

QUIÑENCO S.A.

Consolidated financial statements

At December 31, 1998

(Translation from the original in Spanish)

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ThCh\$ - Thousands of Chilean pesos  
UF - Inflation index-linked units  
ThUS\$ - Thousands of United States Dollars  
Ch\$ - Chilean pesos

**Price Waterhouse**

Firma miembro de **PRICEWATERHOUSECOOPERS** 

REPORT OF INDEPENDENT ACCOUNTANTS  
(Translation from the original in Spanish)

Santiago, February 27, 1999

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

We have audited the consolidated balance sheets of Quiñenco S.A. and its subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of income and of cash flows for years then ended. These financial statements (including the related notes thereto) are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of O'Higgins Central Hispanoamericano S.A. for which investment the Company recognized a proportional profit amounting to ThCh\$ 3,257,689 and ThCh\$ 8,059,181 for the years ended December 31, 1998 and 1997. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for O'Higgins Central Hispanoamericano S.A., is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards 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 report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Quiñenco S.A. and its subsidiaries as of December 31, 1998 and 1997 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Chile.

Alan S. Mackenzie H.

QUIÑENCO S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Translation from the original in Spanish)

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	3,268,506	6,282,011
Time deposits (Note 5)	36,002,234	55,836,514
Marketable securities (Note 6)	7,777,443	4,750,131
Accounts receivable (net)	105,369,491	123,271,310
Notes and accounts receivable (net)	9,076,553	9,083,192
Other accounts receivable	8,505,936	9,756,241
Notes and accounts receivable from related companies (Note 17)	26,758,287	22,334,236
Inventories (Note 7)	82,964,685	80,061,340
Recoverable taxes	15,056,936	13,126,712
Prepaid expenses	1,852,182	2,681,598
Other current assets (Note 8)	<u>99,788,868</u>	<u>32,274,822</u>
Total current assets	<u>396,421,121</u>	<u>359,458,107</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	23,836,983	22,630,344
Buildings and installations	252,587,688	254,628,456
Machinery and equipment	323,594,934	304,832,056
Other fixed assets	58,207,917	47,331,510
Revaluation from technical appraisals	<u>23,227,079</u>	<u>25,389,163</u>
	681,454,601	654,811,529
Accumulated depreciation	<u>(196,862,415)</u>	<u>(179,990,804)</u>
Total property, plant and equipment	<u>484,592,186</u>	<u>474,820,725</u>
<b>OTHER ASSETS</b>		
Investments in related companies	263,955,089	266,608,691
Other investments	30,187,168	17,634,362
Goodwill	80,904,209	74,571,149
Negative goodwill	(1,478,175)	(106,024)
Long-term accounts receivable	1,881,561	199,283,822
Notes and accounts receivable from related companies	171,849	9,869,106
Intangible assets	1,391,273	1,331,713
Amortization of intangible assets	(37,933)	(10,865)
Other non-current assets	<u>23,529,766</u>	<u>13,435,264</u>
Total other assets	<u>400,504,807</u>	<u>582,617,218</u>
Total assets	<u>1,281,518,114</u>	<u>1,416,896,050</u>

The accompanying Notes 1 to 30 form an integral part of these consolidated financial statements.

QUIÑENCO S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Translation from the original in Spanish)

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term bank loans (Note 12)	89,217,717	92,964,815
Current portion of long-term bank loans	52,297,553	55,307,169
Current portion of bonds payable	3,643,654	6,374,268
Current portion of other long-term liabilities	4,821,417	5,662,178
Dividends payable	2,532,856	1,992,279
Accounts payable	27,040,633	40,933,995
Notes payable	18,220,741	27,510,560
Other liabilities	2,635,735	4,005,107
Notes and accounts payable to related companies	22,186,973	4,387,348
Provisions	16,974,710	19,670,621
Withholdings	5,758,780	5,841,061
Income taxes payable	1,361,456	22,259,590
Unearned income	3,996,792	6,055,111
Other current liabilities	<u>361,026</u>	<u>592,803</u>
Total current liabilities	<u>251,050,043</u>	<u>293,556,905</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term bank loans	200,628,451	182,296,476
Bonds payable	31,310,274	34,372,482
Notes payable	66,980,267	80,845,569
Miscellaneous creditors	23,771,105	16,908,194
Notes and accounts payable to related companies	870	1,220
Provisions	5,712,354	7,485,470
Other long-term liabilities	<u>1,468,124</u>	<u>3,193,663</u>
Total long-term liabilities	<u>329,871,445</u>	<u>325,103,074</u>
MINORITY INTEREST	<u>206,461,113</u>	<u>291,951,922</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock	398,636,720	398,636,720
Reserves	12,282,664	12,038,957
Accumulated deficit during development period of subsidiaries	(5,696,614)	(7,561,779)
Retained earnings	62,573,605	19,621,839
Net income for the year	<u>26,339,138</u>	<u>83,548,412</u>
Total shareholders' equity	<u>494,135,513</u>	<u>506,284,149</u>
Total liabilities and shareholders' equity	<u>1,281,518,114</u>	<u>1,416,896,050</u>
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The accompanying Notes 1 to 30 form an integral part of these consolidated financial statements.

