained earnings.

It is therefore proposed to distribute as a final dividend 30.09% of the net income for 2008.

| Calculation of Allowable Dividend Distribution | ThCh$ |
|---|---|
| Net Income 2008 | 232,052,031 |
| Allowable distribution of 2008 earnings | 232,052,031 |
| 2008 dividend as a percentage of allowable distribution | 30.09% |
| Amortization of negative goodwill (consolidated)* | (1,828,870) |

* In accordance with SVS Circular No 368, the amortization of negative goodwill does not form part of the net income for the year for the purpose of calculating the obligatory minimum dividend distribution, but may be considered in calculating an additional dividend.

## SHAREHOLDERS

At the closing of 2008, the subscribed and paid-in capital is divided into 1,144,577,775 shares. The twelve largest shareholders as of December 31, 2008 are:

| CORPORATE ID | NAME | SHARES | % |
|---|---|---|---|
| 77.636.320-0 | Andsberg Inversiones Ltda.* | 391,308,877 | 34.19 |
| 59.039.730-k | Ruana Copper A.G. Agencia Chile* | 255,946,677 | 22.36 |
| 78.306.560-6 | Inmobiliaria e Inversiones Río Claro S.A.* | 143,427,860 | 12.53 |
| 96.536.010-7 | Inversiones Consolidadas S.A.* | 129,988,779 | 11.36 |
| 96.904.050-6 | Inversiones Santa Cecilia S.A. | 41,284,659 | 3.61 |
| 76.645.030-k | Banco Itaú | 32,555,800 | 2.84 |
| 96.871.750-2 | Inversiones Salta S.A.* | 19,121,268 | 1.67 |
| 96.894.180-1 | Bancard Inversiones Ltda. | 15,826,815 | 1.38 |
| 96.684.990-8 | Moneda S.A. | 15,154,049 | 1.32 |
| 96.551.730-8 | Bolsa Electrónica de Chile Bolsa de Valores | 14,500,637 | 1.27 |
| 90.249.000-0 | Bolsa de Comercio de Santiago Bolsa de Valores | 10,226,540 | 0.89 |
| 98.001.000-7 | A.F.P. Cuprum | 9,777,888 | 0.85 |
| | **Total** | **1,079,119,849** | **94.27** |

* Companies related to the Luksic Group

OTHER INFORMATION AS OF 12.31.08

| | |
|---|---|
| Number of outstanding shares | 1,144,577,775 |
| Number of shareholders | 1,507 |

Quiñenco is controlled 83.1% by the Luksic Group, through Andsberg Inversiones Ltda., Ruana Copper A.G. Agencia Chile, Inversiones Orengo S.A., Inversiones Consolidadas S.A., Inversiones Salta S.A., Inmobiliaria e Inversiones Río Claro S.A. and Inversiones Río Claro Ltda. The Luksburg Foundation indirectly holds 100% of the corporate rights in Andsberg Inversiones Ltda. and in Ruana Copper A.G. Agencia Chile, and 99.76% of the shares of Inversiones Orengo S.A.

Andrónico Mariano Luksic Craig, and family control 100% of the shares of Inversiones Consolidadas S.A. and Inversiones Salta S.A. Guillermo Antonio Luksic Craig, and family control 100% of the shares of Inmobiliaria e Inversiones Río Claro S.A and Inversiones Río Claro Ltda. There are no formal joint-action agreements between members of the controlling shareholder group.

### SHARE TRANSACTIONS BY CONTROLLING SHAREHOLDERS

The controlling shareholders of the Company did not carry out share transactions during 2008.

### SHARE TRANSACTIONS BY OFFICERS AND EXECUTIVES OF THE COMPANY

The managers and senior executives of the Company did not carry out share transactions during 2008.

## STOCK MARKET INFORMATION

The following table shows quarterly statistics with respect to share transactions on the Santiago Stock Exchange during the last three years:

| Year | Number of Shares | Transaction Amount (*) | Average Price (*) |
|---|---|---|---|
| 2008 | | ThCh$ | Ch$ |
| 1st Quarter | 4,207,315 | 3,970,462 | 943.70 |
| 2nd Quarter | 4,916,500 | 4,935,905 | 1,003.95 |
| 3rd Quarter | 51,988,870 | 52,072,569 | 1,001.61 |
| 4th Quarter | 9,632,806 | 8,583,725 | 891.09 |
| 2007 | | | |
| 1st Quarter | 11,298,641 | 9,245,564 | 818.29 |
| 2nd Quarter | 19,794,194 | 17,412,698 | 879.69 |
| 3rd Quarter | 9,346,635 | 10,640,854 | 1,138.47 |
| 4th Quarter | 10,292,309 | 11,117,592 | 1,080.18 |
| 2006 | | | |
| 1st Quarter | 19,496,830 | 12,356,140 | 633.75 |
| 2nd Quarter | 16,246,819 | 10,172,953 | 626.15 |
| 3rd Quarter | 4,956,082 | 3,071,929 | 619.83 |
| 4th Quarter | 14,135,447 | 10,374,172 | 733.91 |

(*) Historic figures

### Corporate Headquarters

The head office of the Quiñenco group is located in the El Golf sector of Santiago, at 20 Enrique Foster Sur, Las Condes, where it occupies approximately 2,500 square meters of offices, property of Quiñenco.

### Insurance

Quiñenco has insurance policies with first-class insurance companies covering all its relevant assets, buildings, machinery, vehicles, etc. These cover damage through fire, earthquake and other incidents.

### Investment Policy

Most of Quiñenco's resources are directed to companies under its direct control, or indirectly jointly with a strategic partner. This policy does not exclude the possibility of making investments in other companies or taking over businesses related to its own in order to strengthen the group's growth potential.

Quiñenco is constantly seeking investment opportunities in companies oriented to the consumer market with recognized brands and industries in which it has experience. In the past, Quiñenco has formed alliances with strategic partners that bring know-how, financing and experience to their businesses.

### Financing Policy

Quiñenco finances its activities and investments with the dividends and profit distributions of the companies in which it has holdings and with proceeds from the sale of assets and/or the issuance of debt and equity.

The Company prefers long-tem financing in order to maintain a financial structure that is in line with the liquidity of its assets and whose maturities are compatible with its cash-flow generation.

### Risk Factors

Quiñenco and its subsidiary and affiliate companies face risks inherent in the markets and economies in which they operate, in Chile and abroad. These risks are reflected in the prices, costs and sales volumes of the products manufactured and sold, and the services provided.

Quiñenco is exposed to price risk of products mainly related to subsidiaries' inventories.

The Company is predominantly engaged in business in Chile. Its operating results and financial position are therefore to a large degree dependent on the general level of domestic economic activity. While it is estimated that the Chilean economy in 2008 grew by approximately 3.4%, there is no assurance that the economy will continue to grow in the future. The factors that could have an adverse effect on the Company's business and the results of its operations include a future recession in the Chilean economy, a return to high inflation and currency fluctuations.

Apart from its operations in Chile, some of the Company's industrial businesses operate and export to companies which in turn operate in and export to Argentina, Peru and other Latin American countries and the rest of the world, which on various occasions in the past have been known for their volatile economic, political and social conditions, often unfavorable. The business, results and assets of the Company can be seriously and adversely affected by events related to inflation, interest rates, currency fluctuations, government policies, price and wage controls, exchange control regulations, taxes, expropriation, social unrest and other political, economic or diplomatic events that affect the countries where the Company operates.

Quiñenco believes that its businesses face a high level of competition in the industries in which it is involved. This is reflected in the prices, costs and sales volumes of the products and services produced and sold by the businesses of Quiñenco. While the Company expects, based on its experience in the past and its records, that its businesses will be capable of continuing to compete successfully within their respective areas, there is no certainty that the competition will not continue to grow in the future, including a possible continued trend toward consolidation in some industries. Greater competition could affect profit margins and the operating results of Quiñenco's businesses which, as a result, could significantly and adversely affect the flow of dividends that Quiñenco receives from its businesses.

The Company, its subsidiaries and affiliates have historically required significant amounts of capital to finance their operations and expand their businesses, so the management and expansion of their present businesses are directly related to access to capital. In the past, Quiñenco and its subsidiaries have met their capital needs with internally-generated cash flows and/or issuance of debt and capital. However, there is no assurance regarding the availability of capital in the future for the needs and growth expectations of Quiñenco and its subsidiary and affiliate companies. The impossibility of finding capital could put a brake on Quiñenco's capacity to expand its existing businesses and enter additional businesses and could have an important adverse effect on the Company's financial position and results.

As a holding company, the level of Quiñenco's profits and its capacity to meet its debt servicing and dividends depends principally on the receipt of dividends and distributions from its subsidiaries, its equity investments and related companies. The payment of dividends by these subsidiaries, equity investments and related companies is, in certain circumstances, subject to restrictions and contingencies. The level of Quiñenco's profits has also depended on the occasional sale of assets or investments. There is no assurance that Quiñenco will be able to continue to count on the dividends or distributions from subsidiaries and affiliates or generating profits on sales of investments as in the past.

Another risk factor is related to interest rates. Part of the debt of Quiñenco and subsidiaries is at variable interest rates which could negatively impact the Company when these rates rise. There is also a risk with respect to exchange rates as a percentage of the Company's debt or that of its subsidiaries could be exposed to currency fluctuations.

A significant part of the Company's business are publicly-traded companies whose market value can change depending on fluctuations in their share price. The equity value of Quiñenco's investments could be affected by falls in the Chilean and other stock markets like the New York Stock Exchange, where the shares of CCU, Madeco and Banco de Chile are traded. Quiñenco and its businesses could also experience low trading volumes that might negatively affect their share price and liquidity.

In addition, the market value of the Chilean companies is, to a greater or lesser extent, affected by the economic and market conditions in other emerging and developed markets. While the economic conditions in those countries can differ significantly from those in Chile, the reactions of investors to events in any of those countries can have an adverse effect on the market values of Chilean issuers. There can be no assurance that the Chilean stock market will grow or maintain its earnings nor that the market value of the Company's shares will not be adversely affected by events elsewhere.

### Directors' Committee

The members of the Directors' Committee of Quiñenco S.A. are Guillermo Luksic Craig, Gonzalo Menéndez Duque and Matko Koljatic Maroevic, who were appointed as such by the Board of the Company at its meeting of May 5, 2005. The committee is presided over by Gonzalo Menéndez Duque and meets on a monthly basis.

The Chief Executive Officer, Francisco Pérez Mackenna, and the Chief Financial Officer, Luis Fernando Antúnez Bories, have regularly attended these meetings.

All the members of the Directors' Committee are directors related to the controller, in accordance with the provisions of article 50 bis of the Corporations Law N°18,046.

During 2008, the Directors' Committee was informed of the matters set out in Article N°50 bis of the Corporations Law according to a pre-fixed agenda, having carried out the following activities:

1. With respect to the transactions referred to in Articles N°44 and N°89 of the Corporations Law, it examined the details relating to the quotation of financial instruments custody and management services with different banks and issued the pertinent favorable report for contracting Banco de Chile for this purpose.

2. It examined the remuneration system and compensation plans for managers and senior executives.

3. It examined the reports of the external auditors. During 2008, the committee received the report of the external auditors for the year ended December 31, 2007, the balance sheet and other financial statements at that date, presented to it by Management, with respect to which it reported favorably prior to its presentation to the shareholders for approval. The committee also reviewed in 2008 the limited revision report as of June 30, 2008 and the internal control report that the independent auditors sent to Management.

4. The committee proposed to the Board that the external auditors Ernst & Young Limitada be appointed to examine the accounts, inventories, balance sheet and other financial statements of the Company for the year 2008 and express their professional and independent opinion on them. Should no agreement be reached with that firm or it could not provide the services, it proposed Deloitte. Feller-Rate Clasificadores de Riesgo Limitada and Fitch Clasificadores de Riesgo, were proposed as the company's local risk classifiers and Standard & Poor's as its international risk classifier.

### Board Compensation

As agreed at the Company's Annual Shareholders' Meeting, the following was the compensation paid to the directors in 2008 with respect to per diem and profit sharing respectively:

Guillermo Luksic Craig ThCh$7,617 and ThCh$120,313 (ThCh$5,377 and ThCh$42,370 in 2007); Andrónico Luksic Craig ThCh$1,125 and ThCh$120,313 (ThCh$671 and ThCh$42,370 in 2007); Jean-Paul Luksic Fontbona ThCh$1,125 and ThCh$120,313 (ThCh$2,017 and ThCh$42,370 in 2007); Hernán Büchi Buc ThCh$3,359 and ThCh$120,313 (ThCh$3,808 and ThCh$42,370 in 2007); Juan Andrés Fontaine Talavera ThCh$3,809 and ThCh$120,313 (ThCh$3,589 and ThCh$42,370 in 2007);

Gonzalo Menéndez Duque ThCh$3,584 and ThCh$120,313 (ThCh$3,808 and ThCh$42,370 in 2007); and Matko Koljatic Maroevic ThCh$3,359 and ThCh$120,313 (ThCh$3,808 and ThCh$42,370 in 2007). In addition, the directors Guillermo Luksic Craig, Gonzalo Menéndez Duque and Matko Koljatic Maroevic received compensation for their services on the Directors' Committee in 2008 of ThCh$6,406, ThCh$6,406 and ThCh$6,406 (ThCh$6,407, ThCh$6,407 and ThCh$7,478 in 2007), respectively.

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

- In the subsidiary Banco de Chile, per diem and fees respectively: Guillermo Luksic Craig ThCh$13,243 and ThCh$49,108 (ThCh$7,183 and ThCh$49,179 in 2007); Andrónico Luksic Craig ThCh$9,095 and ThCh$147,323 (ThCh$13,354 and ThCh$147,539 in 2007); Gonzalo Menéndez Duque ThCh$143,411 and ThCh$49,108 (ThCh$158,721 and ThCh$49,179 in 2007); Hernán Büchi Buc ThCh$17,795 and ThCh$21,815 (ThCh$49,900 and ThCh$37,184 in 2007); and Juan Andrés Fontaine Talavera ThCh$65,316 and ThCh$37,765 (Th$0 and ThCh$35,284 in 2007).
- In the subsidiary SM Chile, per diem: Andrónico Luksic Craig ThCh$226,175 (ThCh$111,058 in 2007).
- In the subsidiary Madeco S.A., per diem and Directors' Committee respectively: Guillermo Luksic Craig ThCh$69,895 and Th$0 (ThCh$1,459 and ThCh$435 in 2007); Andrónico Luksic Craig ThCh$63,193 and Th$0 (ThCh$407 and Th$0 in 2007); Jean-Paul Luksic Fontbona ThCh$71,019 and Th$0 (ThCh$2,065 and ThCh$653 in 2007) and Hernán Büchi Buc ThCh$76,198 and Th$0 (ThCh$2,252 and ThCh$653 in 2007).
- In the subsidiary Telefónica del Sur S.A., per diem and profit sharing respectively: Guillermo Luksic Craig ThCh$8,141 and ThCh$13,407 (ThCh$9,582 and ThCh$18,170 in 2007) and Gonzalo Menéndez Duque ThCh$11,938 and ThCh$20,111 (ThCh$12,012 and ThCh$31,495 in 2007).
- In the subsidiary Industria Nacional de Alimentos S.A., per diem: Guillermo Luksic Craig Th$0 (ThCh$375 in 2007) and Hernán Büchi Buc Th$0 (ThCh$9,711 in 2007).

## Board of Directors Advisory Expenses

The Board incurred no expenses in 2008 with respect to advisory services.

## Management Compensation

The compensation paid to the Company's managers and main executives in 2008 with respect to salaries and performance bonuses totaled ThCh$3,998,849.

## Incentive Plan

There was no long-term incentive plan for the Company's executives as of December 31, 2008.

## Severance Payments

Severance payments made to the Company's main executives in 2008 totaled ThCh$218,949.

# Summarized Consolidated Financial Statements

As of and for the years ended December 31, 2008 and 2007

(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. |

# Report of Independent Auditors

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

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, 2008 and 2007 and the related consolidated statements of income and cash flows for the years then ended. These financial statements and 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 have not reviewed the financial statements of indirect associates Compañía Cervecerías Unidas S.A. and Foods Compañía de Alimentos CCU S.A. investments recorded in the financial statements by using the equity method. These investments presented total assets for ThCh $178,236,192 and ThCh$154,077,281 as of December 31, 2008 and 2007, respectively, and total net income of ThCh $26,692,030 and ThCh $26,892,217 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. The included Management Discussion and Analysis and Relevant Events are not an integral part of these consolidated financial statements; therefore this report does not include them.

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, 2008 and 2007 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 27 to the consolidated financial statements,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.

5. As described in Note 28, beginning January 1, 2009 the Company will adopt International Financial Reporting Standards (IFRS) as its generally accepted accounting principles.

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, and which include additional information required by the Chilean Superintendency of Securities and Insurance that are not necessary for an adequate understanding of the financial statements.

Arturo Selle S.　　　　ERNST & YOUNG LTDA.

Santiago, Chile
February 23, 2009

# Consolidated Balance Sheets

(Translation of financial statements originally issued in Spanish – See Note 2)

| Assets | As of December 31, 2008 ThCh$ | 2007 ThCh$ |
|---|---|---|
| Current assets | | |
| Cash | 11,351,574 | 12,057,388 |
| Time deposits | 199,270,406 | 163,454,993 |
| Marketable securities, net | 680,301 | 1,131,766 |
| Accounts receivable, net | 55,798,144 | 114,699,500 |
| Notes receivable, net | 15,034,259 | 12,772,500 |
| Other accounts receivable, net | 3,998,399 | 8,048,467 |
| Notes and accounts receivable from related companies | 83,244,374 | 7,392,448 |
| Inventory, net | 58,120,675 | 150,440,072 |
| Recoverable taxes | 5,788,768 | 14,868,873 |
| Prepaid expenses | 1,937,654 | 2,092,514 |
| Deferred taxes | 2,585,986 | 12,819,699 |
| Other current assets | 47,473,656 | 24,718,808 |
| Total current assets | 485,284,196 | 524,497,028 |
| | | |
| Property, plant and equipment | | |
| Land | 15,065,826 | 21,066,189 |
| Buildings and infrastructure | 174,465,961 | 190,705,336 |
| Machinery and equipment | 346,517,574 | 437,150,101 |
| Other property, plant and equipment | 93,413,244 | 90,292,548 |
| Revaluation from technical appraisals | 3,083,645 | 14,070,202 |
| Less: Accumulated depreciation | (346,904,250) | (409,161,102) |
| Property, plant and equipment, net | 285,642,000 | 344,123,274 |
| | | |
| Other assets | | |
| Investments in related companies | 973,302,137 | 711,301,460 |
| Investments in other companies | 153,237,029 | 22,138,089 |
| Goodwill, net | 539,221,309 | 352,093,385 |
| Negative goodwill, net | (17,961,688) | (15,254,214) |
| Long-term accounts receivable | 3,423,544 | 3,373,995 |
| Notes and accounts receivable from related companies | 549,665 | 643,362 |
| Intangible assets | 61,540,633 | 1,687,211 |
| Amortization of intangible assets | (216,404) | (372,422) |
| Other assets | 21,302,055 | 24,791,655 |
| Total other assets | 1,734,398,280 | 1,100,402,521 |
| Total assets | 2,505,324,476 | 1,969,022,823 |

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

# Consolidated Balance Sheets

(Translation of financial statements originally issued in Spanish – See Note 2)

| Liabilities and shareholders' equity | As of December 31, 2008 ThCh$ | 2007 ThCh$ |
|---|---|---|
| Current liabilities | | |
| Current bank obligations | 29,542,328 | 38,254,622 |
| Current portion of long-term bank obligations | 24,274,131 | 55,180,800 |
| Bonds payable - current portion | 56,982,285 | 19,652,055 |
| Other long-term obligations due within one year | 2,186,430 | 2,518,233 |
| Dividends payable | 351,539 | 9,475,952 |
| Accounts payable | 24,799,890 | 38,614,015 |
| Notes payable | 2,880,454 | 3,545,260 |
| Other accounts payable | 1,638,208 | 3,883,308 |
| Notes and accounts payable to related companies | 442,029 | 671,057 |
| Provisions | 16,692,049 | 22,921,865 |
| Withholdings | 2,556,856 | 4,498,726 |
| Income tax | 12,016,568 | - |
| Deferred income | 1,169,023 | 5,433,516 |
| Other current liabilities | 32,107 | 1,418,503 |
| Total current liabilities | 175,563,897 | 206,067,912 |
| Long-term liabilities | | |
| Long-term bank obligations | 70,557,155 | 175,338,853 |
| Bonds payable | 195,625,986 | 264,498,659 |
| Notes payable | 318 | 270 |
| Other accounts payable | 9,765,164 | 9,642,162 |
| Notes and accounts payable to related companies | 8,680,705 | 12,599,878 |
| Provisions | 3,439,939 | 4,281,215 |
| Other long-term liabilities | 1,445,294 | 1,645,396 |
| Total long-term liabilities | 289,514,561 | 468,006,433 |
| Minority interest | 715,637,477 | 210,536,556 |
| Shareholders' equity | | |
| Paid-in capital | 642,057,300 | 642,057,300 |
| Share premium | 13,279,113 | 13,279,113 |
| Other reserves | 87,140,844 | 22,639,702 |
| Retained earnings | 350,079,253 | 291,828,350 |
| Net income | 232,052,031 | 114,607,457 |
| Total shareholders' equity | 1,324,608,541 | 1,084,411,922 |
| Total liabilities and shareholders' equity | 2,505,324,476 | 1,969,022,823 |

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

# Consolidated Statements of Income

(Translation of financial statements originally issued in Spanish – See Note 2)

| | For the years ended December 31 | |
|---|---|---|
| | 2008 ThCh$ | 2007 ThCh$ |
| Operating income | | |
| Revenues | 760,332,764 | 763,135,656 |
| Cost of sales | (657,609,058) | (655,757,464) |
| Gross margin | 102,723,706 | 107,378,192 |
| Administrative expenses | (68,138,246) | (64,209,664) |
| Net operating income | 34,585,460 | 43,168,528 |
| | | |
| Non-operating income and expenses | | |
| Interest income | 10,779,171 | 7,364,098 |
| Equity participation in income of equity-method investments | 139,456,113 | 110,517,976 |
| Other non-operating income | 304,070,914 | 49,368,565 |
| Equity participation in losses of equity-method investments | (736,929) | (3,754,102) |
| Amortization of goodwill | (55,160,594) | (26,462,098) |
| Interest expense | (34,196,153) | (32,133,584) |
| Other non-operating expenses | (43,718,510) | (4,634,926) |
| Price-level restatement, net | (8,028,183) | (6,422,013) |
| Foreign currency translation, net | 3,522,415 | 3,648,134 |
| Net non-operating income | 315,988,244 | 97,492,050 |
| | | |
| Income before income taxes, minority interest and amortization of negative goodwill | 350,573,704 | 140,660,578 |
| Income tax expense | (40,346,506) | (9,540,753) |
| Income before minority interest and amortization of negative goodwill | 310,227,198 | 131,119,825 |
| Minority interest | (80,004,037) | (18,280,634) |
| Income before amortization of negative goodwill | 230,223,161 | 112,839,191 |
| Amortization of negative goodwill | 1,828,870 | 1,768,266 |
| Net income | 232,052,031 | 114,607,457 |

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

# Consolidated Statements of Cash Flows

(Translation of financial statements originally issued in Spanish – See Note 2)

| | For the years ended December 31 | |
|---|---|---|
| | 2008<br>ThCh$ | 2007<br>ThCh$ |
| Cash flows from operating activities | | |
| Collection of accounts receivable | 883,389,978 | 927,644,220 |
| Interest income received | 7,438,655 | 7,866,718 |
| Dividends and other distributions received | 121,033,053 | 59,625,596 |
| Other income received | 27,396,257 | 15,396,098 |
| Payments to suppliers and employees | (810,983,944) | (876,817,126) |
| Interest paid | (25,505,018) | (30,478,739) |
| Income taxes paid | (13,576,810) | (10,003,785) |
| Other operating expenses paid | (5,115,801) | (7,176,433) |
| VAT and other taxes paid | (8,479,987) | (8,182,402) |
| Net cash flow provided by operating activities | 175,596,383 | 77,874,147 |
| Cash flows from financing activities | | |
| Capital increase | 120,199,971 | 80,003,792 |
| Borrowings | 273,303,834 | 288,548,388 |
| Other borrowings from related companies | 524,110 | - |
| Other sources of financing | 101,964 | - |
| Dividends paid | (91,421,049) | (21,866,031) |
| Capital distributions | - | (5,531,911) |
| Repayment of loans | (394,096,733) | (278,565,002) |
| Repayment of bonds | (32,133,361) | (14,045,282) |
| Other amounts used in financing activities | (716,352) | (417,904) |
| Net cash flow provided by (used in) financing activities | (124,237,616) | 48,126,050 |
| Cash flows from investing activities | | |
| Proceeds from sales of property, plant and equipment | 477,050 | 4,765,944 |
| Proceeds from sales of investments in related companies | 195,069,109 | 57,765,476 |
| Collection of specific term loans from related companies | - | 1,039,272 |
| Other income from investments | 224,862,576 | 25,459,022 |
| Additions to property, plant and equipment | (60,178,506) | (59,526,468) |
| Payments of capitalized interest | (253,378) | (195,742) |
| Purchase of investments in related companies | (134,403,211) | (76,133,912) |
| Investments in securities | (128,227,676) | (97,445,842) |
| Other investing activities | (30,024,818) | (282,101) |
| Net cash flow provided by (used in) investing activities | 67,321,146 | (144,554,351) |
| Net cash flow | 118,679,913 | (18,554,154) |
| Effect of price-level restatement on cash and cash equivalents | 9,997,128 | 3,917,448 |
| Net increase (decrease) in cash and cash equivalents | 128,677,041 | (14,636,706) |
| Cash and cash equivalents, beginning of year | 32,793,174 | 47,429,880 |
| Cash and cash equivalents, end of year | 161,470,215 | 32,793,174 |

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

# Consolidated Statements of Cash Flows

(Translation of financial statements originally issued in Spanish – See Note 2)

| | For the years ended December 31 | |
|---|---|---|
| | 2008<br>ThCh$ | 2007<br>ThCh$ |
| Reconciliation between net income and operating cash flows | | |
| Net income | 232,052,031 | 114,607,457 |
| | | |
| Results from sale of assets | | |
| Gain on the sale of property, plant and equipment | (558,415) | (3,789,242) |
| Gain on the sale of investments | (156,380,263) | (40,607,200) |
| Loss on the sale of investments | 376,091 | 36,392 |
| (Gain) loss on sale of other assets | (7,990) | 11,273 |
| | | |
| Charges (credits) to net income which do not represent cash flows | | |
| Depreciation | 35,807,687 | 37,381,841 |
| Amortization of intangible assets | 9,307,514 | 169,024 |
| Write-offs and provisions | 4,546,382 | 3,919,972 |
| Equity participation in income of equity-method investments | (139,456,113) | (110,517,976) |
| Equity participation in losses of equity-method investments | 736,929 | 3,754,102 |
| Amortization of goodwill | 55,160,594 | 26,462,098 |
| Amortization of negative goodwill | (1,828,870) | (1,768,266) |
| Price-level restatement, net | 8,028,183 | 6,422,013 |
| Foreign currency translation, net | (3,522,415) | (3,648,134) |
| Other credits which do not represent cash flows | (139,965,790) | (14,139,661) |
| Other charges which do not represent cash flows | 61,200,464 | 19,754,063 |
| | | |
| Changes in assets affecting cash flows (increase) decrease | | |
| Accounts receivable | (3,115,963) | (4,130,932) |
| Inventory | 2,929,969 | (21,655,305) |
| Other assets | 121,330,510 | 49,112,497 |
| | | |
| Changes in liabilities affecting cash flows increase (decrease) | | |
| Accounts payable related to operating income | 18,666,796 | (4,511,694) |
| Interest payable | 3,048,221 | (766,805) |
| Income taxes payable, net | (2,796,811) | 5,029,333 |
| Other accounts payable related to non-operating income | (7,357,334) | 1,727,413 |
| VAT and other taxes payable | (2,609,061) | (3,258,750) |
| Minority interest | 80,004,037 | 18,280,634 |
| Net cash flows provided by operating activities | 175,596,383 | 77,874,147 |

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

# Summarized Notes to the Consolidated Financial Statements

As of December 31, 2008 and 2007

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

In the opinion of the Company's 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 and repurchase agreements
- Sales with leaseback agreements
- Staff severance indemnities
- Bond and share issuance and placement costs
- Local and foreign currencies
- The environment
- The following notes to the consolidated financial statements of LQ Inversiones Financieras S.A. (LQIF) and its bank subsidiaries:
    - Cash and cash equivalents
    - Transactions with related parties
    - Credits and accounts receivable from customers
    - Other assets
    - Investments in other companies
    - Provisions
    - Trading investments
    - Investment instruments
    - Transactions with derivative instruments
    - Foreign currency balances
    - Contingencies, commitments and other responsibilities
    - Commissions
    - Net income from financial transactions
    - Other operating income
    - Other operating expenses
    - Current and deferred income taxes
    - Other liabilities
    - Directors' expenses and remuneration

### b) Information included in the following notes was summarized:

- Time deposits
- Transactions and balances with related companies
- Investments in related companies
- Goodwill and negative goodwill
- Short-term bank obligations
- Long-term bank obligations
- Changes in shareholders' equity

## NOTE 1 - BUSINESS DESCRIPTION

The Parent Company is registered in the Chilean Securities Registry 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 Registry:

Madeco S.A., Registration No. 251
Empresa El Peñón S.A., Registration No. 78
Compañía Nacional de Teléfonos Telefónica del Sur S.A., Registration No. 167
LQ Inversiones Financieras S.A., Registration No. 730

On December 18, 2007, by Resolution 633 of the SVS, the registration of Industria Nacional de Alimentos S.A. was cancelled in the securities registry, and the company is considered a privately-held corporation as of that date. This company is included in the consolidated financial statements.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Periods covered
These financial statements cover the years ended December 31, 2008 and 2007.