QUIÑENCO S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Translation from the original in Spanish)

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
<b>OPERATING RESULTS</b>		
Net sales	548,626,239	552,351,108
Cost of sales	<u>(391,718,283)</u>	<u>(399,074,612)</u>
Gross margin	156,907,956	153,276,496
Administrative and selling expenses	<u>(111,206,388)</u>	<u>(109,208,517)</u>
Operating income	<u>45,701,568</u>	<u>44,067,979</u>
<b>NON-OPERATING RESULTS</b>		
Interest income	18,975,090	9,872,719
Proportional share of net income of equity method investments	17,154,456	25,821,086
Other non-operating income	27,797,677	166,952,240
Proportional share of net loss of equity method investments	(611,780)	(451,493)
Amortization of goodwill	(4,956,232)	(14,448,269)
Interest expense	(46,399,667)	(41,769,661)
Other non-operating expense	(7,833,233)	(7,257,248)
Price-level restatement	<u>(7,311,507)</u>	<u>(7,729,828)</u>
Non-operating income (loss)	<u>(3,185,196)</u>	<u>130,989,546</u>
Income before income taxes	42,516,372	175,057,525
Income tax	<u>(6,701,393)</u>	<u>(28,018,560)</u>
Income before minority interest	35,814,979	147,038,965
Minority interest	<u>(11,114,064)</u>	<u>(64,952,664)</u>
Income before amortization of negative goodwill	24,700,915	82,086,301
Amortization of negative goodwill	<u>1,638,223</u>	<u>1,462,111</u>
<b>NET INCOME FOR THE YEAR</b>	<u>26,339,138</u>	<u>83,548,412</u>

The accompanying Notes 1 to 30 form an integral part of these consolidated financial statements.

QUIÑENCO S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Translation from the original in Spanish)

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Collection of accounts receivable	641,893,373	621,186,366
Interest income received	22,363,093	12,982,464
Dividends received	15,340,416	12,194,627
Other income received	1,787,677	3,441,296
Payments to suppliers and employees	(553,595,707)	(528,211,677)
Interest paid	(40,654,161)	(37,800,997)
Income taxes paid	(26,738,274)	(8,281,534)
Other operating expenses	(3,747,244)	(3,961,535)
V.A.T. and other taxes paid	<u>(33,983,783)</u>	<u>(8,252,373)</u>
Net cash provided by operating activities	<u>22,665,390</u>	<u>63,296,637</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in capital	11,715,495	133,848,694
Borrowings	297,876,037	453,447,458
Bonds placed	-	13,594,612
Borrowings from related companies	9,935,533	11,000,997
Other borrowings	3,577,024	2,675,361
Dividends paid	(75,421,975)	(14,341,162)
Return of capital to shareholders	(169,376)	(13,009,269)
Payments of loans	(270,808,051)	(422,442,900)
Payments of bonds	(5,632,723)	(5,204,535)
Payments of borrowings from related companies	(384,282)	(36,912,948)
Payments of other borrowings from related companies	(14,317,296)	(6,391,850)
Payments of expenses relating to shares issued	(12,282)	(5,128,781)
Payments of expenses relating to bonds issued	-	(197,124)
Other financing activities	<u>(1,354,702)</u>	<u>(2,315,853)</u>
Net cash provided by financing activities	<u>(44,996,598)</u>	<u>108,622,700</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of property, plant and equipment	4,790,786	5,877,156
Proceeds from sales of investments	230,632,361	41,163,920
Collection of borrowings from related companies	1,102,932	7,697,731
Proceeds from sales of other investments	24,363	-
Collection of other borrowings from related parties	6,636,027	29,720,135
Other income from investments	23,871,273	2,594,095
Additions to property, plant and equipment	(75,408,286)	(58,273,156)
Payments of interest	(778,285)	(1,015,488)
Other investments	(72,086,390)	(99,209,765)
Other investing activities	(151,950)	(2,126,644)
Other borrowings from related companies	(9,013,178)	(26,897,417)
Other disbursements relating to investments	<u>(8,295,046)</u>	<u>(22,993,974)</u>
Net cash used by investing activities	<u>101,324,607</u>	<u>(123,463,407)</u>
Net cash flow	<u>78,993,399</u>	<u>48,455,930</u>
PRICE-LEVEL RESTATEMENT OF CASH AND CASH EQUIVALENTS	<u>(5,305,771)</u>	<u>(3,257,830)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>73,687,628</u>	<u>45,198,100</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>71,845,177</u>	<u>26,647,077</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>145,532,805</u>	<u>71,845,177</u>
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RECONCILIATION BETWEEN NET CASH FLOWS PROVIDED  
BY OPERATING ACTIVITIES AND NET INCOME

(Translation from the original in Spanish)

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
NET INCOME FOR THE YEAR	26,339,138	83,548,412
Income from sales of assets:		
Gain on sales of property, plant and equipment	89,041	(2,079,430)
Gain on sales of investments	(16,859,093)	(155,396,936)
Loss on sales of investments	83,883	209,341
Gain on sales of other assets	-	(248,034)
Add (Deduct) charges (credits) which do not represent movements of funds:		
Depreciation	36,456,572	32,957,981
Amortization of intangible assets	819,069	329,851
Write-offs and provisions	9,891,912	14,473,668
Proportional share of net income of equity method investments	(17,154,456)	(25,821,086)
Proportional share of net loss of equity method investments	611,780	451,493
Amortization of goodwill	4,956,232	14,448,269
Amortization of negative goodwill	(1,638,223)	(1,462,111)
Price-level restatement	7,311,507	7,729,828
Other non-cash credits	(8,811,138)	(6,079,120)
Other non-cash charges	9,846,492	8,795,756
Changes in assets affecting cash flows:		
(Increase) in accounts receivable	(507,158)	(29,964,140)
(Increase) decrease in inventories	(4,529,767)	3,527,893
(Increase) in other assets	(151,262)	(10,580,646)
Changes in liabilities affecting cash flows:		
Increase (decrease) in accounts payable to related companies	(33,779,913)	10,301,741
Increase in interest payable	17,485,059	23,061,053
Increase (decrease) in income tax payable	(28,026,393)	21,578,962
Increase in other accounts payable to related companies	11,984,733	7,114,771
Increase (decrease) in IVA net and other taxes	(2,866,689)	1,446,457
Minority interest share of income	<u>11,114,064</u>	<u>64,952,664</u>
Net cash flow provided by operating activities	<u>22,665,390</u>	<u>63,296,637</u>

The accompanying Notes 1 to 30 form an integral part of these consolidated financial statements.

## QUIÑENCO S.A.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Translation from the original in Spanish)

The explanatory notes detailed below provide, in the opinion of management, sufficient but less detailed information than that contained in the notes forming part of the financial statements delivered to the Superintendency of Securities and Insurance and the Santiago stock exchange where they are available to the public in general.

These details may also be consulted at the Company's offices during the 15 days prior to the Ordinary Shareholders' Meeting.

#### NOTE 1 - THE COMPANY

On November 26, 1996, the Superintendency of Securities and Insurance registered the Company in its Securities Register, under No. 0597. It was also registered with the Santiago Stock Exchange on December 5, 1996.

The extraordinary shareholders' meeting held on September 30, 1996 approved the merger by incorporation into the Parent Company of Inversiones Andes Trust (Chile) S.A., Inversiones Anaconda Chile S.A. and Inversiones Rimac S.A., whereby Quiñenco S.A. acquired all their assets and liabilities and took over all their rights and obligations. The meeting also approved the change of name from Forestal Quiñenco S.A. to Quiñenco S.A. As the assets acquired in the merger had been under the control of the controlling shareholders (the Luksic family) for many years, the merger was accounted for as a business combination between entities under common control.