### b) Basis of preparation
These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Chile, as issued by the Chilean Association of Accountants, and the instructions of the SVS (collectively referred to as "Chilean GAAP") which coincide except for investments in its banking subsidiaries and the insurance company subsidiary, which are shown on just one line in the balance sheet at their proportional equity value and thus are not consolidated line by line. This treatment does not change net income for the year or equity. Should there be differences other than that mentioned above, the regulations of the SVS prevail. In addition, the specific provisions affecting corporations contained in Law 18,046 and its regulation have been taken into account.

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

### c) Basis of presentation
The figures of the financial statements of the previous year have been adjusted for inflation for presentation and comparison purposes by the percentage change of 8.9% 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 detailed as follows:

| | Ownership percentage as of December 31, | | | |
|---|---|---|---|---|
| | 2008 | | | 2007 |
| | % Direct | % Indirect | % Total | % Total |
| Excelsa Establishment | 99.9900 | 0.0100 | 100.0000 | 100.0000 |
| VTR S.A. and subsidiaries | 99.9999 | 0.0001 | 100.0000 | 100.0000 |
| Inversiones Río Grande S.A. and subsidiaries | 99.9898 | 0.0102 | 100.0000 | 100.0000 |
| Empresa El Peñón S.A. and subsidiary | 94.9794 | - | 94.9794 | 94.9794 |
| O'Higgins Punta Arenas Ltda. CPA and subsidiary | 75.5579 | - | 75.5579 | 75.5579 |
| LQ Inversiones Financieras S.A. and subsidiary | 43.9796 | 23.0648 | 67.0444 | 100.0000 |
| Madeco S.A. and subsidiaries | 42.5738 | 5.0760 | 47.6498 | 45.1717 |
| Industria Nacional de Alimentos S.A. and subsidiary | 71.9512 | 27.9751 | 99.9263 | 99.5569 |
| VTR II S.A. | - | - | - | 100.0000 |
| VTR III S.A. | - | - | - | 100.0000 |

The accompanying consolidated financial statements include the assets, liabilities and cash flows of the Parent Company Quiñenco S.A., 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 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. (ex Inversiones Río Rimac S.A.), Inversiones Punta Brava S.A. and subsidiary, Merquor Establishment, Lisena Establishment and Inversiones O'Higgins Punta Arenas Ltda.

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

In November 2008, the Parent Company bought 17,288,660 shares in the subsidiary Madeco S.A., increasing its shareholder participation from 45.1717% to 45.4771%. In December 2008, the Parent Company bought 123,000,000 shares in the subsidiary Madeco S.A., increasing its direct and indirect shareholder participation from 45.4771% to 47.6498%. However, in accordance with Technical Bulletin No. 72 of the Chilean Association of Accountants and clause 86 of the Corporations Law 18,046, the Parent Company continues to have control of the subsidiary by maintaining a majority of the Board of Directors, a situation which is not expected to change in the near future. The financial statements of Madeco S.A. and subsidiaries have therefore been included in the consolidated financial statements of the Parent Company.

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. and subsidiaries (Argentina), Indeco S.A. (Peru), Madeco Overseas S.A. (Cayman Islands), and Metal Overseas S.A. and subsidiaries (Cayman Islands). The consolidation in 2007 also included the direct and indirect subsidiaries Madeco Brass Mills S.A. (Chule) and Cedsa S.A. (Colombia).

The subsidiary Madeco S.A. in 2008 carried out a restructuring of the companies that were part of the cables business and which were included in the consolidation as of December 31, 2007. On September 30, 2008, the purchase agreement signed with Nexans on February 2, 2008 was closed, disposing of the holdings in the following subsidiaries that composed the cables business: Cedsa S.A., Ficap S.A., Indelqui S.A., Invercable S.A. and Madeco Cables S.A.

The consolidated financial statements of VTR S.A. include the consolidation of the Parent Company and its subsidiary Compañía Nacional de Teléfonos, and Telefónica del Sur S.A. and subsidiaries.

The consolidated financial statements of the indirect subsidiary CNT Telefónica del Sur S.A. include the financial statements of Compañía de Teléfonos de Coyhaique S.A., Telefónica del Sur Servicios Intermedios S.A., Telefónica del Sur Seguridad S.A., Winet Wireless Networking Ltda. and Blue Two Chile S.A. The indirect subsidiary Compañía de Telecomunicaciones de Llanquihue S.A. merged its assets, liabilities and results in February 2008 with Telefónica del Sur S.A., the successor company.

The consolidated financial statements of Industria Nacional de Alimentos S.A. include the consolidation of the Parent Company and its subsidiary Comercializadora Nacional de Alimentos Ltda.

The consolidated financial statements of LQ Inversiones Financieras S.A. and its subsidiary LQ SM Limitada do not include the consolidation of the financial institutions Banco de Chile and SM Chile S.A., as these financial entities apply different accounting principles than those applied by commercial corporations. The exemption from consolidation was authorized by the SVS in its Official Letter No. 03200 dated May 9, 2002. Note 27 shows the summarized financial statements of LQ Inversiones Financieras S.A. and its banking subsidiaries prepared in accordance with 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 its Official Letter No. 7203 dated November 2, 2000. The summarized financial statements of this indirect subsidiary are shown in Note 10 b).

### e) Price-level restatement

These consolidated financial statements have been restated to reflect the effects of variations in the purchasing power of the Chilean peso during each year. According to current regulations, non-monetary assets and liabilities, and equity accounts have been restated according to changes in the official Chilean consumer price index ("CPI"), which amounted to 8.9% for 2008 (7.4% for 2007).

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

**f) Foreign currency translation**
Assets and liabilities in Unidades de Fomento ("UF") are converted to pesos at Ch$21,452.57 per UF (Ch$19,622.66 per UF in 2007).

Assets and liabilities in United States dollars have been converted using the exchange rate as of December 31, 2008, of Ch$636.45 per US$1.00 (Ch$496.89 per US$1.00 in 2007).

**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 fund quotas. Shares are recorded at the lower of their price-level restated cost and market values as of each year-end. Investments in mutual funds are recorded at their redemption value as of each year-end.

**i) Inventory**
Inventory of finished products, by-products and products being processed is valued at restated cost, which includes indirect manufacturing expenses. Inventory of raw materials, warehoused materials and goods in transit is valued at its restated cost. Inventory does not exceed its market value. Inventory is shown net of allowances for obsolescence.

Inventory with a turnover exceeding one year is shown in Other long-term assets, net of allowances for obsolescence.

**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**
Other current assets mainly include time deposits pledged in guarantee, disposable assets for sale, repurchase agreements and derivative contracts.

**l) Repurchase agreements**
Repurchase agreements correspond to fixed-income instruments acquired under resale agreements and are included in Other current assets. They are stated at cost plus interest and indexation adjustments accrued as of year-end.

**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. The resultant amounts are presented net of allowances for obsolescence.

Property, plant and equipment that will not be used for an indefinite period of time or that are 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, taking into account the incremental value following a technical appraisal made in accordance with SVS Circular 1,529.

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

**o) Leased property, plant and equipment**
Property, plant and equipment acquired under financial leases are shown under 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 or its subsidiaries until the respective purchase option is exercised.

**p) Intangible assets**
These include assets identified in the fair value valuation of the assets and liabilities of Banco Citibank, subsidiary of Citigroup Chile II, at the time of its merger with LQ Inversiones Financieros S.A. The amounts indicated are amortized with a charge to income as a function of the period of return on the investment.

Also included are trademarks that represent an effective service potential for the subsidiaries, which are amortized using the straight-line method based on the period in which they are expected to provide benefits.

### q) Investments in related companies

Investments in related companies are shown at their equity-method value, recording income on an accrued basis and after eliminating any unrealized income on inter-company transactions. Equity movements that do not affect the income of the related companies are shown proportionally as a charge or credit to Other reserves.

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

The investment that Citigroup Chile II had in Banco Citibank as of December 31, 2007 has been valued at its equity value. As of December 31, 2008, this investment forms part of the investment in Banco de Chile.

As of December 31, 2008, the investment that Citigroup Chile II had in Banco Citibank is shown at its equity value. The Company therefore valued the assets and liabilities of Banco Citibank and its respective fair values as follows:

| | Book value ThCh$ | Proportional difference ThCh$ | Adjusted value ThCh$ |
|---|---|---|---|
| Assets | 18,128,462,291 | 60,816,495 | 18,189,278,786 |
| Liabilities and equity | | | |
| Liabilities | 16,860,640,617 | - | 16,860,640,617 |
| Equity | 1,267,821,674 | 60,816,495 | 1,328,638,169 |
| | 18,128,462,291 | 60,816,495 | 18,189,278,786 |

This investment forms part of the investment held in Banco de Chile.

### r) Investments in other companies

The shareholder participation of the subsidiary Madeco S.A. in Nexans S.A. has been shown at restated cost, although the investment has been considered by Madeco S.A. as a permanent investment with the capacity to exercise a significant influence. The valuation of this investment according to the equity value method, using the acquisition method as the basis for adjusting the equity of the acquired company, will apply when there is sufficient information available for applying that mechanism. The first equity valuation will therefore be applied as of March 31, 2009 on the financial statements as of December 31, 2008 of its affiliate Nexans. This criterion was authorized by the SVS by Official Letter 2,953 of February 5, 2009.

Investments in other companies also include investments in listed and unlisted companies in which the Company does not have the power to exercise significant influence, according to the terms set out in Circular 1,697 of the SVS.

Investments in other companies are shown at restated cost.

### s) Goodwill and negative goodwill

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

The goodwill generated by the merger of Citigroup Chile II and the subsidiary LQ Inversiones Financieras S.A. on January 1, 2008 has been determined by considering the fair values of the assets and liabilities of Citigroup Chile II as of December 31, 2007, as described in Technical Bulletin No.72 of the Chilean Association of Accountants.

### t) Financial derivative contracts

The subsidiaries Madeco S.A. and CNT, Telefonía del Sur S.A. have forward currency contracts, interest-rate and commodities swaps to hedge their exchange rate fluctuation and commodity price risks.

Hedging instruments for existing transactions are shown at their market value, and their effects are charged to income if they generate losses or are deferred until the contract expires if they generate gains.

Hedging instruments for expected transactions are shown at their market value and differences are charged or credited to income, as corresponds when the contract expires.

### u) Bonds payable

Bonds payable include bonds that have been issued by the Parent Company and the direct and indirect subsidiaries LQ Inversiones Financieras S.A., Madeco S.A. and Compañia Nacional de Teléfonos, Telefónica del Sur S.A. They are shown at their face value as of each year-end. 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 expense in accordance with 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 give rise to differences between the accounting and tax income, 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) Employee 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 income

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. This is considered to occur when title, risks and compensation of ownership of the products are taken and assumed by the customer.

The telecommunications sector subsidiaries follow a policy of recording revenue when the services are provided. They include, in addition to billed services, an estimate of accrued traffic and services which are not yet billed at the end of each period. This estimate is made on the basis of services effectively provided, valued at the current tariffs in the year the service has been provided, and is shown in Accounts receivable in the balance sheet. The related cost of these services is shown in Cost of sales.

### y) Computer software

Effective 2007, disbursements on computer software are booked at restated cost less accumulated amortization and deterioration. Useful lives have been determined as a function of the term in which the economic benefits are expected to be produced. The period and method of amortization are reviewed annually and any change is treated as a change in an estimate.

Until December 31, 2006, computer software disbursements were shown at their restated cost and amortized over 4 years, in accordance with Circular 981 of the SVS.

### z) Sales transactions 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 will legally belong to the subsidiaries when they exercise the purchase options. The results produced by these transactions are amortized over the useful lives of the respective property, plant and equipment and are shown in Other property, plant and equipment as part of leased assets.

### aa) Vacation provision

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 define Cash and cash equivalents as 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 Statements of Income.

### ac) Accounting estimates

The preparation of the financial statements in accordance with Chilean GAAP requires management to make certain assumptions and estimates that can affect the reported assets and liabilities and any asset or liability contingencies as of year-end, as well as revenue and expenses accounts. The actual results may differ from the estimates.

## NOTE 3 - ACCOUNTING CHANGES

During 2008, there were no accounting changes that would significantly affect the interpretation of these consolidated financial statements.

## NOTE 4 – TIME DEPOSITS

The detail of time deposits as of December 31, is as follows:

| | 2008 ThCh$ | 2007 ThCh$ |
|---|---|---|
| Banco Santander Chile | 53,632,985 | 32,283,561 |
| Banco de Chile | 51,512,049 | 31,450,042 |
| Banco de Crédito e Inversiones | 30,883,847 | - |
| Banco BICE | 25,699,954 | - |
| Banco BBVA | 23,823,148 | 36,558,939 |
| Banco Itaú | 9,275,630 | - |
| Banco Estado de Chile | 2,140,581 | 39,698,867 |
| Banco Scotiabank | 1,908,864 | - |
| Banco Security | 217,755 | 17,750,061 |
| Banco Corpbanca | 175,593 | - |
| Banco Citibank | - | 5,704,938 |
| Deposits in Brazilian banks | - | 8,585 |
| Total | 199,270,406 | 163,454,993 |

# NOTE 5 - BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

## a) Notes and accounts receivable from related companies:

| | Short-term | | Long-term | |
|---|---|---|---|---|
| | As of December 31, | | As of December 31, | |
| Company | 2008 ThCh$ | 2007 ThCh$ | 2008 ThCh$ | 2007 ThCh$ |
| Banco de Chile | 61,228,978 | - | - | - |
| SM Chile S.A. | 16,551,812 | - | - | - |
| Inversiones y Rentas S.A. | 4,947,827 | 5,388,184 | - | - |
| Sodimac S.A. | 237,872 | 1,404,871 | - | - |
| Minera Los Pelambres S.A. | - | 280,770 | - | - |
| Embotelladoras Chilenas Unidas S.A. | 131,124 | 150,460 | - | - |
| Aguas CCU Nestlé S.A. | 66,980 | - | - | - |
| Cía. Inversiones Adriático S.A. | 49,262 | 56,998 | - | 94,948 |
| Ferrocarrill Antofagasta Bolivia | 10,604 | - | - | - |
| Foods Cía. de Alimentos CCU S.A. | - | 45,032 | - | - |
| Indalsa Perú S.A. | - | 32,425 | - | - |
| Minera El Tesoro | 8,661 | 5,361 | - | - |
| Transporte y Servicios Aéreos S.A. | 6,116 | 9,197 | 549,665 | 547,525 |
| Cobrecón S.A. | - | 8,928 | - | - |
| Colada Continua S.A. | - | 4,895 | - | - |
| Minera Michilla S.A. | - | 2,699 | - | - |
| Cervecera CCU Chile Ltda. | - | 120 | - | - |
| Other | 5,138 | 2,508 | - | 889 |
| Total | 83,244,374 | 7,392,448 | 549,665 | 643,362 |

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

| | Short-term | |
|---|---|---|
| | As of December 31, | |
| Company | 2008 ThCh$ | 2007 ThCh$ |
| Colada Continua Chilena S.A. | - | 450,131 |
| Minera Michilla S.A. | 434,961 | 111,074 |
| Cobrecón S.A. | - | 33,894 |
| Sodimac S.A. | - | 63,273 |
| Embotelladoras Chilenas Unidas S.A. | 119 | 1,573 |
| Other | 6,949 | 11,112 |
| Total | 442,029 | 671,057 |

## c) Significant transactions with related companies:

| | | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|
| 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 income | 1,222,726 | 1,222,726 | 967,536 | 967,536 |
| Aguas CCU Nestlé Chile | Common shareholders | Sales | 282,060 | 237,025 | - | - |
| Cobrecón S.A. | Affiliate | Production service | 704,588 | - | 943,067 | - |
| Colada Continua Chilena S.A. | Affiliate | Production service | 702,364 | - | 2,010,719 | - |
| Colada Continua Chilena S.A. | Affiliate | Sales | 106,238 | 89,276 | 192,109 | 161,436 |
| Embotelladoras Chilenas Unidas S.A. | Affiliate | Sale of products | 849,688 | 714,024 | 1,021,441 | 858,353 |
| Minera Los Pelambres S.A. | Common shareholders | Sales of cables | 276,857 | 232,653 | 497,191 | 417,806 |
| Minera Michilla S.A. | Common shareholders | Purchase of raw materials | 3,441,260 | - | 1,081,647 | - |
| Sodimac S.A. | Director in common | Sales | 6,113,928 | 5,137,755 | 7,369,065 | 6,192,492 |
| Sodimac S.A. | Director in common | Purchases | 75,964 | - | 286,748 | - |

The Parent Company and its subsidiaries have accounts, temporary investments and financial obligations with Banco de Chile. The rights and obligations with this institution have been shown under different headings in the financial statements, taking into account the nature of the balance and not its position as being related, in order not to distort financial analysis.

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

The Company has rights with its affiliate Inversiones y Rentas S.A. for dividends, which has been stated as accounts receivable due to its related nature.

As a result of new regulations published by the SBIF, the indirect subsidiaries Banco de Chile and SM Chile S.A. have partially adopted International Financial Reporting Standards (IFRS) by recording the account "Provision for minimum dividends", relating to dividends it intends to distribute in March 2009, determined on the basis of the net income for 2008. These dividends are classified as short-term accounts receivable.

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

## NOTE 6 – INVENTORY

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

| | 2008 ThCh$ | 2007 ThCh$ |
|---|---|---|
| Raw materials | 19,312,592 | 36,652,385 |
| Finished products | 10,781,533 | 48,672,000 |
| Supplies | 7,524,693 | 11,969,186 |
| Merchandise | 7,129,264 | 7,263,485 |
| Work-in-process | 6,980,667 | 26,171,706 |
| Merchandise in transit | 6,361,649 | 19,630,416 |
| Materials and packaging | 30,277 | 80,894 |
| Total | 58,120,675 | 150,440,072 |

Inventory is shown net of an allowance for obsolescence amounting to ThCh$1,550,668 and ThCh$2,763,392 in 2008 and 2007 respectively.

## NOTE 7 - CURRENT AND DEFERRED INCOME TAXES

### a) Income taxes

For the year ended December 31, 2008, the Parent Company had accumulated tax losses of ThCh$1,121,288 (ThCh$3,910,058 in 2007) and has made no current provision for income taxes.

Composition of tax expense:

| | Year ended December 31, | |
|---|---|---|
| | 2008 ThCh$ | 2007 ThCh$ |
| Current tax expense (provision for tax) | (31,945,232) | (11,777,866) |
| Tax expense adjustment from previous year's provision | (2,546,780) | 168,294 |
| Deferred income taxes | 1,420,627 | (1,540,228) |
| Tax benefit of tax losses | (2,387,257) | (2,117,068) |
| Amortization of complementary accounts | (1,230,588) | (523,520) |
| Deferred tax assets and liabilities arising from changes in valuation provision | (4,413,975) | 4,313,864 |
| Other | 756,699 | 1,935,771 |
| Total | (40,346,506) | (9,540,753) |

b) The detail of undistributed retained earnings for tax purposes of the Parent Company as of December 31, 2008, is as follows:

| | ThCh$ |
|---|---|
| Earnings with 15% credit, origin 1999 | 36,227,341 |
| Earnings with 15% credit, origin 2000 | 70,350,445 |
| Earnings without credit, origin 2000 | 11,540,184 |
| Earnings with 15% credit, origin 2001 | 13,701,159 |
| Earnings without credit, origin 2001 | 3,202,425 |
| Earnings without credit, origin 2002 | 5,215,957 |
| Earnings with 15% credit, origin 2002 | 2,800,996 |
| Earnings with 15% credit, origin 2003 | 8,220,438 |
| Earnings without credit, origin 2003 | 33,879,880 |
| Earnings with 10% credit, origin 2003 | 10 |
| Earnings with 16% credit, origin 2003 | 8,315,531 |
| Earnings with 16.5% credit, origin 2003 | 11,625,950 |
| Earnings with 15% credit, origin 2004 | 9,442 |
| Earnings with 16% credit, origin 2004 | 4,540 |
| Earnings with 16.5% credit, origin 2004 | 2,743 |
| Earnings without credit, origin 2004 | 9,916,646 |
| Earnings without credit, origin 2005 | 10,125,633 |
| Earnings with 15% credit, origin 2005 | 3,437,333 |
| Earnings with 16% credit, origin 2005 | 198 |
| Earnings with 16.5% credit, origin 2005 | 17,337 |
| Earnings with 17% credit, origin 2005 | 2,027 |
| Earnings with 17% credit, origin 2006 | 6,273,608 |
| Earnings with 16.5% credit, origin 2006 | 152,450 |
| Earnings with 16% credit, origin 2006 | 5,747,051 |
| Earnings with 15% credit, origin 2006 | 353,330 |
| Earnings without credit, origin 2006 | 1,665,933 |
| Exempt earnings without credit | 3,820,656 |
| Non-income earnings | 185,080,368 |
| Exempt earnings with 10% credit | 1,962,716 |

## c) Tax obligations

The detail of taxes recorded by the Parent Company and its subsidiaries is as follows:

| | As of December 31, | |
|---|---|---|
| | 2008<br>ThCh$ | 2007<br>ThCh$ |
| First category income tax | (31,683,777) | (11,703,602) |
| First category income tax, previous year | (520,710) | - |
| Additional income tax | (261,455) | (74,264) |
| Additional income tax, previous year | (14,891) | (2,004) |
| Sub total | (32,480,833) | (11,779,870) |
| Monthly income tax installments | 7,541,670 | 10,008,241 |
| Other tax credits | 12,922,595 | 6,189,647 |
| Total taxes (payable) recoverable | (12,016,568) | 4,418,018 |