In accordance with Technical Bulletin No. 15 of the Chilean Institute of Accountants, the financial statements of the new merged entity have been retroactively adjusted in order to show the financial statements of the new entity for comparison purposes.

The above meant adding retroactively to assets and net worth the investments in related companies received in the merger, as if they had always been owned by Quiñenco S.A. It also meant adding retroactively to income the income accrued on these investments.

As a result of the foregoing, net income for the year ended December 31, 1996 was increased by ThCh\$ 11,052,785.

References herein to "Quiñenco" or "The Parent Company" are to Quiñenco S.A. and references herein to the "Company" are to Quiñenco together with its consolidated subsidiaries and the companies in which Quiñenco holds significant equity interests.



NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## a) Basis of presentation and principles of consolidation

The accompanying consolidated financial statements include all the assets and liabilities of Quiñenco S.A. and its subsidiary companies in which it owns directly or indirectly over 50% of the paid capital:

	Percentage of direct or indirect holding	
	<u>1998</u>	<u>1997</u>
	%	%
Inversiones Nacionales Ltda. and subsidiaries	100.00	100.00
Inversiones Río Grande S.A. and subsidiaries	100.00	100.00
Comatel S.A.	83.85	83.27
Agrícola El Peñón S.A. and subsidiary	96.05	89.72
Sociedad Comercial y de Inversiones Ltda.	-	90.00
O'Higgins Punta Arenas Ltda. CPA and subsidiary	75.56	75.56
Madeco S.A. and subsidiaries	56.50	56.47
VTR S.A. and subsidiaries	55.90	55.90
Inversiones Río Cobre S.A.	-	100.00

The effects of significant transactions with subsidiaries have been eliminated and the participations of minority shareholders are shown in the consolidated financial statements as Minority Interest.

The consolidated financial statements of Inversiones Nacionales Ltda. and subsidiaries include the accounts of Empresas Lucchetti S.A. and subsidiaries.

The consolidated financial statements of Inversiones Río Grande S.A. and subsidiaries include the consolidation of the following direct and indirect subsidiaries: Inversiones Río Seco S.A., Inmobiliaria e Inversiones Hidroindustriales S.A., Hidroindustriales Overseas Co., Hidrosur Ltda., Inversiones y Bosques S.A., Inversiones Ranquil S.A., Inversiones Punta Brava S.A., Inmobiliaria del Norte S.A., Editorial Trineo S.A., Inmobiliaria Norte Verde S.A., Inversiones Pal S.A., Merquor Establishment, Lisena Establishment and Consultorías y Asesorías Financieras Ltda.

As of December 31, 1998, the balance sheets of the subsidiary Nieto S.A. have not been consolidated on a line by line basis as Empresas Lucchetti S.A. had accepted an offer to purchase its shares in the subsidiary, as explained in Note 30.

At December 31, 1997, the subsidiary Lucchetti (Argentina) S.A. was in the development stage, thus its financial statements were not consolidated line by line.

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

The consolidated financial statements of Inversiones O'Higgins Punta Arenas Ltda. C.P.A. and subsidiaries include the accounts of Inversiones y Rentas Copérnico S.A.

The consolidated financial statements of Madeco S.A. and subsidiaries include the consolidation of the following direct and indirect subsidiaries: Alusa S.A. y filiales, Armat S.A., Electromecánica e Industrial S.A., Indalum - Perú, Invermad S.A. - Perú, Madeco Overseas S.A. - Islas Vayman, Metal Overseas S.A. y filiales y Metalúrgica e Industrial S.A. y filiales - Argentina.

The consolidated financial statements of V.T.R. S.A. and subsidiaries include the consolidation of the following direct and indirect subsidiaries: Compañía Nacional de Teléfonos, Telefónica del Sur S.A. and subsidiaries, VTR Comercial S.A., and VTR Hiper cable S.A. and subsidiaries.

Certain reclassifications have been made in the 1997 and 1996 amounts to conform with the 1998 presentation.

b) Price-level restatements

The consolidated financial statements have been restated to reflect the effects of changes in the purchasing power of the currency during the respective years. According to current regulations, non-monetary assets and liabilities at the year-ends and initial net worth and its changes have been restated in line with changes in the official cost of living indexes, which show an adjustment of 4.3% for 1998 (6.3% for 1997).

Monthly income and expense account balances were also restated to express them at year-end values.

The amounts for 1997 have been restated by 4.3% for comparison purposes.

c) Assets and liabilities in foreign currency

Assets and liabilities in foreign currency, detailed in Note 21, have been translated into Chilean pesos at the Observed Exchange Rates determined by the Central Bank of Chile in effect at year end of Ch\$ 472.41 per US\$ 1 (Ch\$ 439.18 per US\$ 1 in 1997).

Assets and liabilities in UFs have been converted at their year-end value of Ch\$14,685.39 per UF 1 (Ch\$14,096.93 per UF 1 in 1997).

d) Time deposits

Time deposits are stated at cost plus interest and monetary correction (indexation) accrued at each year end.

e) Marketable securities

Marketable securities are valued as follows:

Shares: At the lower of restated cost (cost plus price-level restatement) or market value of the portfolio at each year end. Shares include the quoted shares of companies in which the Company's shareholding is less than 10% of the investee's capital.

Money market funds: At the quoted value of the respective share at each year end.

## f) Accounts receivable

Accounts receivable are shown net of the allowance for doubtful accounts. Allowances are recorded at the end of each year based on those balances considered to be of doubtful recovery due to the age of the receivable.

## g) Inventories

Raw materials are valued at the lower of their restated cost or current replacement cost. Work-in-process and finished goods are shown at restated cost, which includes related direct and indirect manufacturing expenses. Supplies, spare parts and other inventories are shown at their restated cost. Installation projects of telephone cables in progress are accounted for by the percentage completion method.

The stated value of inventories does not exceed their estimated net realizable value.

## h) Prepaid expenses

This item includes payments made for services to be received during the following year.

## i) Other current assets

Deposits with the Central Bank of Chile represent mandatory deposits associated with foreign loans. These deposits are non-interest bearing and fall due in September and December of 1998. Securities purchased under resale agreements represent investments in promissory notes issued by the Central Bank of Chile and other domestic banks which were purchased at a discount under agreements to resell at a fixed price. They are valued at their present value calculated on the basis of the discount rate used to determine the price of each instrument on the date of acquisition. In 1996 this caption included marketable securities sold under agreements to repurchase valued at the lower of cost or market.

## j) Recoverable taxes

Recoverable taxes principally represent the difference between the provision for income tax and monthly tax prepayments plus VAT credits which can be used in future periods.

## k) Property, plant and equipment

Property, plant and equipment are stated at cost plus price-level restatements and are presented net of provisions for obsolescence.

Depreciation has been determined by the straight-line method based on the estimated useful lives of the assets.

Property, plant and equipment include the revaluation increment arising from the technical appraisals of certain assets carried out during 1979, 1986 and 1997 in the case of certain assets acquired by Madeco in Brazil, as authorized by the SVS.

Assets acquired under capital lease contracts are shown at the present value of the contract, calculated by discounting the value of installments and the purchase option at the interest rate implicit in the respective contract. The corresponding liability is shown net of deferred interest.

l) Investments in related companies

Investments in related companies are shown under Other assets and are recorded by the equity method based on the respective financial statements of the investee.

Participations in the results of these investments are shown in the consolidated statement of income on an accrual basis after eliminating unrealized income on intercompany transactions.

Investments abroad have been valued in accordance with Technical Bulletin N° 64 of the Chilean Institute of Accountants.

m) Goodwill and Negative goodwill

Goodwill represents the premium paid over the equity value of an investment at the time of the acquisition. Until December 31, 1997 goodwill was amortized against income over a maximum term of ten years from the acquisition date. Amortization will be over a maximum period of twenty years as of January 1, 1998.

Negative goodwill represents the excess of equity value of an investment over the price paid at the time of the acquisition. Until December 31, 1997 negative goodwill was amortized as a credit to income over a maximum term of ten years from the acquisition date. Amortization will be over a maximum period of twenty years as of January 1, 1998.

n) Other investments

Other investments representing less than 10% of the voting stock of the investee and which are considered to be permanent are valued at the lower of cost plus price-level restatements or market value.

o) Intangibles

These relate to the costs of registering trademarks, net of their amortization which is carried out on a straight-line basis over 20 years, the period in which the benefits are expected to be received.

p) Bonds payable

Bonds payable are shown under liabilities at their par value plus accrued monetary correction and interest. The discount which arises from the difference between par value and the proceeds actually received is included in Other assets and is being amortized over the term of the bonds by the straight-line method.