## d) Recoverable taxes

The detail of recoverable taxes as of December 31 of each year is as follows:

| | 2008<br>ThCh$ | 2007<br>ThCh$ |
|---|---|---|
| Income tax recoverable | - | 4,418,018 |
| Balance of VAT fiscal credit | 4,382,465 | 8,377,033 |
| Other taxes recoverable | 1,406,303 | 2,073,822 |
| Total recoverable taxes | 5,788,768 | 14,868,873 |

e) Composition of deferred income taxes:

| | As of December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | | | | 2007 | | | |
| | Deferred tax asset | | Deferred tax liability | | Deferred tax asset | | Deferred tax liability | |
| Description | Short-term ThCh$ | Long-term ThCh$ | Short-term ThCh$ | Long-term ThCh$ | Short-term ThCh$ | Long-term ThCh$ | Short-term ThCh$ | Long-term ThCh$ |
| Temporary differences | | | | | | | | |
| Allowance for doubtful accounts | 1,662,313 | 3,617 | - | - | 2,429,570 | 3,370 | - | - |
| Deferred income | 64,974 | - | - | - | 115,828 | - | - | - |
| Vacation provision | 345,267 | - | - | - | 513,064 | - | - | - |
| Amortization intangible assets | - | - | - | - | - | - | - | - |
| Leased property, plant and equipment | 120,810 | 196,573 | 742 | 5,174,729 | 154,553 | 418,593 | 111,314 | 5,116,539 |
| Manufacturing expenses | - | - | 582,163 | - | - | - | 542,708 | - |
| Depreciation of property, plant and equipment | - | - | 50,654 | 16,944,731 | - | 2,547 | 52,893 | 21,076,345 |
| Severance indemnities | - | - | - | 573,447 | - | - | - | 722,298 |
| Other events | 219,460 | 2,644,924 | 164,768 | 763,154 | 268,016 | 3,199,442 | 180,707 | 982,803 |
| Miscellaneous provisions | 894,090 | 111,018 | - | - | 1,877,814 | 98,683 | - | - |
| Accumulated tax losses | 1,124,312 | 34,060,730 | - | - | 8,130,551 | 39,329,472 | - | - |
| Allowance for disposable property, plant and equipment | 16,100 | - | - | - | 21,246 | 25,572 | - | - |
| Allowance for value of investment in Brazil | - | - | - | - | 2,077,644 | 4,033,074 | - | - |
| Allowance for obsolescence | 470,794 | 18,737 | - | - | 714,608 | 20,602 | - | - |
| Allowance for long-term assets | 84,614 | 413,428 | - | - | 78,861 | 383,695 | - | - |
| Allowance for property, plant and equipment | 42,079 | 478,539 | - | - | 535,155 | 507,704 | - | - |
| Complementary accounts, net of amortization | (3,722) | (1,751,051) | - | (8,362,109) | (9,454) | (1,913,329) | - | (11,092,091) |
| Valuation provision | (1,656,778) | (24,522,502) | - | - | (3,200,135) | (33,584,746) | - | |
| Total | 3,384,313 | 11,654,013 | 798,327 | 15,093,952 | 13,707,321 | 12,524,679 | 887,622 | 16,805,894 |

## NOTE 8 - OTHER CURRENT ASSETS

The following is a detail of other current assets:

| | As of December 31, | |
|---|---|---|
| | 2008 ThCh$ | 2007 ThCh$ |
| Guarantees with third parties | 23,662,964 | 172,329 |
| Repurchase agreements | 17,232,278 | 19,527,180 |
| Disposable assets held for sale, net | 5,156,194 | 2,565,430 |
| Copper hedging contracts at fair value | 875,377 | 1,882,518 |
| Other | 546,843 | 571,351 |
| Total | 47,473,656 | 24,718,808 |

## NOTE 9 -PROPERTY, PLANT AND EQUIPMENT

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

| | As of December 31, 2008 ThCh$ | As of December 31, 2007 ThCh$ |
|---|---|---|
| Accumulated depreciation | | |
| Buildings and infrastructure | 80,726,715 | 84,167,015 |
| Machinery and equipment | 233,604,781 | 285,078,077 |
| Other property, plant and equipment | 31,491,916 | 33,900,444 |
| Revaluation from technical appraisals | 1,080,838 | 6,015,566 |
| | 346,904,250 | 409,161,102 |
| Depreciation | | |
| Cost of sales | 29,937,867 | 34,448,115 |
| Administrative and selling expenses | 2,663,888 | 2,933,726 |
| | 32,601,755 | 37,381,841 |
| Other non-operating expenses | 43,628 | 587,115 |
| | 32,645,383 | 37,968,956 |
| Other property, plant and equipment | | |
| Leased assets | 27,714,428 | 32,173,145 |
| Construction in progress | 30,828,670 | 21,707,514 |
| Computer software | 8,924,408 | 7,785,621 |
| Office machines | 4,660,571 | 7,718,507 |
| Furniture and fittings | 8,401,521 | 7,556,526 |
| Tools and other | 3,549,401 | 3,789,868 |
| Computer equipment | 459,679 | 438,353 |
| Other | 8,874,566 | 9,123,014 |
| | 93,413,244 | 90,292,548 |
| Technical appraisals | | |
| Land | 1,486,936 | 3,386,781 |
| Buildings and infrastructure | 1,596,709 | 8,701,597 |
| Machinery and equipment | - | 1,981,824 |
| | 3,083,645 | 14,070,202 |
| Depreciation related to revaluation from technical appraisals | | |
| Accumulated depreciation | 10,993 | 5,540,603 |
| Depreciation for the year | 1,069,845 | 474,963 |
| | 1,080,838 | 6,015,566 |

## NOTE 10 - INVESTMENTS IN RELATED COMPANIES

The detail of investments in related companies as of December 31, 2008, is as follows:

| Company | Country | Ownership percentage | Shareholders' equity of company | Net income (loss) | Equity of company at fair value | Net income for the year at fair value | Participation in net income (loss) | Equity method value | Book value |
|---|---|---|---|---|---|---|---|---|---|
| | | % | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ |
| Banco de Chile | Chile | 32.10785 | 1,297,736,136 | 272,425,498 | 1,328,638,169 | 282,603,423 | 87,469,968 | 416,675,161 | 416,675,161 |
| SM Chile Serie A | Chile | 3.11018 | 623,634,713 | 39,290,120 | - | - | - | 19,064,264 | 19,064,264 |
| SM Chile Serie B | Chile | 53.28791 | 623,634,713 | 39,290,120 | - | - | 21,964,136 | 332,600,880 | 332,600,880 |
| SM Chile Serie D | Chile | 1.84013 | 623,634,713 | 39,290,120 | - | - | 758,462 | 11,485,323 | 11,485,323 |
| Inversiones y Rentas S.A. | Chile | 50.00000 | 322,343,712 | 51,264,693 | - | - | 25,632,347 | 161,171,856 | 161,171,856 |
| Habitaria S.A. | Chile | 50.00000 | 1,344,915 | (38,652) | - | - | (19,326) | 672,457 | 672,457 |
| Jardín de las Ursulinas S.A. | Chile | 50.00000 | - | - | - | - | (53) | - | - |
| Colada Continua Chilena S.A. | Chile | - | - | 1,286 | - | - | 527 | - | - |
| Cobrecón Perú S.A. | Peru | - | - | (3,273) | - | - | (1,091) | - | - |
| Inversiones Alusa S.A. | Chile | 0.01000 | 813,541 | 82,762 | - | - | - | - | - |
| Inmobiliaria Del Norte y El Rosal S.A. | Chile | 50.00000 | 67,631 | (12,969) | - | - | (6,485) | 33,815 | 33,815 |
| Banchile Seguros de Vida S.A. | Chile | 99.90000 | 17,586,409 | 3,634,308 | - | - | 3,630,673 | 17,568,822 | 17,568,822 |
| Transporte y Servicios Aéreos S.A. | Chile | 50.00000 | 1,009,357 | (150,949) | - | - | (75,475) | 504,678 | 504,678 |
| Foods Cía. de Alimentos CCU S.A. | Chile | 50.00000 | 27,049,762 | (1,206,047) | - | - | (603,023) | 13,524,881 | 13,524,881 |
| Inversiones Punta Lobos S.A. | Peru | - | - | (4,322) | - | - | (4,297) | - | - |
| Indalsa Perú S.A. | Peru | - | - | (27,330) | - | - | (27,179) | - | - |
| Total | | | | | | | | 973,302,137 | 973,302,137 |

The detail of investments in related companies as of December 31, 2007, is as follows:

| Company | Country | Ownership percentage | Shareholders' equity of company | Net income (loss) | Participation in net income (loss) | Equity method value | Book value |
|---|---|---|---|---|---|---|---|
| | | % | ThCh$ | ThCh$ | ThCh$ | ThCh$ | ThCh$ |
| Banco de Chile | Chile | 22.32028 | 1,144,966,571 | 263,851,297 | 57,582,820 | 255,559,744 | 255,559,744 |
| SM Chile Serie A | Chile | 3.11018 | 541,755,172 | 42,635,499 | - | 15,523,504 | 15,523,504 |
| SM Chile Serie B | Chile | 47.87739 | 541,755,172 | 42,635,499 | 21,414,318 | 260,379,768 | 260,379,768 |
| SM Chile Serie D | Chile | 1.84013 | 541,755,172 | 42,635,499 | 823,036 | 10,007,478 | 10,007,478 |
| Inversiones y Rentas S.A. | Chile | 50.00000 | 279,392,830 | 53,807,434 | 26,903,717 | 139,696,416 | 139,696,416 |
| Habitaria S.A. | Chile | 50.00000 | 2,777,655 | (27,209) | (13,605) | 1,388,828 | 1,388,828 |
| Jardín de las Ursulinas S.A. | Chile | 50.00000 | 279,392,830 | 53,807,434 | 26,903,717 | 139,696,416 | 139,696,416 |
| Colada Continua Chilena S.A. | Chile | 41.00000 | 4,179,512 | (135,022) | (55,359) | 1,713,599 | 1,713,599 |
| Cobrecón Perú S.A. | Peru | 33.33333 | 2,008,077 | (17,364) | (5,788) | 669,358 | 669,358 |
| Inversiones Alusa S.A. | Chile | 0.01000 | 654,745 | (39,008) | - | - | - |
| Inmobiliaria Del Norte y El Rosal S.A. | Chile | 50.00000 | 80,600 | 9,829 | 4,914 | 40,300 | 40,300 |
| Banchile Seguros de Vida S.A. | Chile | 99.90000 | 13,952,101 | 3,583,338 | 3,579,757 | 13,938,149 | 13,938,149 |
| Transporte y Servicios Aéreos S.A. | Chile | 50.00000 | 1,160,307 | (453,157) | (226,580) | 580,153 | 580,153 |
| Foods Cía. de Alimentos CCU S.A. | Chile | 50.00000 | 17,494,564 | (3,046,825) | (1,523,413) | 8,747,283 | 8,747,283 |
| Inversiones Punta Lobos S.A. | Peru | 99.42000 | 2,213,413 | (1,845,609) | (1,834,904) | 2,200,576 | 2,200,576 |
| Indalsa Perú S.A. | Peru | 99.44500 | 165,432 | 210,606 | 209,414 | 164,521 | 164,521 |
| Total | | | | | | 711,301,460 | 711,301,460 |

a) Investments in Banco de Chile and SM Chile S.A.:

The indirect shareholding of Quiñenco S.A. in the merged Banco de Chile, through its subsidiary LQ Inversiones Financieras S.A., is detailed as follows:

1. Shares held:

The Company's ownership of shares of SM Chile S.A. and Banco de Chile as of December 31 of each year is detailed as follows:

| | Issued shares | | Shares held by LQ Inversiones Financieras | | Ownership Percentage of SM Chile S.A. | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| SM Chile S.A. (Series A) | 567,712,826 | 567,712,826 | 377,528,973 | 377,528,973 | 3.11% | 3.11% |
| SM Chile S.A. (Series B) | 11,000,000,000 | 11,000,000,000 | 6,468,355,155 | 5,811,598,701 | 53.29% | 47.88% |
| SM Chile S.A. (Series D) | 429,418,369 | 429,418,369 | 223,364,308 | 223,364,308 | 1.84% | 1.84% |
| SM Chile S.A. (Series E) | 141,373,600 | 141,373,600 | - | - | - | - |
| Total | 12,138,504,795 | 12,138,504,795 | 7,069,248,436 | 6,412,491,982 | 58.24% | 52.83% |

| | Issued shares | | Shares held by LQ Inversiones Financieras | | Ownership Percentage of Banco de Chile | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Banco de Chile | 80,879,895,984 | 71,996,083,216 | 25,968,794,876 | 16,069,727,378 | 32.11% | 22.32% |

2. Equity participation in 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 holders of the Series B, D and E shares.

The accrued net income for any year is therefore shown in the Parent Company's financial statements based on the percentage of dividend rights associated with the shares held.

3. Voting rights in Banco de Chile:

The voting rights in Banco de Chile corresponding to the 40,732 million shares held by SM Chile S.A. and SAOS S.A. are exercised by the shareholders of SM Chile S.A. who attend the Bank's shareholders' meetings. The rights corresponding to the shares owned by SM Chile S.A. are exercised proportionally through shareholders of all of the series (Series A, B, D and E). The 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:

| | Number of votes in Banco de Chile (millions) | Participation of LQIF in each series | Number of votes for LQIF | LQIF voting rights | |
|---|---|---|---|---|---|
| | | | As of December 31, | | |
| Shares | 2008 | 2008 | 2008 | 2008 | 2007 |
| Owned by SM Chile S.A. and SAOS S.A. | | | | | |
| SM Chile S.A. (Series A) | 1,921 | 66.50% | 1,277 | 1.58% | 1.78% |
| SM Chile S.A. (Series B) | 37,217 | 58.80% | 21,885 | 27.06% | 27.31% |
| SM Chile S.A. (Series D) | 1,453 | 52.02% | 756 | 0.93% | 1.05% |
| SM Chile S.A. (Series E) | 141 | - | - | - | - |
| Subtotal | 40,732 | | 23,918 | 29.57% | 30.14% |
| Held by other shareholders | 40,148 | | 25,969 | 32.11% | 22.32% |
| Total | 80,880 | | | | |
| Total voting rights in Banco de Chile | | | | 61.68% | 52.46% |

4. Dividend rights in Banco de Chile:

As of December 31 of each year, the dividend distribution rights in Banco de Chile are as follows:

| | Dividend distribution rights | | % corresponding to LQIF's ownership interest | |
|---|---|---|---|---|
| | As of December 31, | | | |
| Series | 2008 | 2007 | 2008 | 2007 |
| SM Chile S.A. (Series A) (*) | - | - | - | - |
| SM Chile S.A. (Series B) (**) | 13.60% | 15.28% | 8.00% | 8.07% |
| SM Chile S.A. (Series D) | 0.53% | 0.60% | 0.28% | 0.31% |
| SM Chile S.A. (Series E) | 0.17% | 0.20% | - | - |
| SAOS S.A. | 36.06% | 40.50% | N/A | N/A |
| Banco de Chile | 49.64% | 43.42% | 32.11% | 22.32% |
| Total | 100.00% | 100.00% | 40.39% | 30.70% |

(*) Indirectly through the subsidiary LQ SM Ltda.
(**) Directly by LQIF and indirectly through the subsidiary LQ SM Ltda.

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 with respect to 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 its previous year's earnings as a dividend each year before the end of April. For the year ended December 31, 2007, the Board of Banco de Chile agreed to distribute 100% of its net income. This decision was ratified by the shareholders at the meeting held on March 27, 2008.

In March 2008, LQ Inversiones Financieras S.A. thus received the sum of ThCh$96,666,439 (historic pesos).

5. Capitalization of Banco de Chile earnings

On March 22, 2007, at an Extraordinary Shareholders' Meeting of the subsidiary Banco de Chile, shareholders agreed to increase the bank's capital through the capitalization of 30% of 2006 net income by issuing bonus shares of no par value. On March 26, 2007, the Central Bank of Chile, as lender of the subordinated debt, communicated its decision to opt for payment in cash of its share of the net income.

The amount capitalized by the subsidiary Banco de Chile amounted to ThCh$33,832,753 (historic pesos), through the issuance and distribution of 882,459,200 shares on the basis of 0.02213 bonus shares for each share held in Banco de Chile. Following the capital increase, Banco de Chile's paid-in shares of no par value amounted to 69,920,023,865 shares.

As a result, the Company has recorded a proportional increase in its holding of Banco de Chile, triggered by the option taken by the Central Bank of Chile not to receive its proportion of 2006 net income in the form of shares, but in cash. This implied an increased shareholding, from 20.71% to 21.09%. The bonus shares were issued at Ch$38.34 per share and, due to the increase in the percentage shareholding, goodwill amounting to ThCh$7,598,908 (historic pesos) was generated.

6. Capital increase of Banco de Chile

On May 17, 2007, at an Extraordinary Shareholders' Meeting of the subsidiary Banco de Chile, shareholders agreed to increase capital by Ch$ 110 billion through the issuance of 2,516,010,979 shares of no par value for payment. The SBIF approved the capital increase on June 1, 2007 and registered the issuance in the securities register. The term for the issue, subscription and payment of these shares is 3 years beginning May 17, 2007. As of March 31, 2008, Quiñenco S.A. and LQIF have subscribed and paid 1,311,422,702 shares, generating goodwill of Ch$25,897,144 (historic pesos).

On December 27, 2007, at an Extraordinary Shareholders' Meeting of the subsidiary Banco de Chile, shareholders agreed to increase capital by Ch$ 297,325 million through the issuance of 8,443,861,140 shares of no par value, series "Banco Chile-S", which were distributed among the shareholders of the absorbed company Citibank Chile. At a meeting of the board of Banco de Chile held on January 24, 2008, the issuance of 8,443,861,140 shares of the series "Banco Chile-S" was approved.

The exchange of Citibank Chile shares for the new series "Banco Chile-S" shares was made on February 13, 2008. This resulted in LQ Inversiones Financieras S.A. booking goodwill of ThCh$142,242,058 (historic pesos).

7. Merger of Citigroup Chile II with LQ Inversiones Financieras S.A.

On December 27, 2007, at an Extraordinary Shareholders' Meeting of the subsidiary LQ Inversiones Financieras S.A. shareholders approved the merger by absorption of Citigroup Chile II in LQ Inversiones Financieras S.A. As a result, the subsidiary LQ Inversiones Financieras S.A. issued 220,558,398 shares for an amount of ThCh$315,556,286 (historic pesos) which were paid for by the company itself , thus dissolving Citigroup Chile II as a matter of law. In valuing this transaction, the fair value of the assets and liabilities of Citigroup Chile II as of December 31, 2007 was considered. This has generated goodwill of ThCh$487,513,402 (historic pesos), being the difference between that agreed upon by the parties in valuing Citigroup Chile II S.A. and the book value of the assets and liabilities.

The result of the valuation of the assets and liabilities at fair value led to the recording of the following intangible assets:

| | ThCh$ |
|---|---|
| Asset Difference | 10,355,010 |
| Core Deposits | 24,891,025 |
| Atlas Customers | 13,744,014 |
| Credit Card Customers | 2,543,003 |
| Atlas Brand | 1,299,001 |
| Contract for use of Citibank brand | 16,883,017 |
| | 69,715,070 |

These assets are amortized according to the term of reversal of the principal assets or the period of return of the investment.

The above has resulted in the generation of an un-assigned balance of goodwill of ThCh$25,587,025 which is being amortized according to the period of return of the investment, with a maximum of 20 years.

8. Dilution of shareholding of Banco de Chile

On March 3, 2008, the Council of the Central Bank of Chile resolved to instruct the indirect subsidiary Sociedad Administradora de la Obligación Subordinada SAOS S.A. to proceed to sell by auction on the Santiago Stock Exchange on March 5, 2008, the balance of the 439,951,628 subscription options relating to the capital increase of Banco de Chile agreed upon in the Extraordinary Shareholders' Meeting, which were not disposed of during the special pre-emptive offer period. SAOS S.A. therefore disposed of 120,000,000 options to subscribe for shares of Banco de Chile at an auction on the Santiago Stock Exchange.

These options bought by third parties implied a dilution in the shareholding of LQ Inversiones Financieras S.A. in Banco de Chile, generating a gain for not participating in the issuance of shares of ThCh$863,032. An extraordinary amortization of goodwill was therefore made for this amount.

9. Increases in shareholding

During the first half of 2008, the subsidiary LQIF acquired shares in its subsidiaries Banco de Chile and S.M.Chile S.A. on the Santiago Stock Exchange and the Chilean Electronic Exchange.

In the indirect subsidiary Banco de Chile, a total of 1,455,206,358 shares of the sole series were acquired at an average weighted price of Ch$41.82 per share, representing a disbursement of ThCh$60,940,841 (historic pesos) and generating goodwill of ThCh$40,262,476 (historic pesos). The Company thus increased its shareholding in Banco de Chile from 30.47% to 32.11%.

In the indirect subsidiary SM Chile S.A., a total of 656,756,464 series B shares were acquired at an average weighted price of Ch$62.34 per share, representing a disbursement of ThCh$41,022,363 (historic pesos) and generating goodwill of ThCh$15,947,387 (historic pesos). The Company thus increased its shareholder participation in SM Chile from 52.83% to 58.24%.

10. Agreement with the regulators of New York and Miami branches of Banco de Chile

On December 31, 2007, Banco de Chile and Citibank N.A. signed an Asset Sale and Assumption of Liabilities Agreement with regard to Banco de Chile's Miami and New York branches, effective January 1, 2008, through which Citibank N.A. acquired these assets and assumed their liabilities with certain exclusions, subject to approval by the federal agency Office of the Controller of the Currency (OCC) and the Federal Reserve Bank of Atlanta, paying Banco de Chile a total price of US$ 130 million on January 3, 2008.

As a result, the Miami and New York branches of Banco de Chile liquidated the assets not transferred, under the condition of a non-banking entity, and this was concluded during May 2008.

11. Exemption from consolidation of banking companies:

These financial statements do not include the consolidation of Banco de Chile and SM Chile S.A. as they apply different accounting principles from those followed by commercial corporations. This exemption was granted by the SVS in its Official Letter No. 03200 dated May 9, 2002.

Note 27 to the consolidated financial statements shows the consolidated financial statements of LQ Inversiones Financieras S.A. and subsidiaries prepared according to the instructions of the SBIF.

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

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

| Banchile Seguros de Vida S.A | As of December 31, | |
|---|---|---|
| Balance Sheets | 2008<br>ThCh$ | 2007<br>ThCh$ |
| Assets | | |
| Investments | 53,567,624 | 38,919,670 |
| Premiums receivable | 4,484,652 | 3,292,195 |
| Receivables from reinsurance | 942,760 | 541,412 |
| Other assets | 1,245,286 | 967,232 |
| Total assets | 60,240,322 | 43,720,509 |
| | | |
| Liabilities and shareholders' equity | | |
| Technical reserves | 32,677,283 | 23,264,722 |
| Insurance premiums payable | 1,403,029 | 573,465 |
| Other liabilities | 8,573,601 | 5,930,222 |
| Shareholders' equity | 17,586,409 | 13,952,099 |
| Total liabilities and shareholders' equity | 60,240,322 | 43,720,509 |
| | | |
| Statements of Income | | |
| Operating revenue | 35,569,095 | 26,592,151 |
| Cost of sales | (33,056,386) | (23,238,200) |
| Net operating income | 2,512,709 | 3,353,951 |
| | | |
| Income from investments | 1,912,157 | 1,427,083 |
| Other income | 33,932 | 15,893 |
| Interest expense | (39,643) | (29,182) |
| Adjustment allowances and write-offs | (58,474) | (176,157) |
| Foreign currency translation, net | (154,514) | (26,542) |
| Price-level restatement, net | 162,037 | (254,536) |
| Net non-operating income | 1,855,495 | 956,559 |
| Income before income taxes | 4,368,204 | 4,310,510 |
| Income taxes | (733,896) | (727,172) |
| Net income | 3,634,308 | 3,583,338 |

### c) Foreign investments

a) As of December 31, 2008, there were no liabilities that have been specifically designated and booked to hedge investments abroad.

b) There were no remittable profits as of December 31, 2008.