This item includes bonds issued by the subsidiaries Empresas Lucchetti S.A., Madeco S.A., Compañía Nacional de Teléfonos, Telefónica del Sur S.A. and Compañía de Teléfonos de Coyhaique S.A.

q) Staff severance indemnities

Subsidiaries which have agreements to pay severance indemnities calculate this liability based on the present value (accrued cost of the benefit method), assuming a real annual discount rate of 6% and an estimated service period depending on the age and probable tenure of the employee until retirement or other termination of employment.

r) Income taxes and deferred taxes

The Parent Company and subsidiaries have calculated their tax liabilities in accordance with current tax legislation. Deferred taxes, relating to items receiving a different treatment for tax and accounting purposes, are not recorded as it is estimated that future reversals will be offset by new timing differences of a similar nature.

s) Personnel vacations

The cost of employee vacations is recognized in the financial statements on an accrual basis as the vacations are earned by employees.

t) Operating revenues

The Parent Company and its subsidiaries record as Operating revenues the value of products when they are dispatched and of services when they are provided. Revenues from installation projects in progress are shown by the percentage of completion basis, as established in Technical Bulletin No. 39 of the Chilean Institute of Accountants.

V.T.R. S.A. and its subsidiaries follow a policy of recording as operating revenues, in addition to billings issued during the year, an estimate of services provided but not billed at the year-end. This estimate is determined on the basis of calls actually made, and valued at the rates prevailing in the corresponding period in which the service was provided. This is shown in the caption Accounts receivable in the Balance sheet. The cost of these services is included in Operating expenses in the Statement of income.

u) Accumulated deficit during development period

In accordance with Circular 981 of the Superintendency of Securities and Insurance, disbursements made during the organization and start-up stage which are not assignable to tangible or intangible assets are shown in the Balance sheet as Accumulated deficit during development period, as a deduction from Shareholders' equity.

v) Consolidated statement of cash flows

In the consolidated statement of cash flows, the Parent Company and its subsidiaries have considered as cash and cash equivalents all investments made as part of their normal cash management (in accordance with Technical Bulletin No. 50 of the Chilean Institute of Accountants) and include cash, time deposits and other current assets (repurchase agreements with maturities not exceeding 90 days).

"Cash flow from operating activities" includes the cash flows related to the business of the Parent Company and its subsidiaries, interest paid, financial income and all cash flows not otherwise defined as being from financing and investing activities. This concept is broader than that for Operating income used in the Consolidated statement of income.

The headings "Increase in capital", "Dividend payments" and "Return of capital" include both the cash flows of the Company and of subsidiary companies to minority interest.

#### NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLES

Effective January 1, 1998, and in accordance with Circular N°1358 of the SVS dated December 3, 1997, the Company and its subsidiaries modified the amortization period of Goodwill and Negative Goodwill from 10 to 20 years. The net effect of this change resulted in a decreased charge to consolidated income of M\$ 4,792,921.

As of September 1998, the Company has accounted the proportional effect arising from the application of Technical Bulletin N°64 of the Chilean Institute of Accountants. The bulletin changed the basis, effective January 1, 1998, for determining the book value of its investments abroad (basically changing the basis of translation of fixed and other nonmonetary assets from Chilean pesos plus monetary correction to US dollar historical cost) and the accounting for the exchange differences incurred in liabilities designated as hedge instruments for its investments abroad. The change, as described in Note 28, implied a lesser charge to income of ThCh\$ 4,641,459 and a credit to equity of ThCh\$ 6,119,389 in 1998.

#### NOTE 4 - PRICE-LEVEL RESTATEMENTS

The application of the price-level restatements method described in Note 2 b) generated a net charge to income of ThCh\$ 5,875,775 (ThCh\$6,883,567 in 1997) as follows:

	Credit (charge)	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
Property, plant and equipment	15,617,170	27,402,982
Inventories	(919,600)	(4,058,222)
Investments in related companies	11,906,313	14,379,496
Other assets	20,521,410	18,365,552
Bank loans	(9,218,595)	(11,041,704)
Bonds payable	(1,430,478)	(1,950,887)
Other current liabilities	(22,472,592)	(27,460,852)
Shareholders' equity	<u>(19,879,403)</u>	<u>(22,519,932)</u>
Net adjustment of assets and liabilities	<u>(5,875,775)</u>	<u>(6,883,567)</u>
Income and expense accounts in terms of period-end constant Chilean pesos	<u>(1,435,732)</u>	<u>(846,261)</u>
Price-level restatement	<u>(7,311,507)</u>	<u>(7,729,828)</u>
	=====	=====

NOTES 5 - TIME DEPOSITS

These investments are summarized as follows:

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
Bank or financial institution:		
Banco de A. Edwards	-	6,906,226
ABN AMRO Bank	336,340	-
Banco BCI	4,033,172	7,633,367
Banco BHIF	-	2,164,685
Banco BICE	1,050,965	6,260,503
Banco Chase Manhattan	7,557,921	-
Banco de Chile	3,874,630	10,762,038
Banco del Estado de Chile	-	1,044,446
Banco Santander	6,532,501	7,341,250
Banco Saniago	27,432	178,744
Banco Security	788,196	7,313,516
Sudameris Brasil	-	218,770
Sogeral Brasil	247,175	2,446,293
Credibanco Brasil	243,655	85,785
BAMERINDUS Brasil	207,674	-
Banco Santander Brasil	3,074,048	-
BCN Brasil	810,360	288,137
CCF Brasil	461,107	586,535
Boavista Brasil	3,960,672	218,770
Boston Brasil	370,763	560,267
Banco Geral do Lorenzo Brazil	-	1,150,497
Bank of America	-	526,774
Banco Voltorantim	411,437	-
ING Bank Brasil	1,980,923	-
Other	<u>33,263</u>	<u>149,911</u>
Total	<u>36,002,234</u>	<u>55,836,514</u>
	=====	=====

NOTE 6 - MARKETABLE SECURITIES

Marketable securities are summarized as follows:

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
Shares:		
Cemento Bío Bío	-	2,034
Chilectra	122,160	8,191
Cocesa	2,548	3,440
CTC-A	56,953	57,254
CTC-B	49,839	49,839
Duncan Fox	643	-
Endesa	115	4,827
Saesa	48,781	48,781
Sipsa S.A.	693	693
Sudamericano	-	3,502
Telec. Argentina	-	100,846
Telef. Argentina	-	249,696
Cía. Cervecera Salta	9,227	-
Others	<u>3,502</u>	<u>19,243</u>
Sub total	<u>294,461</u>	<u>548,346</u>
Money market funds:		
Banchile Fondos Mutuos	529,071	1,266,536
Bancrédito Fondos Mutuos	3,761,174	768,154
Banedwards Fondos Mutuos	-	135,647
BHIF Fondos Mutuos	250,076	255,166
Corpbanca Fondos Mututos	186,155	-
BICE Fondos Mutuos	1,338,019	-
Santiago Fondos Mutuos	23,725	541,058
Sudamericano Fondos Mutuos	978,552	456,834
Santander Fondos Mutuos	162,103	162,418
Security Fondos Mutuos	-	312,900
Others	<u>9,819</u>	<u>303,072</u>
Sub total	<u>7,238,694</u>	<u>4,201,785</u>
Other Investments	<u>244,288</u>	<u>-</u>
Total marketable securities	<u>7,777,443</u>	<u>4,750,131</u>
	=====	=====



NOTE 7 - INVENTORIES

Inventories at the end of each year valued as described in Note 2 g), are detailed as follows:

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
Finished goods	21,764,910	20,852,196
Work-in-process	14,944,748	16,015,195
Installation contracts in progress	3,257,395	5,252,344
Merchandise	3,885,365	1,806,023
Raw materials	28,750,495	24,819,100
Merchandise in transit	2,412,104	2,273,156
Consumables	6,636,373	7,092,015
Equipment and accesories	-	70,549
Supplies and packing materials	1,088,757	1,289,446
Other	<u>224,538</u>	<u>591,316</u>
Total	<u>82,964,685</u>	<u>80,061,340</u>
	=====	=====

NOTE 8 - OTHER CURRENT ASSETS

Other current assets are summarized as follows:

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
Deposits with Central Bank of Chile	-	22,576,048
Securities purchased under agreements to resell	98,577,935	5,557,106
Fixed assets held for sale	-	1,729,751
Returned traffic under international long distance telephone correspondent agreements	-	943,508
Other	<u>1,210,933</u>	<u>1,468,409</u>
Total	<u>99,788,868</u>	<u>32,274,822</u>
	=====	=====