## NOTE 11 - GOODWILL AND NEGATIVE GOODWILL

a) Goodwill:

| Company | 2008 Amortization for the year ThCh$ | 2008 Goodwill (net) ThCh$ | 2007 Amortization for the year ThCh$ | 2007 Goodwill (net) ThCh$ |
|---|---|---|---|---|
| | Years ended December 31, | | | |
| Banco de Chile | 23,394,373 | 355,015,902 | 10,594,286 | 154,075,815 |
| SM Chile S.A. Series B | 14,268,634 | 176,020,498 | 13,400,297 | 172,922,429 |
| Madeco S.A. and subsidiaries | 16,978,285 | 2,070,676 | 1,946,122 | 18,461,491 |
| SM Chile S.A. Series D | 402,304 | 4,707,700 | 402,304 | 5,110,004 |
| Industria Nacional de Alimentos S.A. | 50,619 | 832,760 | 43,963 | 883,379 |
| CNT Telefónica del Sur S.A | 57,100 | 516,549 | 54,632 | 573,649 |
| Inversiones Río Grande S.A. and subsidiaries | 9,279 | 57,224 | 20,494 | 66,618 |
| Total | 55,160,594 | 539,221,309 | 26,462,098 | 352,093,385 |

b) Negative goodwill:

| Company | 2008 Amortization for the year ThCh$ | 2008 Negative goodwill (net) ThCh$ | 2007 Amortization for the year ThCh$ | 2007 Negative goodwill (net) ThCh$ |
|---|---|---|---|---|
| | Years ended December 31, | | | |
| SM Chile S.A. Series B | 338,944 | 5,762,040 | 338,944 | 6,100,984 |
| Madeco S.A. and subsidiaries | 483,502 | 10,091,171 | 422,906 | 6,038,329 |
| VTR S.A. and subsidiary | 848,137 | 353,392 | 848,130 | 1,201,529 |
| SM Chile S.A. Series A | 54,973 | 761,260 | 54,974 | 816,233 |
| Inmobiliaria Del Norte y El Rosal S.A. | 36,909 | 442,912 | 36,909 | 479,821 |
| Empresa El Peñón S.A. and subsidiary | 53,348 | 328,977 | 53,348 | 382,325 |
| SM Chile S.A. Series D | 13,026 | 221,431 | 13,026 | 234,457 |
| Inversiones Río Grande S.A. and subsidiaries | 31 | 505 | 29 | 536 |
| Total | 1,828,870 | 17,961,688 | 1,768,266 | 15,254,214 |

## NOTE 12 - CURRENT BANK OBLIGATIONS

Short-term obligations with banks are detailed as follows:

| | As of December 31, 2008 ThCh$ | As of December 31, 2007 ThCh$ |
|---|---|---|
| Short-term obligations payable in: | | |
| United States dollars | 2,416,725 | 27,809,489 |
| Other foreign currencies | 151,075 | 4,812,523 |
| Unidades de Fomento (UF) | - | 1,282,580 |
| Chilean pesos (non-indexed) | 26,974,528 | 4,350,030 |
| Total | 29,542,328 | 38,254,622 |
| Short-term portion of long-term bank obligations payable in: | | |
| United States dollars | 8,426,079 | 5,895,753 |
| Other foreign currencies | - | 11,516,790 |
| Unidades de Fomento (UF) | 15,847,200 | 37,768,257 |
| Chilean pesos (non-indexed) | 852 | - |
| Total | 24,274,131 | 55,180,800 |

## NOTE 13 - LONG-TERM BANK OBLIGATIONS:

The maturity of obligations with banks and financial institutions as of December 31, 2008, are detailed as follows:

| | 2008 ThCh$ |
|---|---|
| Years to maturity: | |
| Between 1 and 2 years | 26,890,756 |
| Between 2 and 3 years | 20,429,619 |
| Between 3 and 5 years | 22,478,530 |
| Between 5 and 10 years | 758,250 |
| Total | 70,557,155 |

## NOTE 14 - BONDS PAYABLE

Current portion of long-term bonds payable

| Registration or identification number of instrument | Series | Nominal value of current liability | Measurement unit | Interest rate | Final maturity | Payment periods | | Book value As of December 31, | | Domestic or foreign issuance |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Interest | Amortization | 2008 ThCh$ | 2007 ThCh$ | |
| 385 | A | 2,000,000 | UF | 3.25% | 05-15-2010 | Annual | Annual | 44,679,148 | 1,750,509 | Domestic |
| 426 | D | 337,500 | UF | 3.50% | 07-21-2013 | Annual | Annual | 7,806,072 | 7,888,417 | Domestic |
| 384 | B | - | UF | 4.75% | 05-15-2025 | Annual | Annual | 1,944,586 | 1,918,826 | Domestic |
| 251 | H | 40,000 | UF | 6.00% | 12-01-2021 | Semi-annual | Semi-annual | 909,106 | 911,760 | Domestic |
| 198 | F | 34,000 | UF | 4.05% | 02-01-2018 | Semi-annual | Semi-annual | 844,385 | 853,156 | Domestic |
| 229 | A | - | UF | 4.17% | 07-21-2026 | Annual | Annual | 798,988 | 795,877 | Domestic |
| 399 | D | - | UF | - | 12-10-2011 | Semi-annual | Semi-annual | - | 5,533,510 | Domestic |
| Total current portion | | | | | | | | 56,982,285 | 19,652,055 | |

Long-term bonds payable

| Registration or identification number of instrument | Series | Nominal value of current liability | Measurement unit | Interest rate | Final maturity | Payment periods | | Book value As of December 31, | | Domestic or foreign issuance |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Interest | Amortization | 2008 ThCh$ | 2007 ThCh$ | |
| 384 | B | 3,000,000 | UF | 4.75% | 05-15-2025 | Annual | Annual | 64,357,710 | 64,107,230 | Domestic |
| 385 | A | 2,000,000 | UF | 3.25% | 05-15-2010 | Annual | Annual | 42,905,140 | 85,476,307 | Domestic |
| 229 | A | 2,000,000 | UF | 4.17% | 07-21-2026 | Annual | Annual | 42,905,140 | 42,738,153 | Domestic |
| 426 | D | 1,687,500 | UF | 3.50% | 07-21-2013 | Annual | Annual | 28,960,969 | 36,060,317 | Domestic |
| 251 | H | 480,000 | UF | 6.00% | 12-01-2021 | Semi-annual | Semi-annual | 10,297,233 | 11,111,921 | Domestic |
| 198 | F | 289,000 | UF | 4.05% | 02-01-2018 | Semi-annual | Semi-annual | 6,199,794 | 6,902,212 | Domestic |
| 399 | D | - | UF | - | 12-10-2011 | Semi-annual | Semi-annual | - | 18,102,519 | Domestic |
| Total long-term portion | | | | | | | | 195,625,986 | 264,498,659 | |

# NOTE 15 - PROVISIONS AND WRITE OFFS

The detail of provisions as of December 31, 2008 and 2007 is as follows:

| | 2008 ThCh$ | 2007 ThCh$ |
|---|---|---|
| Current liabilities: | | |
| Salaries, fees, consultancies and participations | 7,312,171 | 7,160,114 |
| Vacation provision | 2,475,890 | 4,110,283 |
| Telephone connection and long-distance costs | 1,322,644 | 2,149,586 |
| General and commercial expenses | 907,103 | 1,212,970 |
| Restructuring expenses | 815,279 | 934,921 |
| Municipal and other taxes | 765,685 | 729,655 |
| Staff severance indemnities | 566,713 | 1,152,806 |
| Lawsuits pending | 564,210 | 1,598,809 |
| Inventory pending invoicing | 153,136 | 877,880 |
| Provision for basic consumption | 288,436 | 499,153 |
| Payments to contractors | 209,267 | 420,770 |
| Monthly tax prepayments | 195,794 | 82,669 |
| Export and import expenses | 184,177 | 274,995 |
| Employee profit-sharing and benefits | 135,768 | 138,465 |
| Advertising, promotion and corporate image | 90,205 | 45,843 |
| Distribution fees and freights | 88,692 | 389,702 |
| Sales and withholding expenses | 59,610 | 231,857 |
| Other | 557,269 | 911,387 |
| Total | 16,692,049 | 22,921,865 |
| | | |
| Long-term liabilities: | | |
| Contingencies | 6,710,053 | 7,392,013 |
| Lawsuits pending | 394,035 | 2,906,685 |
| Staff severance indemnities | 1,431,915 | 1,446,158 |
| Property, municipal and other taxes | 128,894 | 834,842 |
| Other | 15,808 | 20,180 |
| Total | 8,680,705 | 12,599,878 |

| Allowances deducted from assets | 2008 ThCh$ | 2007 ThCh$ |
|---|---|---|
| Current assets: | | |
| Accounts receivable | 5,769,057 | 7,516,056 |
| Notes receivable | 1,837,174 | 2,057,096 |
| Other accounts receivable | 2,488,673 | 2,466,336 |
| Inventory (obsolescence) | 1,550,668 | 2,763,392 |
| Unrealized income (inventory) | 2,124 | 1,003,194 |
| Recoverable taxes Uruguay and Argentina | 2,089,727 | 1,694,104 |
| Property, plant and equipment held for sale | 230,254 | 299,978 |
| | | |
| Long-term assets: | | |
| Property, plant and equipment for sale | - | 154,968 |
| Obsolescence of property, plant and equipment | 110,220 | 121,183 |
| Property, plant and equipment, not in use | 2,608,561 | 2,506,495 |
| Reduced value of recoverable taxes - Argentina | - | 117,122 |
| Reduced value judicial deposits (IPTU) - Brazil | - | 372,936 |
| Reduced value of property, plant and equipment not in use | 5,528,811 | 5,028,741 |
| Investment in and account receivable of Indalsa Perú S.A. | - | 25,333,978 |
| | | |
| Write-offs made: | | |
| Accounts receivable | 493,001 | 378,748 |
| Other accounts receivable | - | 1,513,402 |

## NOTE 16 - MINORITY INTEREST

Minority interest is summarized as follows as of each year-end:

| | Percentage minority interest | | Minority interest | | | |
|---|---|---|---|---|---|---|
| | As of December 31, | | As of December 31, | | | |
| | | | Book value | | Statements of income | |
| | 2008 % | 2007 % | 2008 ThCh$ | 2007 ThCh$ | 2008 ThCh$ | 2007 ThCh$ |
| LQ Inversiones Financieras S.A. | 32.96 | - | 442,493,044 | - | (20,635,309) | - |
| Madeco S.A. | 52.35 | 54.83 | 217,347,059 | 157,565,768 | (53,039,520) | (11,556,258) |
| CNT Telefónica del Sur S.A. | 25.57 | 25.57 | 21,827,470 | 21,557,094 | (1,024,202) | (1,768,279) |
| Alusa S.A. | 24.04 | 24.04 | 13,036,191 | 11,476,499 | (1,226,364) | (1,025,088) |
| Indeco S.A. (Perú) | - | 6.03 | - | 1,756,277 | (329,425) | (454,309) |
| Industria Nacional de Alimentos S.A. | 0.07 | 0.44 | 21,190 | 39,003 | (730) | 56,893 |
| Inversiones Ranquil S.A. (Ex Río Rímac S.A.) | - | 0.43 | 1,044 | (2,501) | (41) | 4,870 |
| Hoteles Carrera S.A. | 0.91 | 0.91 | 3,042 | 3,192 | 150 | 395 |
| Cía. Teléfonos de Coyhaique S.A. | 11.29 | 11.29 | 1,127,760 | 1,104,564 | (119,193) | (130,966) |
| Telefónica del Sur Servicios Intermedios S.A. | 0.03 | 0.03 | 3,703 | 3,546 | (229) | (267) |
| Wi-Net Wireless Networking Ltda. | 49.00 | 49.00 | 25,012 | 56,854 | 2,443 | (7,284) |
| Inversiones Vita S.A. | 33.70 | 33.70 | 3,901,441 | 3,093,178 | (808,263) | (797,012) |
| Inversiones Vita Bis S.A. | 33.70 | 33.70 | 1,983,286 | 1,572,421 | (410,865) | (405,145) |
| Empresa El Peñón S.A. | 5.02 | 5.02 | 1,132,579 | 745,644 | (303,436) | (90,679) |
| Inversiones O'Higgins Punta Arenas Ltda. CPA | 24.44 | 24.44 | 219,433 | 236,281 | 16,848 | 15,353 |
| Indalum S.A. | 0.84 | 0.84 | 293,218 | 294,488 | 1,270 | (7,566) |
| Cedsa S.A. | - | 20.00 | - | 1,343,892 | 99,475 | (304,420) |
| Peruplast S.A. | 50.00 | 50.00 | 12,222,008 | 9,690,052 | (2,228,703) | (1,810,758) |
| Other | | | (3) | 304 | 1,877 | (114) |
| Total | | | 715,637,477 | 210,536,556 | (80,004,037) | (18,280,634) |

## NOTE 17 - SHAREHOLDERS' EQUITY

a) The following movements have occurred in shareholders' equity during 2008 and 2007:

| | Paid-in capital ThCh$ | Share premium ThCh$ | Other reserves ThCh$ | Retained earnings ThCh$ | Net income (loss) for the year ThCh$ | Total ThCh$ |
|---|---|---|---|---|---|---|
| Balance as of January 1, 2007 | 497,964,027 | - | 5,447,634 | 209,472,616 | 57,042,964 | 769,927,241 |
| Distribution of prior year income | - | - | - | 57,042,964 | (57,042,964) | - |
| Final dividend | - | - | - | (17,112,,887) | - | (17,112,887) |
| Capital increase | 53,019,081 | 11,818,615 | - | - | - | 64,837,696 |
| Proportional share of equity changes | - | - | 14,938,683 | - | - | 14,938,683 |
| Share placement expenses | - | (15,265) | - | - | - | (15,265) |
| Price-level restatement of equity | 38,601,190 | 390,510 | 403,125 | 18,575,590 | - | 57,970,415 |
| Net income | - | - | - | - | 105,241,007 | 105,241,007 |
| Balance as of December 31, 2007 | 589,584,298 | 12,193,860 | 20,789,442 | 267,978,283 | 105,241,007 | 995,786,890 |
| Balance restated for comparative purposes | 642,057,300 | 13,279,113 | 22,639,702 | 291,828,350 | 114,607,457 | 1,084,411,922 |
| Balance as of January 1, 2008 | 589,584,298 | 12,193,860 | 20,789,442 | 267,978,283 | 105,241,007 | 995,786,890 |
| Distribution of prior year income | - | - | - | 105,241,007 | (105,241,007) | - |
| Final dividend | - | - | - | (52,620,498) | - | (52,620,498) |
| Proportional share of equity changes | - | - | 64,501,142 | - | - | 64,501,142 |
| Price-level restatement of equity | 52,473,002 | 1,085,253 | 1,850,260 | 29,480,461 | - | 84,888,976 |
| Net income | - | - | - | - | 232,052,031 | 232,052,031 |
| Balance as of December 31, 2008 | 642,057,300 | 13,279,113 | 87,140,844 | 350,079,253 | 232,052,031 | 1,324,608,541 |

Capital increase

On April 27, 2007, at an Extraordinary Shareholders' Meeting of Quiñenco S.A., shareholders agreed to the issuance of 67,259,921 common shares with no par value for an amount of ThCh$55,000,000 (historic pesos).

During July 2007, 226,496 shares were subscribed and paid for a total of ThCh$226,496 (historic pesos), equivalent to Ch$1,000 per share, generating a share premium of ThCh41,286 (historic pesos).

During August 2007, 64,611,200 shares were subscribed and paid for a total of ThCh$64,611,200 (historic pesos), equivalent to Ch$1,000 per share, generating a share premium of ThCh$11,777,329 (historic pesos).

b) Number of shares as of December 31, 2008:

| Series | Subscribed shares | Paid-in shares | Shares with voting rights |
|---|---|---|---|
| Common | 1,144,577,775 | 1,144,577,775 | 1,144,577,775 |

c) Capital as of December 31, 2008:

| Series | Subscribed capital ThCh$ | Paid-in capital ThCh$ |
|---|---|---|
| Common | 642,057,300 | 642,057,300 |

## NOTE 18 - NON-OPERATING INCOME AND EXPENSES

Non-operating income and expenses for the years ended December 31, 2008 and 2007, are detailed as follows:

| | 2008 ThCh$ | 2007 ThCh$ |
|---|---|---|
| Other non-operating income | | |
| Gain on sale of shares | 156,380,263 | 40,607,200 |
| Gain on non-participation in share issue | 136,628,907 | - |
| Dividends received | 4,718,166 | 2,549,776 |
| Gain on sale of property, plant and equipment | 4,698,578 | 3,789,242 |
| Rentals received | 194,277 | 192,076 |
| Other | 1,450,723 | 2,230,271 |
| Total | 304,070,914 | 49,368,565 |
| | | |
| Other non-operating expenses | | |
| Reversal of accumulated conversion adjustment in sale of subsidiaries | 24,807,589 | - |
| Amortization of intangible assets | 8,898,575 | - |
| Fees, profit sharing, remuneration and consultancies | 2,859,083 | 1,551,542 |
| Loss from sale, obsolescence and write-offs of property, plant and equipment | 1,577,849 | 279,066 |
| Loss on non-participation in share issue | 1,239,016 | 57,738 |
| Depreciation of idle assets | 732,801 | 682,947 |
| Contingencies | 725,848 | 243,983 |
| Loss on sales of share investments | 514,794 | 36,392 |
| Fines, taxes and interest foreign subsidiaries | 330,099 | 44,813 |
| Indemnities, settlements etc. | 283,602 | 500,615 |
| Provisions for lawsuits pending | 82,073 | 73,020 |
| Legal expenses in defense of Indalsa Perú S.A. | 21,752 | 269,000 |
| Other | 1,645,429 | 895,810 |
| Total | 43,718,510 | 4,634,926 |

## NOTE 19 - PRICE-LEVEL RESTATEMENT

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

| | Indexation unit | 2008 ThCh$ | 2007 ThCh$ |
|---|---|---|---|
| Inventory, net | CPI and replacement cost | 777,132 | 240,312 |
| Property, plant and equipment | CPI | 20,765,461 | 17,147,600 |
| Investments in related companies | CPI | 82,230,997 | 50,187,948 |
| Goodwill and negative goodwill | CPI | 49,312,177 | 22,056,975 |
| Financial investments | CPI | 15,092,818 | 8,935,232 |
| Related company current accounts, net | UF | 5,136,196 | 619,100 |
| Other assets | UF | 645,976 | 1,744,260 |
| Other non-monetary assets | CPI | 1,802,234 | 2,149,470 |
| Expense and cost accounts | CPI | 18,104,364 | 15,152,016 |
| Total credits | | 193,867,355 | 118,232,913 |
| | | | |
| Shareholders' equity | CPI | (84,888,976) | (63,129,782) |
| Bank obligations | UF | (11,742,940) | (11,315,388) |
| Bank obligations | CPI | (996,499) | - |
| Bonds payable | UF | (9,198,197) | (18,287,895) |
| Other liabilities | UF | (592,956) | (436,641) |
| Non-monetary liabilities | CPI | (63,055,799) | (12,304,941) |
| Revenue accounts | CPI | (31,420,171) | (19,180,279) |
| Total charges | | (201,895,538) | (124,654,926) |
| Net loss due to price-level restatement | | (8,028,183) | (6,422,013) |

## NOTE 20 - FOREIGN CURRENCY TRANSLATION

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

| Rubro | Currency | 2008 ThCh$ | 2007 ThCh$ |
|---|---|---|---|
| Assets (charges)/ credits | | | |
| Cash and financial investments | US dollar | 4,988,370 | (187,806) |
| Accounts and notes receivable | US dollar | 3,895,539 | (1,759,481) |
| Other assets | US dollar | 18,809,223 | (365,371) |
| Other assets | Other | 511,252 | 50,360 |
| Derivative instruments | US dollar | 67,639 | 189,948 |
| Translation adjustments | US dollar | (1,437,456) | 326,602 |
| Related company current accounts | US dollar | 757,776 | (944,468) |
| Total (charges) credits | | 27,592,343 | (2,690,216) |
| | | | |
| Liabilities (charges)/ credits | | | |
| Bank obligations | US dollar | (11,802,338) | 663,532 |
| Accounts and notes receivable | US dollar | (3,585,145) | 930,826 |
| Other liabilities | US dollar | (2,027,864) | 126,662 |
| Translation adjustment in Peru | Peruvian sol | (2,651,064) | 533,766 |
| Other liabilities | Other | (23,820) | 525 |
| Translation adjustment in Brazil | Brazilian real | (2,812,010) | 5,102,826 |
| Hedging costs Brazil | Brazilian real | (538,994) | (1,190,688) |
| Translation adjustment in Argentina | Argentine peso | (728,921) | (383,121) |
| Translation adjustment in Colombia | Colombian peso | 100,228 | 554,022 |
| Total credits (charges) | | (24,069,928) | 6,338,350 |
| Net foreign currency translation | | 3,522,415 | 3,648,134 |

## NOTE 21 - STATEMENT OF CASH FLOWS

The composition of Cash and cash equivalents consists of all financial investments that are easily convertible to cash made 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, | |
|---|---|---|
| | 2008 | 2007 |
| | ThCh$ | ThCh$ |
| Cash | 11,351,574 | 12,057,388 |
| Mutual funds | 540,377 | 856,847 |
| Time deposits | 132,345,986 | 351,759 |
| Transactions under repurchase agreements | 17,232,278 | 19,527,180 |
| Total | 161,470,215 | 32,793,174 |

Other investment income includes the following:

| | As of December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | ThCh$ | ThCh$ |
| Financial instruments not classified as cash equivalents | 224,862,576 | 20,902,509 |
| Balances companies acquired in Peru and Colombia | - | 4,485,947 |
| Other | - | 70,566 |
| Total | 224,862,576 | 25,459,022 |

## NOTE 22 - DERIVATIVE CONTRACTS

| As of and for the year ended December 31, 2008 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Description of contract | | | | | | | Derivative instruments effect | | | |
| | | | | | | Hedged item | | | Asset / Liability | | Effect on income (charge)/ credit | |
| Type of derivative | Type of contract | Nominal amount | Maturity date | Specific item | Purchase/ Sale | Description | Initial amount | Closing amount | Name | Amount ThCh$ | Realized ThCh$ | Deferred ThCh$ |
| S | CCPE | 14,500,000 | 3rd qtr. 2013 | Interest/exchange rate | P | Debt in dollars | 14,500,000 | 14,500,000 | A | 2,324,783 | - | 2,324,783 |
| S | CCPE | 10,000,000 | 3rd qtr. 2013 | Interest/exchange rate | P | Debt in dollars | 10,000,000 | 10,000,000 | A | 1,080,442 | - | 1,080,442 |
| S | CCPE | 7,863,412 | 2nd qtr. 2009 | Interest | P | Dollar loan | 7,863,412 | 9,706,306 | OCL | 20,268 | (20,268) | - |
| S | CCPE | 521,687 | 4th qtr. 2008 | Inventory (copper) | P | Inventory (copper) | 521,687 | 195,516 | OCA | 304,097 | 304,097 | - |
| S | CCPE | 396,171 | 4th qtr. 2008 | Inventory (copper) | P | Inventory (copper) | 396,171 | 195,516 | OCA | 289,459 | 382 | - |
| S | CCPE | 386,423 | 4th qtr. 2008 | Inventory (copper) | P | Inventory (copper) | 386,423 | 195,516 | OCA | 281,821 | 8,910 | - |
| S | CCTE | 305,415 | 1st qtr. 2009 | Inventory (copper) | P | Inventory (copper) | 305,415 | 195,516 | OCA | 305,415 | - | 305,415 |
| S | CCTE | 304,362 | 1st qtr. 2009 | Inventory (copper) | P | Inventory (copper) | 304,362 | 195,516 | OCA | 304,362 | - | 304,362 |
| S | CCTE | 303,314 | 1st qtr. 2009 | Inventory (copper) | P | Inventory (copper) | 303,314 | 195,516 | OCA | 303,314 | - | 303,314 |
| S | CCTE | 302,407 | 2nd qtr. 2009 | Inventory (copper) | P | Inventory (copper) | 302,407 | 195,516 | OCA | 302,407 | - | 302,407 |
| S | CCTE | 301,704 | 2nd qtr. 2009 | Inventory (copper) | P | Inventory (copper) | 301,704 | 195,516 | OCA | 301,704 | - | 301,704 |
| S | CCTE | 300,973 | 2nd qtr. 2009 | Inventory (copper) | P | Inventory (copper) | 300,973 | 195,516 | OCA | 300,973 | - | 300,973 |

S Swap

A Asset

OCA Other current assets

OCL Other current liabilities

# NOTE 23 - CONTINGENCIES AND RESTRICTIONS

### a) Pledge over shares

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

### b) Lawsuits

In 1999, the subsidiary VTR S.A. appealed a judgment of the Tax Tribunal of the Santiago Center Metropolitan Regional Authority of the Chilean Internal Revenue Service that on October 26, 1999, rejected a claim made by the company (Demand No. 29 of January 21, 1998) with respect to additional tax (Clause 21 of the Tax Law) applied to a loss on a foreign currency futures contract signed on January 2, 1995 between VTR S.A. and Citibank N.A.

On April 11, 2007, the Santiago Appeals Court accepted the renewal of the suspension of tax collection for 6 months starting April 13, 2007.

Later, on May 11, 2007, the Santiago Appeals Court declared the nullity of the sentence in the first instance as it was given by a delegated tax judge (lacking jurisdiction), and ordered the reinstatement of the case in which the Santiago Center Metropolitan Regional Authority of the Chilean Internal Revenue Service gives due proceedings to the claim presented, thus invalidating all that contained in those proceedings.

The proceedings are currently in the first instance, having re-entered the Tax Tribunal of the Santiago Center Metropolitan Regional Authority on June 1, 2007, ordering performance and annulling the charges.

On August 28, 2007, the court resolved to accept the claim and ordered the inspector's report. On November 30, 2007, report No.178-1 issued on October 29, 2007, was presented by the Selective Inspection Department of the Santiago Center Metropolitan Regional Authority of the Internal Revenue Service.

Finally, on November 30, 2007, the Tax Tribunal resolved as acknowledged the comments of that report.

The subsidiary VTR S.A. has a proceeding filed with the Santiago Appeals Court which is pending inclusion in the cases to be heard by one of its courts. This is an appeal against the first instance sentence given by the Santiago East Metropolitan Regional Authority of the Chilean Internal Revenue Service (SII), regarding a claim from December 16, 1999 against Resolution 1025 of the Regional Director of the SII.

As of December 31, 2008, 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 a risk of significant losses.

On July 19, 2006, Ficap S.A., a subsidiary of Madeco S.A., received a demand from the Brazilian federal tax authority for the tax years from 2001 to 2005, relating to income tax differences totaling ThR$15,550 (ThUS$8,571 approx.) which, according the company's legal advisers, presents no risk of significant losses. However, Ficap S.A., applying the same criteria for the tax year 2006 onward, has made court deposits of ThUS$9,555 in order to avoid paying interest and fines on the difference in income tax that might be payable in the event that the law is interpreted in the way stated in the demand. Although the deposits were made by a company sold to Nexans, they have been shown as an asset as these were excluded from its sale price. The subsidiary Madeco S.A. therefore maintains control of the lawsuit.

On November 12, 2008, the court in the first instance in Madrid, Spain admitted for hearing the lawsuit for the recovery of money presented by Armat S.A., a subsidiary of Madeco S.A., against the Spanish Real Casa de Moneda (royal mint) for €876,739. This lawsuit arose from the unjustified, illegal and arbitrary withholding of the amount payable corresponding to invoices for the supply of coin blanks for the minting of euros. The company has made the corresponding provisions for this case at the close of the financial statements.

As of December 31, 2008, 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, 2008, the indirect subsidiary Telefónica del Sur Servicios Intermedios S.A. has the following lawsuit pending:

On January 27, 2005, demands were brought by subsidiary CNT Telefónica del Sur S.A. and the indirect subsidiary Telefónica del Sur Servicios Intermedios S.A. against the Chilean Treasury seeking the payment for investments in works ordered by entities reporting to the Ministry of

Public Works and carried out in the city of Valdivia and on Highway 5 South, and for the reimbursement of usage rights of fiscal strips, in both cases with indexation adjustments and interest. The actions were presented to the 24th Civil Court of Santiago. On the same date, the Interim President of the State Defense Council, on behalf of the Chilean Treasury, was notified. As of December 31, 2008, the demand was rejected in the first instance so an appeal was brought before the Santiago Appeals Court, which is still pending.

### c) 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, 2008.

1. Quiñenco S.A. is subject to certain financial covenants, which as of December 31, 2008, 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 S.A.
    - Quiñenco S.A. to maintain control of Banco de Chile (through its investment in LQ Inversiones Financieras S.A.).

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

    CNT Telefónica del Sur S.A.
    - Maintain a current ratio of at least 0.50:1 on both an unconsolidated and consolidated basis.
    - Debt ratio (liabilities/shareholders' equity) no greater than 1.5:1 on both an unconsolidated and consolidated basis.
    - Minimum shareholders' equity of UF 2 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.
    - Maintain an operating income to interest expense ratio of at least 1.5:1, on both an unconsolidated and consolidated basis.

3. The subsidiary LQ Inversiones Financieras S.A. is subject to certain financial covenants and restrictions related to its bond issuance and bank loan agreements. The principal restrictions as of December 31, 2008, are:

    - The subsidiary 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 cash reserve greater of at least the amount to be paid to bondholders on the next installment date.
    - Quiñenco S.A. must maintain control of Banco de Chile through its investment in LQ Inversiones Financieras S.A.

Bank loans:

As of December 31, 2008, the subsidiary Madeco S.A. has syndicated loans with financial institutions which oblige the company to comply with certain conditions and covenants over the life of the loan as follows:

a) The subsidiary Madeco S.A. must prepay all the bank loans should the Luksic group cease to hold, directly or indirectly, at least 40% of the shares with voting rights in Madeco S.A. and to have control, directly or indirectly, of the subsidiary Madeco S.A. (as defined in clause 97 of the Securities Market Law 18,045).

b) Financial covenants

1. The ratio of net financial debt, less changes in working capital, to EBITDA (with respect to the last four quarters) must not exceed 3.0:1.
2. The ratio of net financial debt, less changes in working capital, to adjusted equity ratio must be less than 0.75:1.
3. The ratio of EBITDA (for the last four quarters) to interest expense (for the last four quarters) must be at least 2.5:1.
4. Adjusted equity must be at least UF 7,000,000.

c) General covenants

1. The subsidiary Madeco S.A. and its essential subsidiaries (Alusa S.A. and Indalum S.A.) shall take all the actions necessary to maintain their legal existence, rights, franchises and licenses current and effective.
2. The debtor and its essential subsidiaries shall maintain and preserve their essential assets. "Essential assets" mean the equipment, machinery and all other essential elements that the debtor needs to conduct its businesses and those of its essential subsidiaries.
3. Use the loan proceeds exclusively for the financing of exports and investments in assets directly related to exporting its products and refinancing existing debt.
4. The debtor and its essential subsidiaries should comply in all substantial aspects with all laws concerning pollution or waste materials of an environmental nature that do not cause an adverse material effect.

d) Main negative covenants

1. The debtor and its essential subsidiaries may not encumber their assets without the prior written consent of the creditors.
2. The debtor and/or its essential subsidiaries may not agree to mergers, absorption or incorporation, nor may they liquidate, terminate business or be dissolved without the prior written consent of the creditors.
3. Essential Assets may not be disposed of except in lease-back transactions.
4. The debtor and/or its essential subsidiaries may not make any changes of importance in the nature of their principal businesses without the prior written consent of the creditors.

As of December 31, 2008, the subsidiary Madeco S.A. was in compliance with all of the covenants in its syndicated loan agreements.

The indirect subsidiary Alusa S.A. and subsidiaries has the following contingencies and/or covenants as of December 31, 2008:

• Alusa S.A. is subject to the following commitments with the financial institutions indicated:

Export advances made by Banco Security of UF 163,000 (historic value).

Loan from Banco Estado of UF 52,000 (historic value).

• To guarantee these credits, Alusa S.A. should comply with the following restriction:

Alusa S.A. should ensure that Madeco S.A. remains the direct or indirect owner of at least 50.1% of the capital with voting rights of Alusa S.A. during the term of these credit facilities.

On December 26, 2006, Alusa S.A. became the guarantor of Aluflex S.A. to cover a loan by Banco del Desarrollo to that company for US$4 million. The loan is repayable in semi-annual installments with final maturity in July 2010.

On September 2, 2008, Alusa S.A. became the guarantor of Aluflex S.A. to cover a loan by Corpbanca to that company for US$4 million. The loan is repayable in semi-annual installments with final maturity in September 2012.

On September 30, 2008, the principal due to Banco Security amounting to ThCh$331,616 was extended and redenominated from UF to pesos.

Alusa S.A. was in compliance with all of these covenants as of December 31, 2008.

The indirect subsidiary Indulam S.A. and its subsidiaries have no guarantees outstanding as of December 31, 2008.

Indulam S.A. was denounced to the National Economic Prosecutor`s office in November 2007 by a former distributor that has an unpaid debt with the company. It is believed that this denouncement should not prosper.

Indulam S.A. and its subsidiaries have no lawsuits or other legal actions against it that need to be reported.

The following restrictions apply to a loan to Indalum S.A., a subsidiary of Madeco S.A., signed on December 29, 2003, by Banco de Chile, Banco de Crédito e Inversions, Banco Estado and Banco Security, to cover the period from that date until December 26, 2010:

Maintain the following covenants on the basis of its consolidated financial statements as of June 30 and December 31 of each year:

- Debt ratio or leverage not exceeding 1.2:1.
- Minimum shareholders' equity equivalent to UF 1,630,000.
- Maintain 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 pledges, mortgages or other encumbrances 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, except those with respect to assets acquired in the future to finance their acquisition.
- May not give guarantees to cover any obligation, debt, liability or commitment of any party 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 of any given year, without the prior written consent of the creditors.
- May not grant direct financing to third parties outside of its business. This shall not include the trade accounts receivable of Indalum S.A. with its customers or 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 Avenida Vitacura 2736, Office 301, Vitacura, the sales proceeds should be used to prepay the rescheduled obligations on a pro rata basis.
- 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, 2008, Indalum S.A. is in full compliance with these restrictions.

On November 6, 2007, Peruplast S.A., a subsidiary of Madeco S.A., accepted the following covenants with respect to two long-term bank loans for US$ 8 million each:

a) Obligations with Scotiabank

Peruplast S.A. has the obligation to maintain the following ratios at the end of each quarter:

Maintain a debt ratio (total liabilities less deferred taxes to net shareholders' equity less intangible assets less non-business-related accounts receivable with affiliates of Peruplast) of not more than 1.5:1 from December 2007 to September 2009 and no more than 1.25:1 from December 2009 onward.

Maintain a debt coverage ratio (financial debt to EBITDA) of not more than 2.0:1 from December 2007 to September 2009 and no more than 1.75:1 from December 2009 onward.

Maintain a debt service coverage ratio (EBITDA to the current portion of long-term debt plus interest expense) of no more than 1.5:1.

b) Obligation with BCP - Banco de Crédito del Perú

The company has the obligation to maintain the following financial ratios:

Leverage (Total liabilities less taxes and deferred participations to Shareholders' equity) of less than 1.5:1. For this purpose, liabilities include all guarantees and contingencies granted by it in favor of third parties.

Debt service coverage ratio (operating income plus depreciation and amortization less income tax and participations less distributions to shareholders less loans to related companies less net capital investments plus initial cash balance) to debt service, to be more than 1.25:1.

As of December 31, 2008, Peruplast S.A. was in compliance with all the ratios for the above loans.

### d) Other contingencies

Contract for the Sale of the Cable Unit of the subsidiary Madeco S.A. to Nexans.

At the Extraordinary Shareholders' Meeting held on April 25, 2008 the shareholders approved the transaction with Nexans, and the sale contract with respect to this transaction whereby Madeco S.A. would transfer its cable unit to Nexans. This was formalized on September 30, 2008 on completion of the conditions precedent contained in the contract. The shareholders were also informed of the central points of the sale contract in the meeting, summarized as follows:

- Price

The subsidiary Madeco S.A. and Nexans signed on February 21, 2008 a sale contract whereby Madeco S.A. agreed to transfer to Nexans the assets of its cable unit in Chile, Peru, Brazil, Argentina and Colombia for a cash payment of US$448 million (subject to price variations) and 2.5 million shares of Nexans.

Following compliance with the conditions precedent of the sale contract, Madeco S.A. on September 30, 2008 received i) US$393 million in cash, being the US$448 million agreed less the debt, minority interests of the companies sold, transfer taxes that have to be withheld in Brazil, working capital variations, etc., and ii) 2.5 million shares in Nexans valued on that date at approximately US$218 million.

The cash payment was subject to the adjustment for differences between the pro forma balance sheet as of September 30, 2008 and the accounts at the end of the period. Madeco S.A. made deposits in guarantee, in an escrow account, for US$37 million in favor of Nexans to cover these potential adjustments.

As stipulated in the sale contract, Nexans sent a letter to Madeco S.A. on November 12, 2008 providing the accounts as of September 30, 2008 of the companies sold and its estimate of the adjustments that should be made to the price. Madeco S.A. replied to Nexans on November 26 indicating its disagreement with the amounts advised as the basis for determining them and thus the adjustments that should be made to the price. The differences between the two companies do not exceed the amount of the escrow account of US$37 million mentioned above. At the time of publication of these financial statements, the parties continued trying to resolve these differences.

- Declarations and Warranties

The sale contract with Nexans establishes the normal declarations and warranties for this kind of contract. These refer essentially to the ownership by Madeco S.A. and its subsidiaries of the cable assets transferred to Nexans, compliance with current regulations and the absence of contingencies except for those disclosed in the contract. Madeco S.A, as the seller, accepted liability for the contingencies that might arise after September 30, 2008 that originated before that date.

The declarations and warranties made by Madeco S.A. shall remain in effect until December 2009 except for i) labor and tax declarations which will expire as soon as their respective statute of limitations periods end, ii) environmental declarations which shall expire on September 30, 2011, and iii) declarations concerning the ownership of the companies disposed of and the title to the properties which shall expire on September 30, 2018.

- Covenants and restrictions by Madeco S.A.

Madeco S.A. will mainly be subject to the following covenants and restrictions: i) to maintain a shareholders' equity of US$250 million during the term of the declarations and warranties, ii) to indemnify Nexans in the event of a breach of these, iii) grant to Nexans the same guarantees that it might grant to its creditors in the future, iv) not compete with Nexans in the cable business for 3 years from September 30, 2008, and v) maintain the confidentiality of information that is not public knowledge.

The sale contract also sets additional obligations on Madeco S.A., to not transfer (except to subsidiaries) the shares in Nexans received as part of the price within 12 months from September 30, 2008 and not dispose of more than 50% of these shares between 12 and 18 months from that date.

- Indemnities

Nexans shall have the right to be indemnified for any breach of the declarations and warranties, and the other obligations contained in the sale contract.

Nexans shall also have the right to be indemnified for i) payments of taxes that have to be paid by the business which originate from prior to September 30, 2008, except the processes declared with respect to Chile, Peru and Colombia in the declarations and warranties, ii) civil and labor lawsuits in Brazil, iii) undeclared environmental liabilities, and iv) the obligations of the companies disposed of not related to its businesses.

- Limitation of Liability of the subsidiary Madeco S.A.

The sale contract states that Madeco S.A. shall not be liable for damages for individual events when these do not exceed US$73,000. Neither shall it be liable for accumulated damages, without counting the individual damages mentioned above that do not exceed US$1.46 million, and if they do exceed this, Madeco S.A. should respond under the contract.

The sale contract also states that the liability of Madeco S.A., in the cases of tax contingencies and breaches of the declarations and warranties and other obligations under this contract is limited to i) US$350 million with respect to tax contingencies, and ii) US$146 million with respect to other matters, with a sub-limit of US$30 million for environmental matters. All the sub-limits shall be deducted from the overall limit so Madeco S.A. shall not be liable in any event for more than US$350 million.

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

On August 19, 2002, Inersa S.A. and the subsidiaries Inversiones Vita S.A. and Inmobiliaria Norte Verde S.A., the committed sellers, signed a share sale commitment with Banco de Chile whereby the committed sellers promise to sell, assign and transfer to Banco de Chile all of their shareholdings in Banchile Seguros de Vida S.A.

The sales price shall be:

1) The sum of any capital contributions subscribed by the company prior to December 31, 2001, expressed in UF.
2) The capital contributions made to the company by its shareholders in accordance with the “risk equity” requirements for the business.
3) The above amounts expressed in UF at the date of each contribution plus a real compounded interest rate of 12% annually (UF 377,537 as of December 31, 2008).

The sales contract must be signed no later than December 31, 2011, provided that the following conditions are met:

a) The law and/or regulations authorize banks and/or their subsidiary companies to participate in the life insurance business, acquire shareholdings in a life insurance company or form financial conglomerates that can participate in the life insurance business.
b) The respective authority, whether it is the SBIF and/or the SVS, authorizes the participation of Banco de Chile and/or its subsidiary companies or its respective financial conglomerate or Parent Company in the ownership of a life insurance company and/or the purchase of shares in such business.
c) The respective authority, whether it is the SBIF and/or the SVS, authorizes the participation of Banco de Chile and/or its subsidiary companies or its respective financial conglomerate or Parent Company, to purchase the shares referred to in the sales commitment.
d) The Company complies with the law and that the shares are sold free of any type of prohibition, encumbrance or pledges of any kind, embargoes, litigation, precautionary measures or other kind of limitation on the ownership. This condition is stipulated for the benefit of the committed buyer.

Because of the nature of this transaction, it is impossible to estimate the probability of its occurrence and/or its effect on these consolidated financial statements.

On July 19, 2007, Quiñenco S.A. informed the SVS that it had signed on that date a Framework Agreement with Citibank which contemplated the incorporation of Citigroup in the share ownership of LQ Inversiones Financieras S.A. (LQIF).

LQIF is the parent company of Banco de Chile and Sociedad Matriz del Banco de Chile S.A., among others.

Initially, and as a result of this strategic association, Citigroup acquired 32.96% of LQIF and the Parent Company held the remaining percentage of shareholder participation.

This Framework Agreement also states that Citigroup could increase its shareholder participation in LQIF to 50%.

The Framework Agreement, whose detail was published by the SVS on September 28, 2007 and which is available to the general public on the SVS's web site (www.svs.cl) contemplates two options:

The first can be exercised within 28 months as of January 1, 2008 (the First Closing Date) by which Citigroup can acquire 8.52% of LQIF for UF11,475,455.68 plus 5% interest per annum as from the First Closing Date.

This option may be exercised by Citigroup or Quiñenco (call/put) such that if Citigroup does not exercise it, nor Quiñenco require it, Citigroup shall remain with the percentage holding in LQIF initially agreed.

The second option is for Citigroup to buy an additional 8.52% in LQIF, enabling it to reach a 50% shareholding in LQIF, as indicated above. The term for exercising this option is up to 29 months from the Closing Date and the price payable shall be UF11,475,455.68 plus interest at 5% per annum as from the First Closing Date.

Due to the explanations given and the characteristics of both options, it is not possible to quantify the probability of occurrence and effects of this transaction on these consolidated financial statements.

On December 19, 2008, Quiñenco S.A. and Citigroup signed an Amendment to the Framework Agreement referred to above. By this amendment it was agreed that, bearing in mind that the Second Closing Date is April 30, 2010, the purchase and sale option for 8.52% of the shares of LQIF of the Second Closing Date could be exercised by Citigroup within 30 days of December 31, 2009 to buy and, if not by Quiñenco S.A., between January 31 and February 14, 2010 to sell the shareholder participation to Citigroup.

This amendment also states that if, as a consequence of acts or decisions of some relevant authority in the United States, Citigroup is not able to purchase at the Second Closing Date the shares of LQIF subject to the call and put option, it shall have an additional term of fifteen months from April 30, 2010 to acquire the shares needed to reach 50%, or just 41.4778% of the share capital of LQIF. This additional term of fifteen months shall take place after the payment on behalf of Citibank of the difference between the exercise price of the option and 8.52% of the net value of LQIF's assets, if the difference were positive.

Should Citigroup not exercise for any reason its option referred to in the preceding paragraph, Quiñenco S.A. shall have the option of acquiring from Citigroup the number of shares necessary to reach an 80.1% shareholding in LQIF, which for such purposes shall be valued according to the net value of LQIF's assets as of June 30, 2011.

As defined in the amendment, "the net value of LQIF's assets as of June 30, 2011" means the difference between (1) the value of the shares of Banco de Chile and Sociedad Matriz del Banco de Chile S.A. (SM Chile) held by LQIF and its subsidiary LQ SM Limitada, at their average closing price on the Santiago Stock Exchange during the 30 market business days prior to July 31, 2011 and (2) the net debt of LQIF at June 30, 2011.

The "net debt of LQIF at June 30, 2011" is also defined in the amendment as the sum of (a) the total liabilities, excluding the liabilities of financial entities deriving from the consolidation of Banco de Chile and SM Chile and excluding the liabilities deriving from the consolidation of investments in companies made after the date of the amendment, (b) less the total of current assets, excluding in any case those deriving from the consolidation of Banco de Chile, SM Chile and the consolidation of investments made after the date of the amendment, if any, both (a) and (b) according to the consolidated balance sheet of LQIF in the format of the SVS as of June 30, 2011, and (c) less the investments in companies made between the date of the amendment and June 30, 2011, valued at their cost expressed in UF.

Should the holding of Citigroup in LQIF be reduced to 19.9%, the rights of Citigroup in the Association shall be covered by clause 6 of the Shareholders' Agreement signed on December 27, 2007.

**e) Tax contingencies**

As of December 31, 2008, the indirect subsidiary Alusa S.A. has received tax notifications with respect to the tax years 2001, 2002 and 2003 corresponding to first category income tax differences and income tax refunds.

Alusa's management, through its legal advisers, has begun proceedings to counter the claims made by the Chilean tax authorities.

As of December 31, 2008, the subsidiary Inversiones Río Grande S.A. has made an appeal to the Metropolitan Regional Santiago East Tax Office of the Chilean SII against tax notification No.62, for the refund of monthly tax provisional payments for absorbed income from tax losses corresponding to the 1999 tax year (a historic tax value of ThCh$484,329). The taxation tribunal is currently gathering evidence.

On August 26, 2005, the subsidiary VTR S.A. received notification No.156 from the SII for special taxes for the tax year 2003, amounting to ThCh$484,269 (historic tax amount). The company appealed this claim on November 4, 2005. On February 16, 2006, Resolution 32/2006 was issued stating that there was case for reviewing the inspector's actions so the claim itself is still pending. On June 29, 2007, the inspector presented his comments to report No.93 issued on June 6, 2007 and the tax tribunal confirmed, on July 9, 2007, that these comments had been presented.

On September 1, 2004, the Chilean SII issued Resolution No. Ex. 221, in which it rejected the loss produced by the sale of shares of Indalsa Perú S.A., subsidiary of Industria Nacional de Alimentos S.A., to the indirect 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".

The subsidiary Industria Nacional de Alimentos S.A. filed a complaint against this resolution, which is presently in process, claiming statute of limitations and that the resolution does not take into consideration the existence of an economic loss with respect to this investment. It is believed that the complaint will be accepted by the tax authorities.

By Resolutions 78 of April 29, 2005 and 88 of April 28, 2006, the SII reiterated its instruction to reduce the loss declared in Form 22 for the tax years 2002 and 2003.

The subsidiary Industria Nacional de Alimentos S.A. has presented claims against both resolutions, requesting that they be added to the above proceedings.

As of December 31, 2008, Ingewall S.A., a subsidiary of Madeco S.A., has been questioned and notified by the Chilean SII with regard to certain value added tax returns corresponding to the period of June to December 1999 and February to August 2001 and whose net value in the first instance after sentencing was ThCh$366,423. The management, through its legal advisers, has made the necessary claims and expects a favorable result.

As of December 31, 2008, Ingewall S.A., a subsidiary of Madeco S.A., has received a SII notification for the tax year 2007, including interest and indexation, for an amount of ThCh$97,959. The management of Ingewall S.A. has begun appeal proceedings through its legal advisers.

As of December 31, 2008, Indalum S.A., a subsidiary of Madeco S.A., has received notification from the SII for the tax years 1999 to 2003 relating to differences in income tax and tax refunds of ThCh$327,810 (tax value). The company's management has begun, within the legal term set out in the tax code, through its legal advisers, the administrative proceedings to appeal in the first instance to the Tax Tribunal against the notifications as it considers that they are not pertinent.

Metacab S.A., a subsidiary of Decker S.A., has claims against it arising from the Participated Property Program, under a purchase contract signed with the former company ECA, an Argentine state entity. The corporate by-laws of Metacab S.A. stated that the holders of 6% of its capital should be organized under a Participated Property Program, which qualified employees of the company could join. This plan was never implemented. There are now lawsuits from former employees of that company claiming that inadequate business management led to the company's losses in the past and affected the beneficiaries of the Program. As a result of the claims, and among other restrictions, embargoes have been placed on the Lomas de Zamora plant and certain machinery of the company. The company's legal advisers currently believe that it is not possible to estimate the outcome of this issue and have said that any outcome is unquantifiable.

### i) Indirect guarantees:

| Creditor | Debtor | | Type of guarantee | Assets committed | | Balance outstanding as of December 31, | | Release of collateral | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Name | Relationship | | Type | Book value | 2008 ThCh$ | 2007 ThCh$ | 2009 ThCh$ | Assets | 2010 ThCh$ | Assets | 2011 ThCh$ | Assets |
| Aguas Andinas | Madeco S.A. | Subsidiary | Compliance or sale | - | - | 5,000 | - | 5,000 | - | - | - | - | - |
| Atacama Minerals Chile SCM | Madeco S.A. | Subsidiary | Compliance or sale | - | - | - | 712 | - | - | - | - | - | - |
| Casa de Moneda de Chile S.A. | Madeco S.A. | Subsidiary | Compliance or sale | - | - | - | 103,102 | - | - | - | - | - | - |
| Cía. de Telecomunicaciones de Chile S.A. | Madeco S.A. | Subsidiary | Compliance or sale | - | - | - | 37,977 | - | - | - | - | - | - |
| Cía Minera doña Inés de Collahuasi SCM | Madeco S.A. | Subsidiary | Compliance or sale | - | - | 8,823 | - | 8,823 | - | - | - | - | - |
| Cía. de Telecomunicaciones de Chile S.A. | Madeco S.A. | Subsidiary | Compliance or sale | - | - | - | 1,954 | - | - | - | - | - | - |
| Comercial y Logística General S.A. | Madeco S.A. | Subsidiary | Compliance or sale | - | - | - | 46,742 | - | - | - | - | - | - |
| Corporación Nacional del Cobre | Madeco S.A. | Subsidiary | Compliance or sale | - | - | 67,311 | - | 67,311 | - | - | - | - | - |
| Corporación Nacional del Cobre | Madeco S.A. | Subsidiary | Compliance or sale | - | - | 96,429 | 91,460 | - | - | 91,817 | - | 4,612 | - |
| Corporación Nacional del Cobre | Madeco S.A. | Subsidiary | Compliance or sale | - | - | 120,376 | 11,786 | 120,376 | - | - | - | - | - |
| Costanera Center S.A. | Madeco S.A. | Subsidiary | Compliance or sale | - | - | - | 5,411 | - | - | - | - | - | - |
| FAM América Latina | Madeco S.A. | Subsidiary | Compliance or sale | - | - | 61,507 | - | 61,507 | - | - | - | - | - |
| FAM América Latina | Madeco S.A. | Subsidiary | Compliance or sale | - | - | - | 34,828 | - | - | - | - | - | - |
| Fisco de Chile | Madeco S.A. | Subsidiary | Compliance or sale | - | - | 27,877 | - | 27,877 | - | - | - | - | - |
| Metso Paper | Madeco S.A. | Subsidiary | Compliance or sale | - | - | 34,175 | 29,056 | 34,175 | - | - | - | - | - |
| Minera Escondida Ltda. | Madeco S.A. | Subsidiary | Compliance or sale | - | - | - | 62,739 | - | - | - | - | - | - |
| Minera Esperanza | Madeco S.A. | Subsidiary | Compliance or sale | - | - | 15,384 | - | - | - | 15,384 | - | - | - |
| Minera Los Pelambres | Madeco S.A. | Subsidiary | Compliance or sale | - | - | 37,099 | 99,945 | 37,099 | - | - | - | - | - |
| Minera San Cristóbal | Madeco S.A. | Subsidiary | Compliance or sale | - | - | - | 173,027 | - | - | - | - | - | - |
| Mitsubishi Corp. Sucursal Chile Const. y Proyectos | Madeco S.A. | Subsidiary | Compliance or sale | - | - | - | 69,966 | - | - | - | - | - | - |
| S.Q.M. Industrial S.A. | Madeco S.A. | Subsidiary | Compliance or sale | - | - | - | 3,844 | - | - | - | - | - | - |
| S.Q.M. Salar S.A. | Madeco S.A. | Subsidiary | Compliance or sale | - | - | - | 1,414 | - | - | - | - | - | - |
| Techint Chile S.A | Madeco S.A. | Subsidiary | Compliance or sale | - | - | 854 | 930 | 854 | - | - | - | - | - |
| Banco Central de la República Argentina | Armat S.A. | Indirect Subsidiary | Compliance or sale | - | - | - | 919,892 | - | - | - | - | - | - |
| Banco Central de la Rep. Dominicana | Armat S.A. | Indirect Subsidiary | Compliance or sale | - | - | 835,735 | 189,747 | 835,735 | - | - | - | - | - |
| Banco de Guatemala | Armat S.A. | Indirect Subsidiary | Compliance or sale | - | - | 366,595 | 391,734 | 366,595 | - | - | - | - | - |
| Casa de Moneda de Chile | Armat S.A. | Indirect Subsidiary | Compliance or sale | - | - | 3,158,294 | 1,017,887 | 2,571,847 | - | 586,447 | - | - | - |
| Codelco | Armat S.A. | Indirect Subsidiary | Compliance or sale | - | - | 1,750 | 4,174 | 1,750 | - | - | - | - | - |
| Dirección de Vialidad | Indalum S.A. | Indirect Subsidiary | Performance bond | - | - | 917 | 929 | 917 | - | - | - | - | - |
| Serviu Región Metropolitana | Indalum S.A. | Indirect Subsidiary | Performance bond | - | - | 103 | 102 | 103 | - | - | - | - | - |

## NOTE 24 - GUARANTEES OBTAINED FROM THIRD PARTIES

The Company has received no guarantees from third parties as of December 31, 2008.

## NOTE 25 - SANCTIONS

During 2008 and 2007, neither the Parent Company nor its directors or managers received any sanctions from the SVS or any other regulatory authority.

## NOTE 26 - SUBSEQUENT EVENTS

There have been no events of a financial or other nature occurring between December 31, 2008 and the date of the issuance of these consolidated financial statements that would significantly affect their interpretation.

## NOTE 27 - 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 de 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. and subsidiaries prepared in accordance with instructions of the SBIF.

| LQIF and Subsidiaries | As of December 31, | |
|---|---|---|
| Consolidated Balance Sheets | 2008 ThCh$ | 2007 ThCh$ |
| Assets | | |
| Cash and bank deposits | 751,230,285 | 405,201,197 |
| Transactions pending settlement | 469,581,571 | 330,977,603 |
| Trading instruments | 705,688,208 | 1,597,017,768 |
| Leaseback agreements and loans of securities | 75,519,343 | 79,323,738 |
| Financial derivative contracts | 904,725,247 | 88,331,135 |
| Due by banks | 321,993,000 | 303,164,720 |
| Loans and accounts receivable from customers | 13,421,802,975 | 11,382,365,801 |
| Investment instruments available for sale | 1,071,436,631 | - |
| Investments in other companies | 11,376,735 | 8,013,996 |
| Intangible assets | 624,578,750 | 352,152,422 |
| Property, plant and equipment | 205,399,643 | 183,900,927 |
| Deferred taxes | 70,523,173 | 49,119,128 |
| Other assets | 114,346,625 | 165,675,483 |
| Total assets | 18,748,202,186 | 14,945,243,918 |
| | | |
| Liabilities | | |
| Deposits and other demand liabilities | 3,006,754,297 | 2,734,813,151 |
| Transactions pending settlement | 141,988,675 | 75,801,407 |
| Leaseback agreements and loans of securities | 420,657,935 | 386,794,754 |
| Time deposits and other funding | 8,435,135,932 | 7,124,724,326 |
| Financial derivative contracts | 862,798,985 | 130,856,931 |
| Obligations with banks | 1,515,287,477 | 964,654,894 |
| Debt instruments issued | 2,054,473,797 | 1,913,653,214 |
| Provision for payment of Subordinated Obligation to the Central Bank | 98,223,580 | 106,870,773 |
| Other financial obligations | 93,707,542 | 68,652,263 |
| Current taxes | 9,034,505 | 6,452,282 |
| Deferred taxes | 25,464,707 | 15,946,372 |
| Provisions | 145,841,373 | 73,516,103 |
| Other liabilities | 108,143,247 | 84,954,155 |
| Total liabilities | 16,917,512,052 | 13,687,690,625 |
| | | |
| Shareholders' Equity | | |
| Attributable to shareholders of LQIF S.A.: | | |
| Capital | 959,602,300 | 613,154,009 |
| Reserves | 280,683,457 | 45,898,673 |
| Valuation accounts | | |
| Retained earnings: | | |
| Retained earnings from previous years | 39,791,697 | 49,295,408 |
| Net income for the year | 62,615,406 | 51,743,823 |
| Less: | | |
| Provision for minimum dividends | - | - |
| Total | 1,342,692,860 | 760,091,913 |
| Minority interest | 487,997,274 | 497,461,380 |
| Total shareholders' equity | 1,830,690,134 | 1,257,553,293 |
| Total liabilities and shareholders' equity | 18,748,202,186 | 14,945,243,918 |

LQIF and Subsidiaries
Consolidated Statements of Integral Results

| A. Statements of income | For the years ended December 31, 2008 ThCh$ | 2007 ThCh$ |
|---|---|---|
| Interest and indexation income | 1,666,227,405 | 1,205,157,121 |
| Interest and indexation expenses | (891,200,033) | (696,773,648) |
| Net interest and indexation income | 775,027,372 | 508,383,473 |
| | | |
| Income from fees | 275,899,152 | 238,097,032 |
| Fees paid | (60,034,921) | (50,324,235) |
| Net income from fees | 215,864,231 | 187,772,797 |
| | | |
| Net gain from financial transactions | 387,702,967 | 39,442,722 |
| Foreign currency translation, net | (353,011,062) | 19,755,769 |
| Other operating income | 70,453,079 | 23,940,465 |
| Total operating income | 1,096,036,587 | 779,295,226 |
| Allowances for loan losses | (138,592,814) | (56,678,085) |
| Net operating income | 957,443,773 | 722,617,141 |
| | | |
| Staff remuneration and expenses | (306,567,554) | (207,212,214) |
| Administrative expenses | (178,406,614) | (131,586,412) |
| Depreciation and amortization | (82,159,407) | (49,275,341) |
| Other operating expenses | (54,494,398) | (27,607,920) |
| Total operating expenses | (621,627,973) | (415,681,887) |
| | | |
| Operating income | 335,815,800 | 306,935,254 |
| | | |
| Income (loss) from investments in companies | 2,986,854 | (2,229,298) |
| Price-level restatement | (76,053,101) | (39,848,567) |
| Income before income tax | 262,749,553 | 264,857,389 |
| Income tax | (37,582,967) | (28,828,094) |
| Provision for payment Subordinated Obligation to Banco Central de Chile | (98,223,580) | (106,870,773) |
| Net consolidated income for the year | 126,943,006 | 129,158,522 |
| | | |
| Earnings attributable to shareholders | | |
| Shareholders of LQIF S.A. | 62,615,406 | 51,743,823 |
| Earnings attributable to minority interest | 64,327,600 | 77,414,699 |
| | 126,943,006 | 129,158,522 |

LQIF and Subsidiaries
Consolidated Statements of Integral Results

| B. Statement of other integral results | For the years ended December 31, 2008 ThCh$ | 2007 ThCh$ |
|---|---|---|
| | | |
| Net consolidated income for the year | 126,943,006 | 129,158,522 |
| Other integral results | | |
| Investment instruments available for sale | | |
| Gain (loss) from valuation | (10,127,834) | 4,167 |
| Cumulative translation adjustment | 2,310,064 | (1,501,989) |
| Other integral results before income tax | (7,817,770) | (1,497,822) |
| Income tax on other integral results | 1,721,732 | (708) |
| Total other integral results | (6,096,038) | (1,498,530) |
| Integral net income for the year | 120,846,968 | 127,659,992 |
| Attributable to: | | |
| Shareholders of LQIF S.A. | 56,519,368 | 50,245,293 |
| Minority interest | 64,327,600 | 77,414,699 |
| Total | 120,846,968 | 127,659,992 |

LQIF and banking subsidiaries
Summarized Consolidated Statements of Cash Flows

| | For the years ended December 31, 2008 ThCh$ | 2007 ThCh$ |
|---|---|---|
| Cash flows from operating activities | | |
| Net income | 126,943,006 | 129,158,522 |
| Charges (credits) to income which do not represent cash flows: | | |
| Depreciation and amortization | 82,159,407 | 49,275,341 |
| Allowances for loan losses | 178,240,578 | 94,928,132 |
| Fair value of trading instruments | (2,835,782) | 5,707,270 |
| Gain (loss) on investments in other companies | (2,986,854) | 2,229,298 |
| Net gain on sale of assets received in lieu of payment | (7,569,576) | (1,531,827) |
| (Gain) loss on sale of premises and equipment | 70,462 | (453,755) |
| Write-off of assets received in lieu of payment | 4,188,068 | 11,964,829 |
| Price-level restatement, net | 76,053,101 | 39,848,567 |
| Other (charges) credits to income which do not represent cash flows | (1,439,656) | 42,851,602 |
| Net variation in accrued interest, indexation adjustments and fees | (196,383,209) | (20,828,892) |
| Provision for subordinated debt obligation | 98,223,580 | 106,870,773 |
| Net cash flows provided by operating activities | 354,663,125 | 460,019,860 |
| | | |
| Cash flows from investing activities | | |
| Increase in customer loans and accounts receivable, net | (1,311,853,110) | (1,684,413,565) |
| (Increase) decrease in financial investments, net | (232,013,531) | 26,954,350 |
| Additions to property, plant and equipment | (16,363,107) | (28,099,540) |
| Sales of property, plant and equipment | 777,889 | 2,577,513 |
| Investments in other companies | (114,395,540) | (64,245,440) |
| Dividends received from investments in other companies | 1,015,147 | 929,948 |
| Sale of assets received in lieu of payment | 12,039,531 | 5,187,079 |
| Net decrease in other assets and liabilities | (38,436,648) | (504,412,747) |
| Net cash flows used in investing activities | (1,699,229,369) | (2,245,522,402) |
| | | |
| Cash flows from financing activities | | |
| Increase in checking accounts | 129,929,089 | 242,273,830 |
| Increase in deposits and funding | 966,601,642 | 707,681,975 |
| Increase (decrease) in other term or demand liabilities | (19,803,022) | 5,273,249 |
| Increase (decrease) in investments sold under repurchase agreements | 27,748,073 | (5,285,659) |
| Increase (decrease) in short-term borrowings from abroad | 214,722,617 | (128,912,945) |
| Issuance of mortgage-funding notes | 3,487,193 | 5,532,417 |
| Redemption of mortgage-funding notes | (96,438,539) | (101,571,684) |
| Increase (decrease) in other short-term liabilities | (86,427,114) | 17,816,847 |
| Loans drawn from Central Bank of Chile- long-term | 470,301 | 1,502,994 |
| Repayment of loans from Central Bank of Chile- long-term | (768,635) | (1,902,559) |
| Bond issuance | 237,784,115 | 248,469,564 |
| Bond repayments | (21,777,627) | (41,937,723) |
| Loans received from abroad – long-term | 1,666,426,094 | 680,658,458 |
| Repayment of loans from abroad – long-term | (1,176,749,534) | (342,688,355) |
| Other long-term loans drawn | 40,970,420 | 2,052,090 |
| Repayment of other long-term loans | (15,236,835) | (8,794,252) |
| Capital increase subsidiary Banco de Chile | 17,370,109 | 163,746,275 |
| Capital increase | - | 55,866 |
| Dividends paid to shareholders of subsidiaries | (127,614,988) | (61,020,249) |
| Dividends paid to shareholders of the parent company | (143,447,047) | (36,440,098) |
| Payment of the subordinated obligation | (97,973,313) | (89,812,494) |
| Net cash flows provided by financing activities | 1,519,272,999 | 1,256,697,547 |
| Net total positive (negative) cash flows | 174,706,755 | (528,804,995) |
| Effect of inflation on cash and cash equivalents | (91,145,478) | (66,624,289) |
| Net increase (decrease) in cash and cash equivalents | 83,561,277 | (595,429,284) |
| Cash and cash equivalents, beginning of year | 1,302,926,380 | 1,783,315,061 |
| Cash and cash equivalents, end of year | 1,386,487,657 | 1,187,885,777 |

## NOTE 27.1 - SIGNIFICANT ACCOUNTING PRINCIPLES

### a) Basis of information

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Chile ("Chilean GAAP") 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.

On November 9, 2007, the SBIF issued its Circular 3,410 informing the new accounting regulations that banks should apply in the convergences process to international financial reporting standards (IFRS) developed by the SBIF. These regulations establish, among other things, the new formats for the presentation of the monthly, quarterly and annual financial statements that banks should apply from January 1, 2008. This new criteria only affects the presentations of the financial statements but has no effect on the accounting criteria applied by the Bank during 2008.

### b) Basis of preparation

For comparison purposes, the financial statements for the previous year have been adjusted for inflation by the percentage variation in the official Chilean consumer price index, of 8.9%.

### c) Basis of consolidation

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

| | Direct and indirect shareholding | |
|---|---|---|
| | 2008<br>% | 2007<br>% |
| SM Chile S.A. and subsidiaries | 58.24 | 52.83 |
| Inversiones LQ SM Ltda. | 99.99 | 99.99 |

The financial statements of Sociedad Matriz del Banco de Chile and subsidiaries include the consolidation of the following direct and indirect subsidiaries: Banco de Chile, Sociedad Administradora de la Obligación Subordinada 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., Citibank Agencia de Valores S.A., Banchile Administradora General de Fondos S.A., Banchile Securitizadora S.A., Promarket S.A. and Socofin S.A.

The application of the different valuation criteria on matters mainly related to price-level restatement does not generate significant differences in the consolidated financial statements.

Significant inter-company transactions and balances deriving from operations between LQ Inversiones Financieras S.A. and its subsidiaries and between these companies have been eliminated. The minority interest is shown separately in the consolidated statement of financial position and consolidated statement of integral results.

### d) Interest and adjustments

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

The indirect subsidiary Banco de Chile suspends the accrual of interest and principal indexation adjustments on loans that are overdue or when recovery is doubtful. Interest accrued to the date of suspension remains as an asset and is considered as part of the balance of loans when determining allowances for loan losses.

### e) Price-level restatement

Shareholders' equity, property, plant and equipment and other non-monetary assets and liabilities have been restated in accordance with changes in the Chilean CPI, which resulted in a net charge to income of ThCh$76,053,101 (ThCh$39,848,567 in 2007). The income statement accounts are restated except in the subsidiaries regulated by the SBIF.

### f) Basis of conversion

Assets and liabilities denominated in Unidades de Fomento (UF) have been valued at Ch$21,452.57 per UF as of December 31, 2008 (Ch$19,622.66 per UF in 2007).

### g) Foreign currency

The US dollar assets and liabilities of subsidiaries regulated by the SBIF are shown at their equivalent value in Chilean pesos, calculated using the current exchange rate of Ch$629.11 per US$1.00 as of December 31, 2008 (Ch$495.82 per US$1.00 as of December 31, 2007), which does not differ significantly from the exchange rate applied by subsidiaries supervised by the SVS.

The balance of ThCh$353,011,062 (gain of ThCh$19,755,769 in 2007) corresponding to the net loss on foreign exchange shown in the Statements 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.

### h) Trading instruments

Investments for trading relate to instruments acquired with the intention of generating gains on the fluctuations in the prices of short and long-term trading margins, or which are included in a portfolio in which there is a pattern of making short-term gains.

Instruments for trading are shown valued at their fair value according to market prices as of each year-end. Gains or losses from adjustments in their valuation at fair value, and the results of trading activities, are shown in Net gain from financial operations in the consolidated statement of income. Accrued interest and indexation are reported as Interest and indexation income.

All purchases and sales of instruments for trading that should be delivered within the term stated by market regulations or customs are recognized on the date of acquisition, which is the date on which the purchase or sale of the asset is promised. Any other purchase or sale is treated as derivative (forward) until the settlement.

### i) Instruments for investment

Investment instruments are classified in two categories: investments to maturity and instruments available for sale. The category of investments to maturity includes only those instruments where there is the capacity and the intention to hold them until their maturity date.  Other investment instruments are considered as available for sale.

Instruments for investment are shown initially at cost, which includes trading costs.

Instruments available for sale are later valued at their fair value according to market prices or values obtained from the use of models. Unrealized gains or losses caused by the change in their fair value are shown as a charge or credit to equity accounts. When these investments are disposed of or deteriorate, the amount of adjustments to fair value in equity is transferred to income and shown under Net gain from financial operations.

Investments to maturity are shown at their cost plus accrued interest and indexation, less the allowance for deteriorations made when the amount booked is higher than their estimated recovery value.

Interest and indexation on investments to maturity and investments available for sale are included in Interest and indexation income.

Investment instruments that are subject to accounting hedges are adjusted according to the hedging accounting rules.

Purchases and sales of investment instruments that have to be delivered within the term set by market regulations or custom are shown on the negotiation date on which the purchase or sale of the asset is agreed.  Other purchases and sales are treated as derivatives (forward) until their settlement.

The indirect subsidiary Banco de Chile and subsidiaries do not have any Investments to maturity as of December 31, 2008 and 2007.

**j) Transactions under repurchase agreements**

The indirect subsidiary Banco de Chile and its subsidiaries carry out repurchase transactions as a form of financing. Investments sold subject to a repurchase agreement and which serve as collateral for a loan are shown as Traded documents or Investments available for sale. The obligation to repurchase the investment is shown as Investments sold under repurchase agreements and Obligations under repurchase agreements, valued according to the agreed interest rate.

The indirect subsidiary Banco de Chile and its subsidiaries also carry out repurchase agreements as a form of investment. Financial instruments bought under these agreements are included in assets under Investments purchased under resale agreements, and are valued according to the agreed interest rate.

**k) Assets received in lieu of payment**

Assets received in lieu of payment are shown in Other assets at the lower of their restated cost and their appraisal value less legally-required write-offs and net of allowances for non-payment. The write-offs are required by the SBIF if the asset is not sold within one year of its receipt.

**l) Property, plant and equipment**

Property, plant and equipment are shown at restated cost (except for the New York and Miami branches in 2007) and net of depreciation calculated using the straight-line method over the useful lives of the respective assets.

Real estate held for sale amounted to ThCh$318,474 as of December 31, 2007. The allowance made to reflect the sale value of these assets is ThCh$238,622. There were no such assets available for sale as of December 31, 2008.

**m) Leasing contracts**

Receivables under leasing contracts, included in Loans and accounts receivable from customers, relate to the periodic contract rentals that meet the requirements for qualifying as financial leases and are shown as their nominal value net of non-accrued interest and taxes at the end of each year.

**n) Factoring transactions**

The indirect subsidiary Banco de Chile and its subsidiary Banchile Factoring S.A. carry out factoring transactions with their customers whereby they receive invoices and other trade instruments representative of credit, with or without recourse to the customer, and advance to the customer a percentage of the total amount receivable from the debtor of the documents so assigned.

The item Loans and accounts receivable from customers includes ThCh$483,903,842 as of December 31, 2008 (ThCh$11,656,214 in 2007) relating to the amount advanced to the assignor plus accrued interest, net of payments received.

**o) 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 and their results are presented on an accrual basis. Other minority investments are shown at their restated cost.

**p) Conversion of the financial statements of foreign subsidiary**

Banco de Chile converts the accounts of the subsidiary Banchile Trade Services Limited, Hong Kong, to Chilean pesos from US dollars in accordance with the instructions of the SBIF, which are consistent with Technical Bulletin 64 “Accounting for Foreign Investments in Related Companies” of the Chilean Association of Accountants. All the amounts in the Statements of integral results and Statement of financial position are converted to Chilean pesos at the year-end exchange rate. In accordance with this standard foreign investments are price-level restated with a charge or credit to income, while the gains or losses from exchange rate differences between the Chilean peso and US dollar are shown in equity in Valuation accounts.

The bank applied the same criteria for the foreign branches in New York and Miami as of December 31, 2007.

**q) Derivative products**

Financial derivative contracts, which include foreign currency and UF forward contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options, and other financial derivative instruments held by the banking and financial subsidiaries, are initially shown in the balance sheet at cost (including trading costs) and later valued at their fair value. The fair value is obtained from market quotations, discounted cash flow models and options valuation models, as appropriate. Derivative contracts are reported as an asset when their fair value is positive or as a liability when their fair value is negative, under the heading Financial derivative contracts.

Certain derivatives incorporated in other financial instruments are treated as separate derivatives when their risk or characteristics are not closely related to the principal contract and this is not recorded as their fair value with the unrealized gains or losses included in results.

At the time of the agreement of a derivative contract, this should be designated as derivative instrument for negotiation or for accounting hedging purposes.

Changes in the fair value of financial derivative contracts held for negotiation are included in Net gain from financial operations in the Consolidated statement of income.

If the derivative instrument is classified for accounting hedging, this may be (1) a hedge for the fair value of existing assets or liabilities or firm commitments, or (2) a hedge for cash flows related to existing assets or liabilities or expected transactions. Hedging for accounting purposes should meet the following conditions: (a) at the time the hedge is agreed, the hedging has been formally documented, (b) it is expected that the hedge will be highly effective, (c) the effectiveness of the hedge can be measured in a reasonable manner, and (d) the hedge is highly effective in relation to the risk covered, continuously over the whole term of the hedge.

Certain transactions that do not qualify to be booked as hedging derivatives are treated and reported as derivatives for trading, even though they provide an effective hedge for managing exposures.

When a derivative covers exposure to changes in the fair value of an existing asset or liability, this is shown at its fair value in relation to the specific risk hedged. Gains or losses arising from the measurement of fair value of both the item hedged and of the hedging derivative, are shown against results for the year.

If the item covered in a fair value hedge is a firm commitment, changes in the fair value of the commitment with respect to the risk hedged are shown as assets or liabilities with effect on the results for the year. Gains and losses from measuring the fair value of the hedging derivative are shown against results for the year. When an asset or liability is acquired as a result of the commitment, the initial booking of the asset or liability acquired is adjusted to incorporate the accumulated effect of the valuation to fair value of the firm commitment that was recorded in the Balance sheet.

When a derivative provides a hedge for exposure to changes in the cash flows of existing assets or liabilities or expected transactions, the effective portion of the changes in fair value with respect to the risk hedged is shown in equity. Any ineffective portion is shown directly against the results for the year. The amounts shown directly in equity are shown in results in the same year as the hedged assets or liabilities affect the results.

When a hedge at fair value is made covering interest rates for a portfolio, and the item hedged is an amount of money instead of individual assets or liabilities, the gains or losses arising from measuring the fair value, both of the portfolio hedged and the hedging derivative, are shown against results for the year, but the measurement of fair value of the hedged portfolio is shown in the consolidated balance sheet under Other assets or Other liabilities, depending on the position of the hedged portfolio at a moment in time.

### r) Loans and accounts receivable from customers, allowances, write-offs and recoveries

Loans and accounts receivable from customers originated and acquired by the subsidiaries are initially shown at cost, i.e. the disbursement of the amount of the loan. Later, loans are valued at their amortized cost and are shown net of allowances for loan losses.

As required by the SBIF, the bank and subsidiaries use models or methods based on an individual and group analysis of debtors in order to make the allowances for loan losses.

- Allowances through individual evaluation
  The individual analysis of debtors is applied to the segments of corporate and individual customers which, due to their size, complexity or level of exposure makes it necessary to consider them fully. It also requires that each debtor and their respective loans be assigned a risk category, for which the following should be considered for making the individual analysis: industry or sector, partners and management, financial position, and payment record and capacity.

One of the following categories should be assigned to each debtor with their loans after making the analysis:

i. Categories A1, A2 and A3 relate to debtors without appreciable risks, whose payment capacity will continue to be good in unfavorable business, economic or financial conditions.
ii. Category B relates to debtors that show some risk but no signs of deterioration, to the point that, in the face of unfavorable business, economic or financial conditions, these debtors would cease to pay some of their obligations.
iii. Categories C1, C2, C3, C4, D1 and D2 relate to debtors with insufficient payment capacity.

The board approves percentage allowances for debtors classified as A1, A2, A3 and B. Allowances for debtors classified as C1, C2, C3, C4, D1 and D2 are determined in accordance with regulations, as follows:

| Category | Range of estimated loss | Allowance |
|---|---|---|
| C1 | Up to 3% | 2% |
| C2 | Over 3% to 19% | 10% |
| C3 | Over 19% to 29% | 25% |
| C4 | Over 29% to 49% | 40% |
| D1 | Over 49% to 79% | 65% |
| D2 | More than 79% | 90% |

- Allowances through group evaluation
  The group evaluation is used to analyze a large number of operations whose individual amounts are small. Banco de Chile uses models based on the attributes of the debtors and their loans and models based on the behavior of a group of loans. Allowances are made according to the estimated loss produced by these models.

- Additional allowances
  In accordance with the instructions of the SBIF, the indirect subsidiary Banco de Chile has made additional allowances for the loan portfolio evaluated individually, considering the expected deterioration of that portfolio. The calculation of this allowance is made based on the bank's historic experience and taking into account possible adverse macroeconomic prospects or circumstances that might affect the sector, industry, debtor groups or projects. Allowances charged to results of ThCh$16,996,949 (ThCh320,044 in 2007) were made for this concept during this year.

- Loan write-offs
  Loans are written off when recovery efforts have been exhausted within time periods not exceeding those required by the SBIF, which are as follows:
  1. 24 months from the loan's entry into the overdue category (3 months for consumer loans) for unsecured loans.
  2. 36 months from the loan's entry into the overdue category for secured loans.

- Recovery of loans written off
  Recoveries of loans written off, including loans repurchased from the Banco Central de Chile and shown in memorandum accounts, are shown directly as income in the Consolidated statement of integral results under the heading Allowances for loan losses.

  As of December 31, 2008, recoveries of loans written off amounted to ThCh$39,647,764 (ThCh$38,250,047 in 2007).

### s) Current and deferred income taxes

The Parent Company and its direct and indirect subsidiaries have determined their liability for first category income tax in accordance with current legislation. For these purposes, the banking subsidiaries especially consider Circular 41 of July 24, 1996 and Official Letter 1,874 of 1996 issued by the Chilean SII.

The effects of deferred income taxes arising from timing differences between the book and tax values of assets and liabilities have been recorded on an accrual basis in accordance with Technical Bulletin 60 and complementary bulletins of the Chilean Association of Accountants and Circular No.1,466 of the SVS.

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

### u) Intangible assets
These include goodwill, identifiable intangible assets and investments in software, net of accumulated amortization and adjustments.

Intangible assets like goodwill, those generated by combinations of businesses like the loans portfolio, investments in software and licenses for the use of brands are shown at their restated cost and are amortized on a straight-line basis over their estimated useful lives. In any event, software investments are amortized within a maximum term of six years.

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

As of December 31, 2008 and 2007, a provision has been made for this obligation on the basis of its present value discounted at a real annual rate of 6%.

### w) Cash and cash equivalents
Cash and cash equivalents relate to Cash and bank deposits, plus (less) the net balance of operations pending settlement as shown in the Consolidated statement of financial position, plus highly-liquid instruments for trading and instruments available for sale with little significant risk of loss of value, whose term to maturity does not exceed three months from the date of acquisition, and repurchase agreements on those terms. They also include investments in fixed-income mutual funds, which are shown together with instruments for trading in the Consolidated statement of financial position.

## NOTE 27.2 - BACKGROUND OF SUBSIDIARY SOCIEDAD MATRIZ DEL BANCO DE CHILE S.A.

During the Extraordinary Shareholders' Meeting held on July 18, 1996, Banco de Chile's shareholders accepted the provisions of clauses 3 and 5 of Law 19,396 concerning modifications of the payment conditions of the Subordinated Obligation with the Central Bank of Chile. By this, the company changed its name to Sociedad Matriz del Banco de Chile S.A., or SM Chile S.A. and changed its bylaws to being just the holder of shares in Banco de Chile and carrying out the activities permitted under Law 19,396. It was also agreed to transfer all of its assets and liabilities of the company, except for the Subordinated Obligation with the Central Bank of Chile, to a new banking company to be called Banco de Chile, and to form a privately-held corporation called Sociedad Administradora de la Obligación Subordinada SAOS S.A., to which the commitment with the Chilean Central Bank and part of the shares in the new bank were transferred.

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 shares of the new Banco de Chile representing a 42.0% 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. SM Chile S.A. maintains the commitment to transfer the dividends and bonus 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. will remain in existence until the subordinated obligation of its subsidiary Sociedad Administradora de la Obligación Subordinada SAOS S.A. with the Central Bank of Chile is repaid. When this occurs, its shareholders will be transferred the shares that the company holds in Banco de Chile.

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

## NOTE 27.3 - ACCOUNTING CHANGES

(a) The SBIF, through its Circular 3,410 of November 9, 2007, later complemented by Circular 3,443 of August 21, 2008, advised the new accounting regulations that banks should apply in the convergences process to international financial reporting standards (IFRS) developed by the SBIF. The following are the principal impacts of the application of these new regulations:

i.- Accounting changes made during 2008

As established in Chapters B-4 and E of these new regulations, SM Chile S.A. recorded a liability, under provisions, as of December 31, 2008 of ThCh$28,620,084 with respect to the provision to pay minimum dividends, while reducing Retained earnings by the same amount. Until 2007, the dividends were shown at the date of the corresponding shareholders' meeting. This change does not affect the results.

ii.- New formats for presentation of the financial statements from the year 2008:

Chapter C-3 of the regulations established the presentation formats for the annual financial statements and required (Chapter E) their application from 2008. The application of these new formats affected only the presentation of these financial statements and did not affect the accounting criteria applied by SM Chile S.A. For comparison purposes, the financial statements for 2007 have been amended according to the new format. The financial statements for that year therefore differ, in terms of presentation, from those reported the previous year.

(b) There have been no other accounting changes during the year 2008 that might affect the interpretation of these consolidated financial statements.

## NOTE 27.4 - PROVISION FOR PAYMENT OF THE BANCO DE CHILE SUBORDINATED DEBT

The provision for payment of the thirteenth annual installment (of the 40 total installments of UF 3,187,363.98 each) of the subordinated obligation with the Chilean Central Bank as of December 31, 2008 was ThCh$98,223,580 (equivalent to UF 4,578,639.27) which corresponds to the amount that, according to the contract covering the obligation, must be paid to the Central Bank by April 30, 2009, as its annual installment provided that Banco de Chile distributes all its 2008 net income as a dividend. The final value of the annual installment will be known once the shareholders of Banco de Chile approve the distribution of 2008 net income at the shareholders' meeting.

## NOTE 27.5 - SUBSEQUENT EVENTS

There are no other events of a financial, accounting or other nature occurring between December 31, 2008, and the date of issue of these financial statements that might significantly affect their interpretation.

## NOTE 28 – ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

As established by the Chilean Association of Accountants and the SBIF, the Parent Company and its subsidiaries will fully adopt the international financial reporting standards (IFRS) from 2009. There will therefore be changes to the initial capital as of January 1, 2009 and the determination of the results of future years will be affected. Also, for comparison purposes, the financial statements for 2008 have to be presented according to the new standards, which, once determined, may differ from those presented here. The preliminary effects of this change, through the application of the new regulations in the preparation of the financial statements of the Parent Company, have been quantified and notified to the SVS according to its instructions contained in Official Letter 457 of June 20, 2008.

# Material Information

On January 1, 2008, the merger was completed by the incorporation of Citigroup Chile II, a Chilean subsidiary of Citigroup, into LQIF, the latter therefore acquiring all its assets and liabilities and succeeding it in all its rights and obligations, thus incorporating the equity of Citigroup Chile II, which was then dissolved. LQIF therefore is the legal successor of Citigroup Chile II S.A.

The following was reported to the SVS on February 21, 2008:

"With respect to our presentations to the SVS on November 15 and 16, 2007, reporting as material information that Quiñenco S.A. had participated in a Framework Agreement on November 15, 2007 between its subsidiary Madeco S.A. and the French company Nexans S.A. which involved the transfer of all the cables assets of Madeco in Chile, Argentina, Peru, Brazil and Colombia, as required by articles 9 and 10.2 of the Securities Market Law 18,045, you are informed that:

On February 21, 2008, following a mutually-agreed extension of the term initially agreed in the Framework Agreement and the parties having satisfactorily completed the corresponding due diligence, a definitive transfer agreement was signed in Santiago of the above-mentioned cable assets of Madeco to Nexans.

The final price agreed was US$448 million payable in cash plus 2.5 million shares issued by Nexans, whose closing market value on February 20, 2008 was US$267 million. The part of the final price payable in cash is subject to the normal adjustments for this type of transaction, such as changes in working capital, debt and proportions of the minority shareholders in each of the Latin American companies involved in this transaction on the date of its closing. Such closing should be no later than September 30, 2008 and is subject to compliance with the following principal conditions:

1. Approval of the transaction by the respective extraordinary shareholders' meetings of Madeco and Nexans.
2. Obtaining all the administrative authorizations required to complete this transaction according to the legislation of each country where its assets are located.
3. Obtaining authorizations from financial creditors and others required under contracts, and
4. The completion of the corporate reorganization necessary to carry out the transaction.

For its part, Quiñenco has assumed the following obligations in the framework agreement: a) support and vote this transaction favorably at the respective extraordinary shareholders' meeting of Madeco, (b) maintain its shareholding in Madeco, and (c) not approve capital reductions in Madeco below a certain minimum.

With respect to the financial effects of this transaction for Quiñenco, the company would show a proportional gain for the year 2008 of approximately US$97 million as a result of recognizing the net income of its subsidiary Madeco, a figure that represents a change from that reported on November 16, 2007 as a result of the change in the corresponding estimate of earnings reported by Madeco at the time. This calculation has been made on the basis of the current shareholding of Quiñenco in this subsidiary. This estimate is subject to variations such as the result of changes in the factor value involved in the operation between February 20, 2008 and the closing date".

The following was reported to the SVS on March 7, 2008:

"In accordance with Circular 660 of the SVS, you are informed that at the board meeting held on March 6, 2008, it was agreed to propose at the next Ordinary Shareholders' Meeting, the distribution of a final dividend of Ch$52,620,498,146, representing 50% of the 2007 net income, comprised of a) a minimum obligatory dividend of Ch$31,085,175,743, equivalent to 30% of the 2007 net income, calculated after deducting the amortization of consolidated negative goodwill from the consolidated income for the year and b) an additional dividend of Ch$21,535,322,403. This final dividend is of Ch$45.97372 per share."

On April 4, 2008, Quiñenco S.A. reported the following to the SVS:

"In accordance with Circular 660 of the SVS, you are informed that with respect to the proposed final dividend of Ch$45.97372 per share reported to the SVS as material information on March 7, 2008, it was agreed to propose at the next Ordinary Shareholders' Meeting that this dividend be payable from May 8, 2008."

On April 29, 2008, Quiñenco S.A. reported the following to the SVS:

"In accordance with clauses 9 and 10.2 of Law 18,045 and Circulars 1,737 and 660 of the SVS, you are informed that at the Ordinary Shareholders' Meeting of Quiñenco S.A., held on April 29, 2008, the shareholders approved a final dividend distribution of Ch$52,620,498,146, corresponding to 50% of 2007 net income, comprising a) a minimum obligatory dividend of Ch$31,085,175,743, equivalent to 30% of 2007 net income, after deducting the amortization of consolidated negative goodwill from the consolidated income for the year, and b) an additional dividend of Ch$21,535,322,403.

This final dividend is of Ch$45.97372 per share, payable starting May 8, 2008 to the registered shareholders as of May 2, 2008.

The notification of the above, in compliance with article 104 of the Corporations Regulations and Section II of Circular 660, will be published in El Mercurio newspaper on April 30, 2008."

On December 19, 2008, Quiñenco S.A. reported the following to the SVS:

"In accordance with clauses 9 and 10.2 of Law 18,045 and General Rule No.30 and Circular 1,737 of January 13, 2005 of the SVS, you are informed that, with respect to the Framework Agreement signed on July 19, 2007 between the Company and Citigroup Inc. and Citibank Overseas Investment Corporation (together with Citigroup Inc.), that:

1. Quiñenco S.A. and Citigroup have signed an Amendment to the Framework Agreement that, bearing in mind that the Second Closing Date is April 30, 2010. The parties state that the call and put option for 8.52% of the shares of LQ Inversiones Financieras S.A. (LQIF) of the Second Closing Date may be exercised by Citigroup within 30 days of December 31, 2009 to buy and, if not, by Quiñenco S.A. between January 31 and February 14, 2010 to sell the shareholder participation to Citigroup.

2. This amendment also states that if, as a consequence of acts or decisions of some relevant authority in the United States, Citigroup is not able to purchase at the Second Closing Date the shares of LQIF subject to the purchase and sale option it shall have an additional term of fifteen months from April 30, 2010 to acquire the shares needed to reach 50%, or just 41.4778% of the share capital of LQIF. Should Citigroup not exercise its option for any reason, Quiñenco S.A. has the option to acquire from Citigroup the number of shares necessary to reach an 80.1%, with which the shareholding of Citigroup in LQIF will be reduced to 19.9%, in which case Citigroup will remain as a shareholder in LQIF with that percentage, thus reducing its rights in the Association in accordance with the 6th clause of the Framework Agreement.

3. The amendment annuls any advice, notification or communication relating to the Framework Agreement prior to it."

During the period between January 1 and December 31, 2008, there have been no other events that by their nature or importance are of a material nature, as defined by General Rule No.30 of the SVS.

# Management's Analysis of the Consolidated Financial Statements

For the year ended December 31, 2008

## NET INCOME

Quiñenco reported net income of Ch$232,052 million in 2008, twice that reported the previous year. This positive variation is mainly explained by higher non-operating results in 2008, which included a non-recurring gain of Ch$135,766 million related to the association with Citigroup in LQIF and an increase in Madeco's contribution of $34,290 million, which corresponds almost entirely to the profit on the sale of its wire and cable unit to Nexans. Non-operating results in 2007 included a non-recurring gain on the sale of Entel shares of Ch$40,607 million.

**Table No. 1: Composition of net income**

| | In millions of Ch$ as of December 31, 2008 | |
|---|---|---|
| | 2008 | 2007 |
| Operating income | 34,585 | 43,169 |
| Non-operating income | 315,988 | 97,492 |
| Other (1) | (118,522) | (26,053) |
| Net non-operating results | 197,467 | 71,439 |
| Net income for the year | 232,052 | 114,607 |

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

## OPERATING INCOME

Table No. 2 shows a comparison of consolidated operating income:

**Table No. 2: Composition of consolidated operating income**

| | In millions of Ch$ as of December 31, 2008 | |
|---|---|---|
| | 2008 | 2007 |
| Madeco | 40,014 | 43,685 |
| Telefónica del Sur | 7,999 | 11,454 |
| Quiñenco and others (1) | (13,427) | (11,971) |
| Total operating income | 34,585 | 43,169 |

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

Operating income declined by 19.9% to Ch$34,585 million in 2008 compared to 2007, primarily due to a decrease in both Madeco and Telefónica del Sur's operating income.

Madeco's operating income decreased by 8.4% to Ch$40,014 million, mainly owing to lower gross income as a result of lower sales, as well as higher SG&A expenses. The reduction in operating income was mostly explained by the brass mills unit, followed by the wire and cable unit, which was sold at the end of the third quarter of 2008 and therefore only included until that date. Growth in operating income of flexible packaging partially offset these lower results, boosted by higher sales volumes.

Telefónica del Sur's operating income fell by 30.2% to Ch$7,999 million in spite of a stable sales level, mainly due to higher costs related to digital IP television, higher broadband internet costs resulting from growth in the client base and speed upgrades, higher costs of energy and outsourcing, and increased depreciation expense associated to investments for the new services offered, such as the wireless and fiber optic networks.

## NET SALES

During 2008, Quiñenco's consolidated sales amounted to Ch$760,333 million, a slight 0.4% lower than the previous year. This reduction is primarily explained by Madeco's lower sales level. The composition of consolidated sales is shown in Table No. 3:

**Table No. 3: Composition of consolidated sales**

| | In millions of Ch$ as of December 31, 2008 | |
|---|---|---|
| | 2008 | 2007 |
| Madeco | 692,958 | 695,883 |
| Telsur | 66,133 | 66,095 |
| Quiñenco and others (1) | 1,242 | 1,158 |
| Total sales | 760,333 | 763,136 |

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

In 2008, Madeco's sales fell by 0.4% compared to the previous year, mainly owing to lower sales from: i) brass mills, due to lower sales volumes, ii) the wire and cable unit, which was sold at the end of the third quarter, and, to a lesser extent, iii) the profiles unit owing to lower average prices. These reductions were partially offset by higher sales of the flexible packaging unit based on increased sales volumes in Peru, Chile and Argentina.

Telefónica del Sur's revenues remained practically at the same level as in 2007, reaching Ch$66,133 million in 2008 despite a 4% growth in the number of clients, boosted by internet and digital IP television, mainly due to i) lower revenues from traditional services such as fixed telephony, long distance and public telephones that are being replaced by mobile telephony and IP voice communication through internet, and ii) lower average prices due to client migration from individual to bundled products and the competitive environment prevailing.

## COST OF SALES

Consolidated cost of goods sold increased by a slight 0.3% in 2008 over the previous year. This variation is mainly explained by an increase of 10.4% in the cost of goods sold at Telefónica del Sur, attributable to higher costs of : i) digital IP television programming, ii) broadband internet (due to client growth and speed upgrades), iii)energy, iv) effects of outsourcing labor regulation, v) internet and television due to higher US dollar exchange rate, and vi) depreciation expense arising from new investments. The above was partially offset by lower cost of goods sold at Madeco, due to the absence of the cable unit in the last quarter of 2008. The composition of consolidated cost of goods sold is presented in Table No. 4:

**Table No. 4: Composition of consolidated cost of goods sold**

| | In millions of Ch$ as of December 31, 2008 | |
|---|---|---|
| | 2008 | 2007 |
| Madeco | (612,810) | (614,304) |
| Telefónica del Sur | (41,177) | (37,301) |
| Quiñenco and others (1) | (3,622) | (4,152) |
| Total cost of goods sold | (657,609) | (655,757) |

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

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated SG&A expenses amounted to Ch$68,138 million in 2008, an increase of 6.1% compared to the previous year, explained by Madeco's operations and Quiñenco and its intermediate companies. Sales and administrative expenses at Madeco increased by 5.9%, related mostly to the operations in Brazil, Peru and Madeco Chile. The composition of consolidated SG&A is presented in Table No. 5:

Table No. 5: Composition of selling, general and administrative expenses

| | In millions of Ch$ as of December 31, 2008 | |
|---|---|---|
| | 2008 | 2007 |
| Madeco | (40,134) | (37,894) |
| Telefónica del Sur | (16,957) | (17,339) |
| Quiñenco and others (1) | (11,047) | (8,976) |
| Total selling, general and administrative expenses | (68,138) | (64,210) |

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

## NON-OPERATING RESULTS AND OTHER ITEMS

Quiñenco reported non-operating income and other items of Ch$197,467 million in 2008, considerably higher than the Ch$71,439 million reported in 2007. This increase of Ch$126,028 million mainly owes to a profit, net of conversion adjustments, of Ch$131,551 million due to the sale of Madeco's cable unit to Nexans, and a non-recurring gain related to the association with Citigroup in LQIF that amounted to Ch$135,766 million. These gains were partly offset by a higher minority interest charge of Ch$61,723 million, related mainly to the share of minority shareholders in Madeco's increased results, as well as Citigroup's share in LQIF, and higher income tax of Ch$30,806 million at Madeco. Also, during 2008 there was higher amortization of goodwill due to the sale of Madeco's cable unit to Nexans and the increased share of LQIF in Banco de Chile. Likewise, the increment in amortization of intangibles derives from the accounting at fair value of assets acquired through the transaction with Citigroup. On the other hand, a non-recurring gain on the sale of Entel shares of Ch$40.607 million was reported in 2007.

Table No. 6 shows the composition of non-operating results and other items:

Table No. 6: Breakdown of non-operating results and other items

| | In millions of Ch$ as of December 31, 2008 | |
|---|---|---|
| | 2008 | 2007 |
| Interest income | 10,779 | 7,364 |
| (Net) income from equity method investments | 138,719 | 106,764 |
| Goodwill amortization | (55,161) | (26,462) |
| Other non-operating income | 304,071 | 49,369 |
| Other non-operating expenses | (43,719) | (4,635) |
| Interest expense | (34,196) | (32,134) |
| Price-level restatement | (8,028) | (6,422) |
| Foreign exchange differences | 3,522 | 3,648 |
| Non-operating income | 315,988 | 97,492 |
| Income taxes | (40,347) | (9,541) |
| Extraordinary items | - | - |
| Minority interest | (80,004) | (18,281) |
| Negative goodwill amortization | 1,829 | 1,768 |
| Total non-operating income and other items | 197,467 | 71,439 |

## COMPOSITION OF NET INCOME:

Table No. 7 below shows Quiñenco's net income composition, broken down by its main operating companies:

**Table No. 7 Net income contribution**

In millions of Ch$ as of December 31, 2008

| Sector/Company | Net income | | Quiñenco's ownership | | Quiñenco's proportionate share | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Financial Services | | | | | | |
| Banco de Chile (1) | 272,427 | 263,851 | 27.1% | 30.7% | 73,873 | 79,820 |
| Food & Beverages | | | | | | |
| CCU (2) | 82,631 | 86,248 | 33.1% | 33.1% | 27,314 | 28,510 |
| Telecommunications | | | | | | |
| Telefónica del Sur (3) | 4,005 | 6,764 | 74.4% | 74.4% | 2,981 | 4,996 |
| Manufacturing | | | | | | |
| Madeco (4) | 97,184 | 21,410 | 47.7% | 45.2% | 44,144 | 9,854 |
| Other operating companies (5) | | | | | (621) | (9,494) |
| Total operating companies | | | | | 147,691 | 113,686 |
| Others (corporate level) (6) | | | | | 84,361 | 921 |
| Net income for the year | | | | | 232,052 | 114,607 |

Notes:

(1) Represents Quiñenco's economic rights in Banco de Chile. The voting rights held by its subsidiary LQIF were 61.7% in 2008 and 52.5% in 2007.

(2) Indirect ownership through Inversiones y Rentas S.A and IRSA Ltda.

(3) Direct and indirect ownership through VTR S.A.

(4) Direct and indirect ownership through Río Grande S.A.

(5) In 2007, Other operating companies includes the results of Indalsa and subsidiaries and Inversiones Ranquil (ex Inversiones Río Rimac S.A.) and subsidiaries. In 2008, these companies are included in Others (corporate level) because they no longer have commercial activities. Net income of both companies amounted to Ch$3,524 million in 2008.

(6) Others (corporate level) includes Quiñenco and intermediate holding companies.

## NET INCOME CONTRIBUTION OF MAIN OPERATING COMPANIES

As shown in Table No. 7, the contribution of operating companies to Quiñenco's net income increased by 29.9% or Ch$34,005 million in comparison to 2007, mostly explained by the increase in the contribution from Madeco that reported a profit on the sale of its cable unit to Nexans, and a higher contribution from other operating companies.

Banco de Chile reported a net income of Ch$272,427 million in 2008, an increase of 3.3% over the previous year. Growth in net income was driven by: i) an increase of Ch$264,773 million in interest income, ii) higher other operating income of Ch$44,445 million mainly due to non-recurring income from the sale of foreign branches to Citigroup, and to a lesser extent, to non-recurring income from the sale of stocks of Visa Inc., as a consequence of its public offering on the NYSE, and ii) growth of Ch$28,091 in fee income. These positive factors were partly offset by higher operating expenses of Ch$182,567 million, mainly attributable to the incorporation of Citibank Chile's cost base, organic growth, non-recurring merger related charges and a one-time cost related to the anticipated collective bargaining agreement, and additional provisions for loan losses of Ch$81,915 million, reflecting the deteriorated international economic conditions and its potential impact on the local financial market.

CCU posted net income of Ch$82,631 million, 4.2% lower than the year before, mainly due to a non-recurring gain related to the association with Nestlé in the water business reported in 2007. This was partially compensated by higher operating income and a lower income tax charge in 2008. Operating income grew by 9.7% in 2008 resulting from higher sales volumes and higher average prices, partially offset by increased production costs and SG&A expenses.

Telefónica del Sur's net income decreased by 40.8% to Ch$4,005 million, attributable to a decline in operating income, mainly explained by higher cost of goods sold related to the launching of new digital IP television, the effects of the new outsourcing labor regulation, higher energy costs, and increased depreciation expense of investments carried out during the last two years.

Madeco reported net income of Ch$97,184 million, considerably superior to the Ch$21,410 million reported the previous year, mainly explained by a profit after tax of Ch$89,565 million arising from the sale of its wire and cable unit to Nexans. During the period, however, Madeco reported lower operating income, higher amortization of goodwill also related to the sale of the cable unit, and higher income tax.

### Quiñenco and Others

As shown in the line Quiñenco and Others in Table No. 7, the contribution to net income at the corporate level amounted to Ch$84,361 million in 2008, which compares positively to the Ch$921 million reported in 2007. The variation between both periods is mainly explained by a non-recurring gain related to the association with Citigroup in LQIF that amounted to Ch$135,766 million, in comparison to a non-recurring gain of Ch$40,607 million on the sale of shares of Entel in 2007. The transaction with Citigroup also generated: a) a higher balance of goodwill and intangibles, which implied a higher charge to income in 2008, and b) an increase in minority interest.

## BALANCE SHEET

### Assets

As of December 31, 2008, Quiñenco had consolidated assets of Ch$2,505,324 million, an increase of 27.2% compared to 2007, mainly due to growth in related companies, particularly Banco de Chile, and in Other companies reflecting the stake in Nexans.

Current assets were Ch$485,284 million, which represented a decrease of 7.5% compared to 2007. The decrease was primarily attributable to a lower level of inventories and account receivables, partially compensated by higher account receivables from related companies and higher cash. These variations are mostly related to Madeco's operations, as a result of the sale of its cable unit to Nexans.

Fixed assets reached Ch$285,642 million, a decrease of 17.0% compared to the previous period, mainly explained by Madeco, due to the sale of its cable unit to Nexans.

Other long-term assets were Ch$1,734,398 million, an increase of 57.6% compared to last year, principally due to an increase in the equity investment related to Banco de Chile as a result of the merger with Citibank Chile at the beginning of 2008, acquisitions of Banco de Chile and SM Chile shares during the year, and to a lesser extent, due to the increment in investments in other companies, reflecting the 2.5 million shares of Nexans received as part of the payment for the sale of Madeco's cable unit, and the proportionate share in Banco de Chile and CCU's results for the period.

Table No. 8 below shows the composition of consolidated assets on a comparative basis:

**Table No. 8: Composition of consolidated assets**

| | In millions of Ch$ as of December 31, 2008 | |
|---|---|---|
| | 2008 | 2007 |
| Madeco | 551,642 | 530,449 |
| Telsur | 178,953 | 167,024 |
| Quiñenco and others (1) | 1,774,730 | 1,271,550 |
| Total consolidated assets | 2,505,324 | 1,969,023 |

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

## Liabilities

Table No. 9 presents Quiñenco's consolidated liabilities at the close of each year.

**Table No. 9: Composition of consolidated liabilities and shareholders' equity**

| | In millions of Ch$ as of December 31, 2008 | |
|---|---|---|
| | 2008 | 2007 |
| Current liabilities | 175,564 | 206,068 |
| Long-term liabilities | 289,515 | 468,006 |
| Total liabilities | 465,078 | 674,074 |
| Minority interest | 715,637 | 210,537 |
| Shareholders' equity | 1,324,609 | 1,084,412 |
| Total liabilities and shareholders' equity | 2,505,324 | 1,969,023 |

As of December 31, 2008, consolidated liabilities amounted to Ch$465,078 million, a 31.0% reduction compared to year end 2007. The decrease was attributable to lower indebtedness at the corporate level reflecting the prepayment of outstanding obligations with Banco Estado, as well as the corresponding amortization of bonds during the period, and lower indebtedness at Madeco reflecting lower bank debt and bonds, partially offset by an increment in liabilities at Telefónica del Sur to finance its development plan.

Table No. 10 shows the composition of consolidated liabilities at the close of each year:

**Table No. 10 Composition of consolidated liabilities**

| | In millions of Ch$ as of December 31, 2008 | |
|---|---|---|
| | 2008 | 2007 |
| Madeco | 110,912 | 218,508 |
| Telsur | 92,436 | 81,556 |
| Quiñenco and others (1) | 261,731 | 374,011 |
| Total liabilities | 465,078 | 674,074 |

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

Consolidated leverage decreased from 0.62:1 at the close of 2007 to 0.35:1 in 2008. This positive evolution is explained by the lower level of indebtedness and the growth in net worth. Current liabilities represented 37.7% of total liabilities, compared to 30.6% as of December 31, 2007.

Minority interest at the end of 2008 was Ch$715,637 million, higher than the Ch$210,537 million of the year before, primarily related to third party shareholders in LQIF, and to a lesser extent, in Madeco.

## Shareholders' equity

At the close of 2008, shareholders' equity amounted to Ch$1,324,609 million, an increase of 22.1% compared to 2007, mainly reflecting the net earnings for the period and the variation in other reserves, partly offset by dividend payments carried out during the year.

The book value of Quiñenco's shares as of December 31, 2008 was Ch$1,157.29 per share and the earnings per share for the year amounted to Ch$202.74.

## FINANCIAL INDICATORS

| FINANCIAL INDICATORS | | 12.31.08 | 9.30.08 | 12.31.07 |
|---|---|---|---|---|
| LIQUIDITY | | | | |
| Current ratio | | 2.8 | 1.9 | 2.5 |
| Acid test ratio | | 1.3 | 1.0 | 1.0 |
| INDEBTEDNESS | | | | |
| Debt/equity ratio | | 0.35 | 0.46 | 0.62 |
| Short-term debt/total debt | | 37.75% | 52.21% | 30.57% |
| Long-term debt/total debt | | 62.25% | 47.79% | 69.43% |
| Interest coverage ratio | Times | 8.97 | 9.79 | 4.86 |
| BALANCE SHEET | | | | |
| Total assets | MCh$ | 2,505,324 | 2,628,262 | 1,969,023 |
| Inventory rotation | Times | 6 | 5 | 5 |
| Inventory turnover/days | | 57 | 67 | 73 |
| INCOME STATEMENT | | | | |
| Sales | MCh$ | 760,333 | 683,591 | 763,136 |
| Cost of goods sold | MCh$ | (657,609) | (589,770) | (655,757) |
| Operating income | MCh$ | 34,585 | 37,060 | 43,169 |
| Interest expense | MCh$ | (34,196) | (28,167) | (32,134) |
| Non-operating income | MCh$ | 315,988 | 280,358 | 97,492 |
| Net income for the year | MCh$ | 232,052 | 217,933 | 114,607 |
| PROFITABILITY | | | | |
| ROE | | 19.3% | 18.4% | 11.5% |
| ROA | | 10.4% | 9.5% | 6.2% |
| Return on operating assets (*) | | 4.2% | 4.2% | 5.4% |
| Earnings per share | Ch$ | 202.74 | 190.41 | 100.13 |
| Dividend yield | | 5.5% | 5.3% | 1.7% |

(*) 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, 2008, its investments in operating companies were concentrated in four sectors as shown in Table No. 7 “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 No. 3 “Composition of consolidated sales”.

## CASH FLOW SUMMARY

| | In millions of Ch$ as of December 31, 2008 | |
|---|---|---|
| | 2008 | 2007 |
| Net cash flow provided by operating activities | 175,596 | 77,874 |
| Net cash flow (used in) provided by financing activities | (124,237) | 48,126 |
| Net cash flow provided by (used in) investing activities | 67,321 | (144,554) |
| Total net cash flow for the year | 118,680 | (18,554) |
| Price-level restatement on cash and cash equivalents | 9,997 | 3,917 |
| Net increase (decrease) in cash and cash equivalents | 128,677 | (14,637) |
| Cash and cash equivalents at the beginning of the year | 32,793 | 47,430 |
| Cash and cash equivalents at the end of the year | 161,470 | 32,793 |

As of December 31, 2008, Quiñenco generated positive consolidated net cash flow of Ch$118,680 million, due to the positive cash flow provided by operating activities of Ch$175,596 million and cash flow provided by investing activities of Ch$67,321 million , partially offset by negative cash flow used in financing activities of Ch$124,237 million.

Cash flow provided by operating activities is mostly made up of dividends received from Banco de Chile, and to a lesser extent, CCU, which amounted to Ch$121,033 million as well as collection of accounts receivable (net of payments to suppliers) of Ch$72,406 million, partially offset by interest payments of Ch$25,505 million.

The cash flow provided by investing activities was mostly derived from the sale of investments in related companies amounting to Ch$195,069 million, mainly corresponding to the sale of Madeco's cable unit to Nexans, and other net income from investments of Ch$96,635 million, due to the withdrawal of long term time deposits, partially offset by the purchase of investments in related companies of Ch$134,403 million, mostly due to the acquisition of Banco de Chile and SM Chile shares during the period, and the addition of fixed assets of Ch$60,179 million at Madeco and Telefónica del Sur.

Cash flow used in financing activities is mostly made up of loan payments (net) of Ch$120,793 million carried out by Madeco and Quiñenco and its intermediate companies, dividend payments of Ch$91,421 million, and payment of bonds of Ch$32,133 million, partially compensated by proceeds from LQIF's capital increase of Ch$120,200 million related to the incorporation of Citigroup.

## EXCHANGE RATE RISK AND INTEREST RATE RISK

As of December 31, 2008 and 2007, Quiñenco maintains on a consolidated basis, assets and liabilities in foreign currencies as shown in Table No. 11. Quiñenco has a net asset exposure in US dollars, and to a lesser extent in Peruvian Soles, Brazilian Reales and Argentine Pesos, mainly corresponding to Madeco's fixed assets and investments abroad. Management has not utilized hedging mechanisms to cover this risk.

**Table No. 11 Foreign currency exchange rate risk exposure**

In millions of Ch$ as of December 31, 2008

| 2008 | US dollar | Euro | Argentine peso | Peruvian sol | Brazilian real | Colombian peso | Other currencies |
|---|---|---|---|---|---|---|---|
| Assets | 145,795 | 797 | 8,148 | 12,652 | 6,459 | - | - |
| Liabilities | (61,449) | (67) | (4,331) | (2,966) | (418) | - | (7) |
| FX forwards | - | - | - | - | - | - | - |
| Net exposure in assets (liabilities) | 84,347 | 730 | 3,817 | 9,687 | 6,041 | - | (7) |

In millions of Ch$ as of December 31, 2008

| 2007 | US dollar | Euro | Argentine peso | Peruvian sol | Brazilian real | Colombian peso | Other currencies |
|---|---|---|---|---|---|---|---|
| Assets | 179,249 | 1,780 | 19,823 | 40,440 | 82,279 | 15,565 | |
| Liabilities | (92,227) | (168) | (6,557) | (6,746) | (33,777) | (6,330) | (2) |
| FX forwards | - | - | - | - | (29,035) | - | - |
| Net exposure in assets (liabilities) | 87,021 | 1,612 | 13,267 | 33,694 | 19,467 | 9,235 | (2) |

With respect to interest rate risk, 90.0% (67.8% in 2007) of Quiñenco's interest bearing debt has been contracted at fixed rates and amounts to Ch$350,941 million (Ch$384,328 million in 2007). The remaining 10.0% (32.2% in 2007) corresponds to variable rates, equivalent to Ch$38,978 million (Ch$182,636 million in 2007). The exposure in terms of interest rate risk was equivalent to 1.6% of consolidated assets at the end of 2008 (9.3% in 2007). Management has not utilized hedging mechanisms to cover this risk.

Other information and quarterly financial reports (summarized) may be found on Quiñenco's website at www.quinenco.cl.

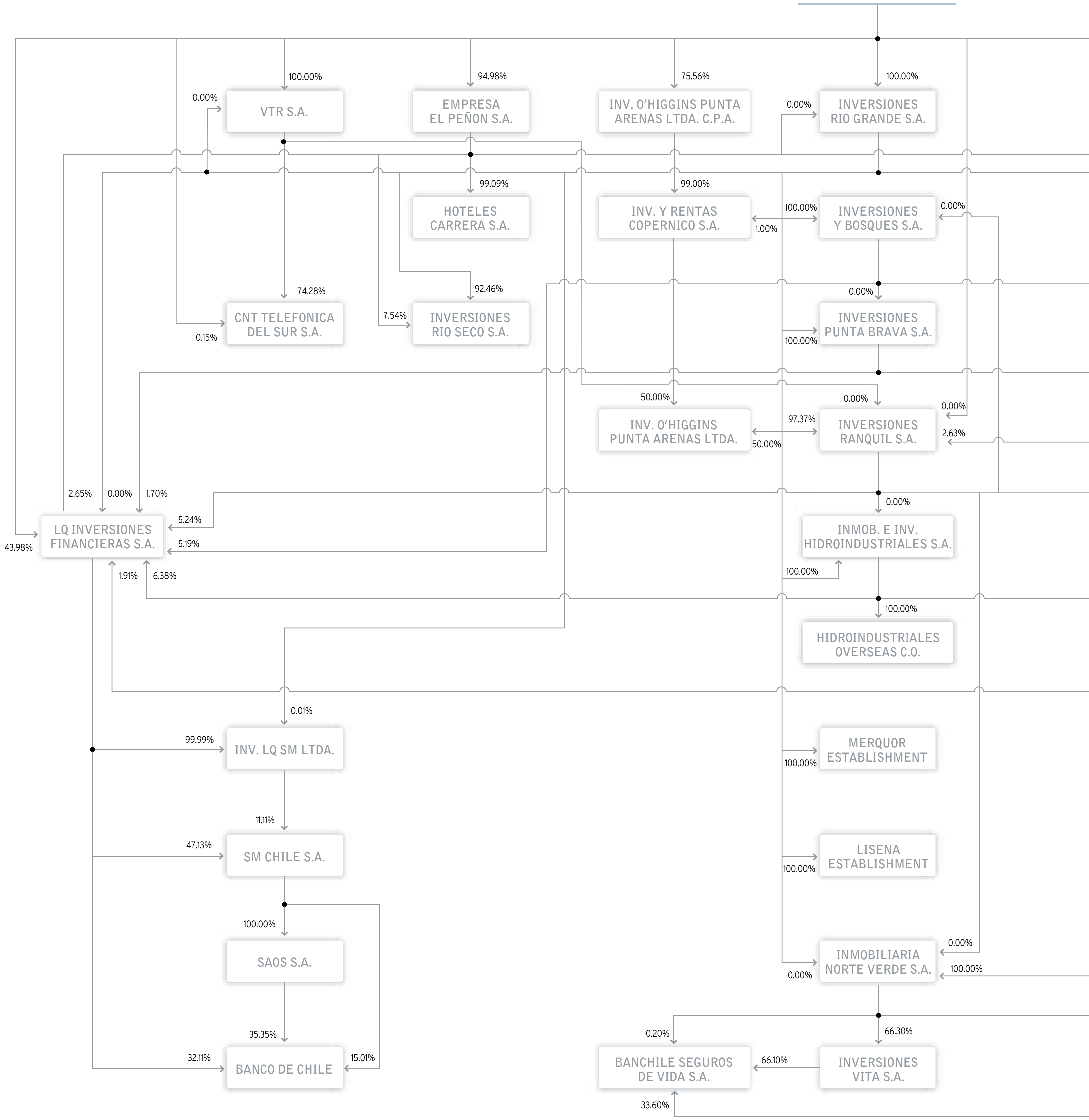
Francisco Pérez Mackenna
Chief Executive Officer

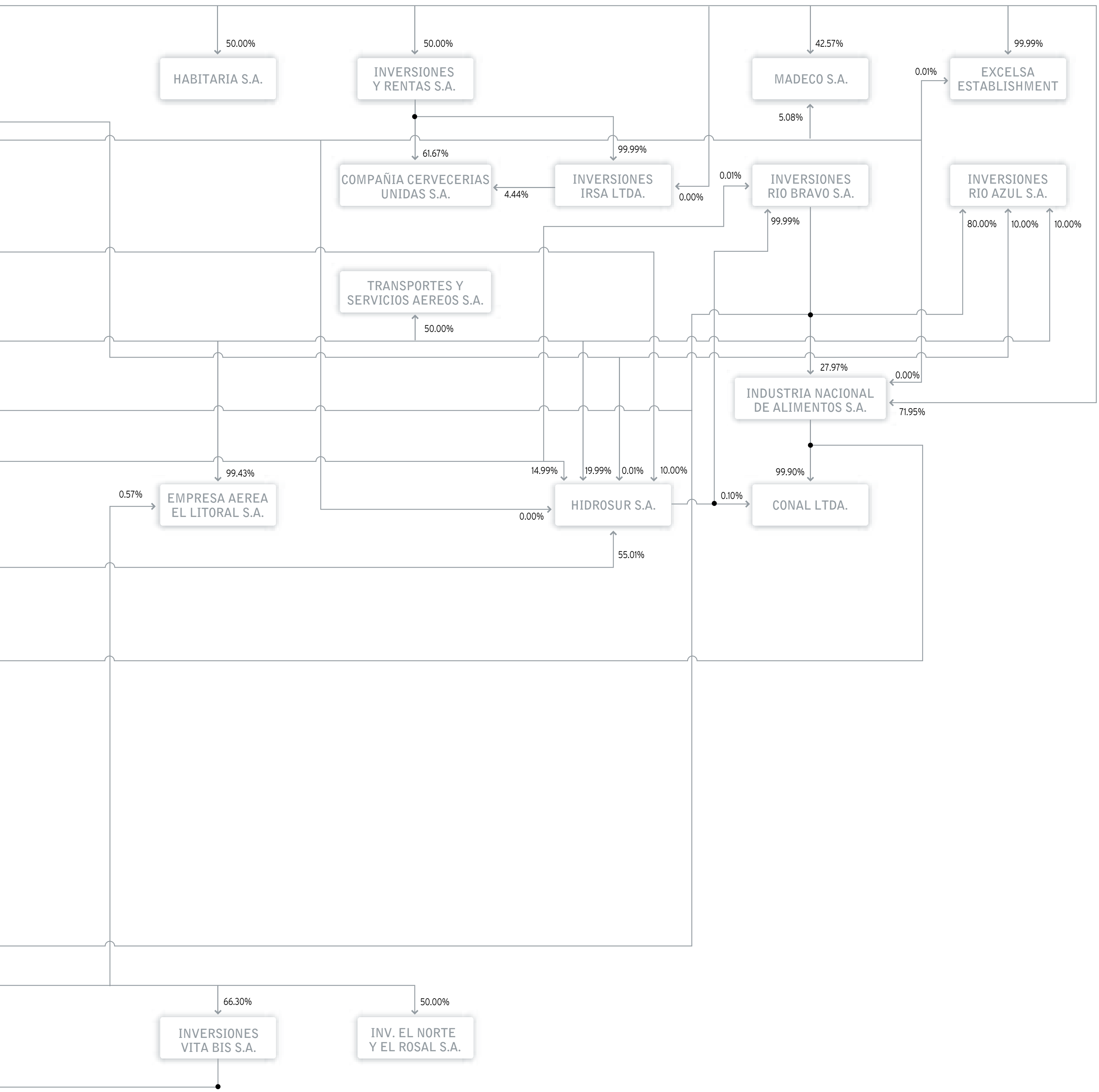
# Corporate Structure

Subsidiaries and Affiliate Companies
As of December 31, 2008

# QUIÑENCO S.A. SUBSIDIARIES AND AFFILIATES

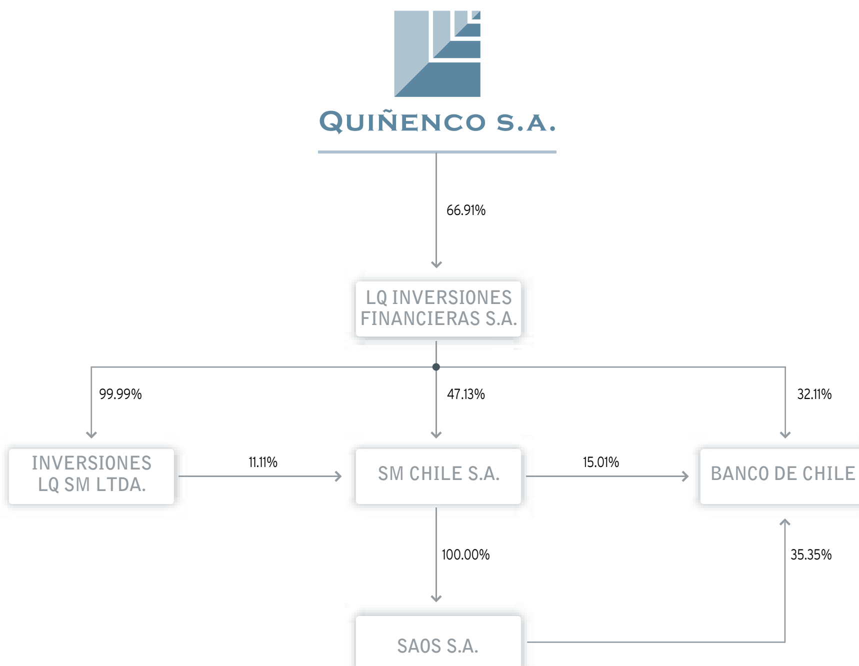
QUIÑENCO S.A.

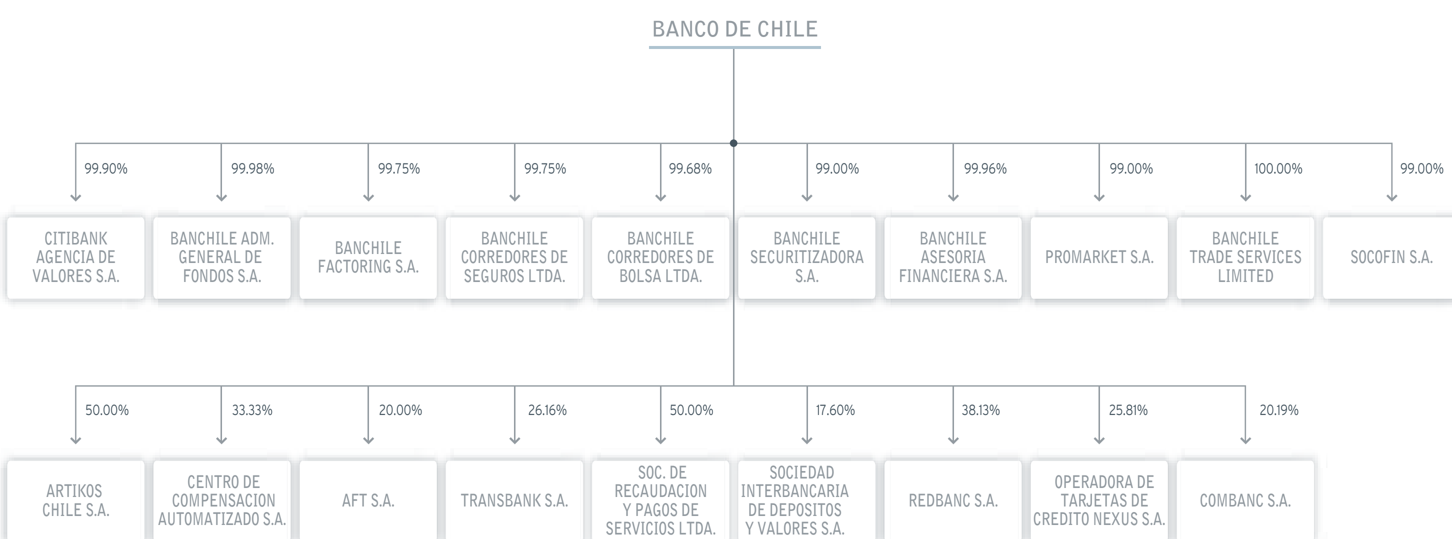



50.00%
HABITARIA S.A.
50.00%
INVERSIONES Y RENTAS S.A.
42.57%
MADECO S.A.
99.99%
0.01%
EXCELSA ESTABLISHMENT
5.08%
61.67%
99.99%
COMPAÑIA CERVECERIAS UNIDAS S.A.
4.44%
INVERSIONES IRSA LTDA.
0.00%
0.01%
INVERSIONES RIO BRAVO S.A.
INVERSIONES RIO AZUL S.A.
99.99%
80.00%
10.00%
10.00%
TRANSPORTES Y SERVICIOS AEREOS S.A.
50.00%
27.97%
0.00%
INDUSTRIA NACIONAL DE ALIMENTOS S.A.
71.95%
99.43%
14.99%
19.99%
0.01%
10.00%
99.90%
0.57%
EMPRESA AEREA EL LITORAL S.A.
0.00%
HIDROSUR S.A.
0.10%
CONAL LTDA.
55.01%
66.30%
INVERSIONES VITA BIS S.A.
50.00%
INV. EL NORTE Y EL ROSAL S.A.

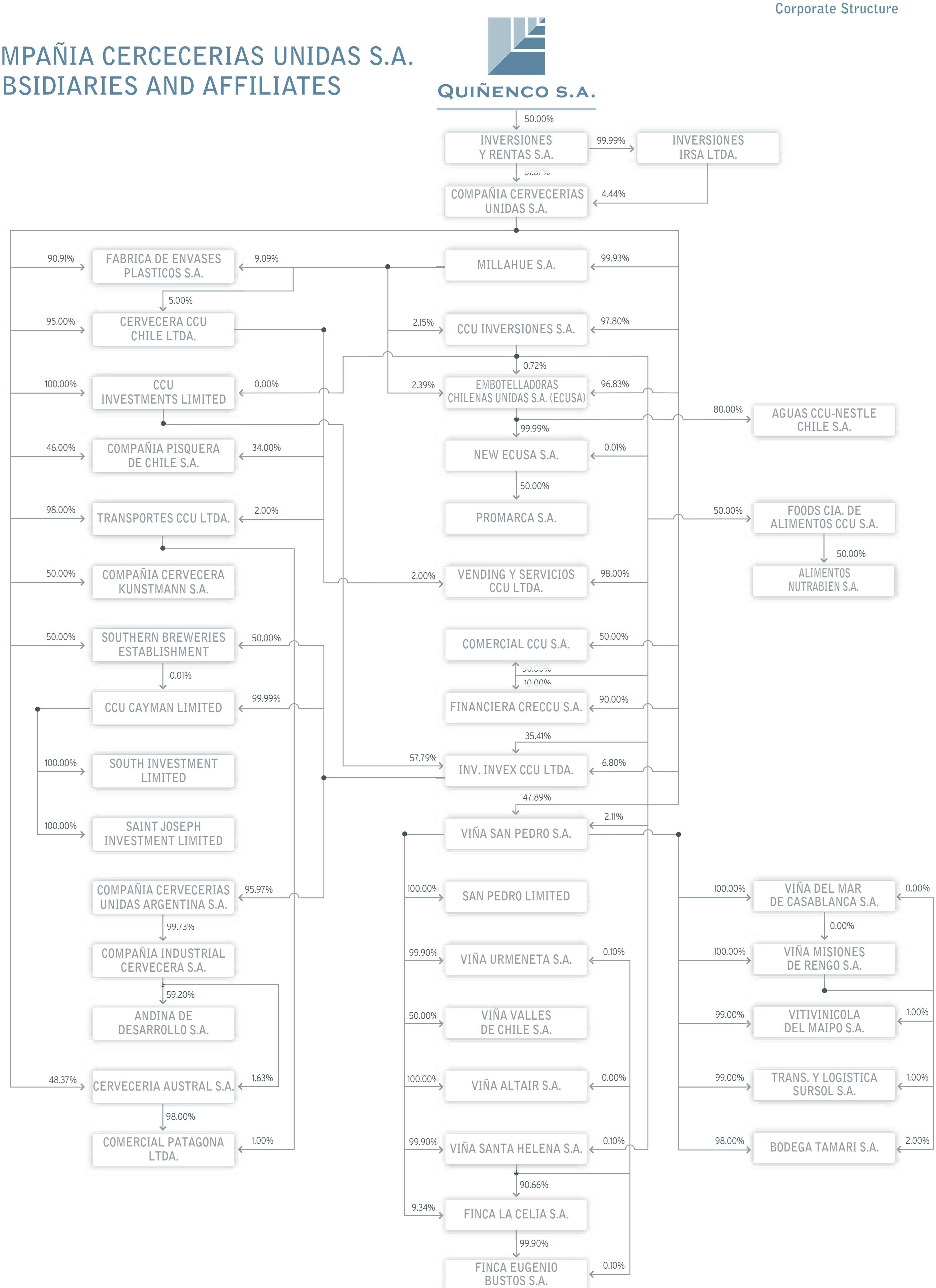
# LQ INVERSIONES FINANCIERAS S.A.

## SUBSIDIARIES AND AFFILIATES

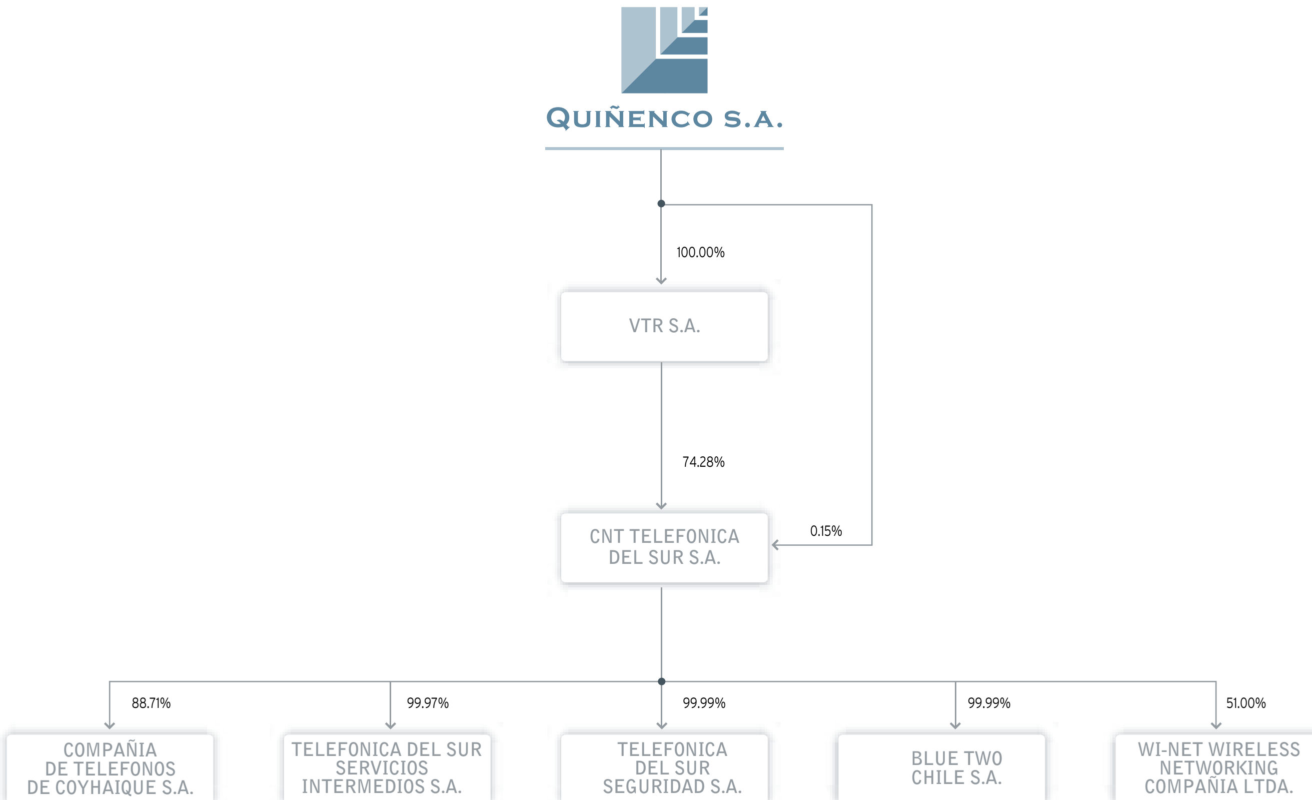


# COMPAÑIA CERCECERIAS UNIDAS S.A. SUBSIDIARIES AND AFFILIATES



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



## MADECO S.A. SUBSIDIARIES AND AFFILIATES