NOTE 9 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized as follows:

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
Land	<u>23,836,983</u>	<u>22,630,344</u>
Buildings and installations:		
Commercial and industrial construction	102,688,978	91,814,626
Other	<u>149,898,710</u>	<u>162,813,830</u>
Total buildings and installations	<u>252,587,688</u>	<u>254,628,456</u>
Machinery and equipment:		
Machinery	268,297,305	247,618,855
Other	<u>55,297,629</u>	<u>57,213,201</u>
Total machinery and equipment	<u>323,594,934</u>	<u>304,832,056</u>
Other fixed assets:		
Fixed assets under leasing contracts	22,167,509	16,123,459
Other	<u>36,040,408</u>	<u>31,208,051</u>
Total other fixed assets	<u>58,207,917</u>	<u>47,331,510</u>
Revaluation from technical appraisals	23,227,079	25,389,163
Accumulated depreciation	<u>(196,862,415)</u>	<u>(179,990,804)</u>
Property, plant and equipment (net)	<u>484,592,186</u>	<u>474,820,725</u>

Depreciation totaled ThCh\$ 36,456,572 in 1998 (ThCh\$ 32,957,981 in 1997) and includes depreciation of the Revaluation from technical appraisals of ThCh\$ 489,597 (ThCh\$ 484,717 in 1997).

The breakdown of the technical appraisal balances of fixed assets at December 31, 1998 for each subsidiary is as follows:

	Hoteles Carrera S.A.	Madeco S.A.	Inmobiliaria del Norte S.A.	At December 31, 1998
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Land	2,238,304	1,214,248	-	3,452,552
Buildings and infrastructure	8,437,693	8,334,835	125,825	16,898,353
Machinery and equipment	<u>-</u>	<u>2,876,174</u>	<u>-</u>	<u>2,876,174</u>
Total	<u>10,675,997</u>	<u>12,425,257</u>	<u>125,825</u>	<u>23,227,079</u>

NOTE 10 - INVESTMENTS

- a) The following investments, valued as described in Note 2 I), are shown under this caption in Other assets:

At December 31, 1998

<u>Company</u>	<u>Holding</u>	<u>Equity of company</u>	<u>Book value of Quiñenco's proportional share</u>	<u>Unrealized income</u>	<u>Quiñenco's equity value</u>	<u>Proportion of results</u>
	%	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Inversiones y Rentas S.A.	50.00	208,576,787	104,288,394	(119,857)	104,168,537	13,551,488
OHCH S.A. (2), (3), (4)	50.00	312,968,029	156,484,014	(13,860,605)	142,623,409	3,257,689
Habitaria S.A.	50.00	8,901,730	4,450,865	-	4,450,865	(158,285)
Systral S.A. (Perú) (1)	100.00	803,854	803,854	-	803,854	-
Comercial Systral S.A. Perú (1)	100.00	243,881	243,881	-	243,881	-
Peruplast S.A. (Perú)	25.00	11,902,396	2,975,599	-	2,975,599	(15,908)
Lucchetti Perú S.A. (5)	100.00	(1,629,856)	-	-	-	-
Tech Pack S.A. (Argentina)	25.00	8,815,522	2,203,881	-	2,203,881	194,235
Other	Various	Various	15,748,514	-	<u>6,485,063</u>	<u>(286,543)</u>
Total					<u>263,955,089</u>	<u>16,542,676</u>

- (1) Indirect subsidiaries of Madeco S.A. in the development stage.
- (2) During 1996, O'Higgins Central Hispanoamericano S.A. ("OHCH S.A.") had a capital increase which was paid by the Company in cash and with the contribution of investments in foreign banks. This generated goodwill in the investment in OHCH S.A. which was amortized over ten years until December 31, 1997 and over 20 years thereafter.

These capital increases, to which Quiñenco S.A. only subscribed partially, caused a reduction in its holding in OHCH S.A. and generated profits on the non-subscription of these capital increases which, taking into account the goodwill mentioned above, the Company believes it is prudent to consider as unrealized income and to credit to income over the same period that OHCH S.A. amortizes the goodwill mentioned above. This accounting treatment has the express approval of the Superintendency of Securities and Insurance.

The amortization of these profits for the period ended December 31, 1998 amounts to ThCh\$ 1,208,488.

- (3) At an extraordinary shareholders' meeting held on May 5, 1998, in Montevideo, the anticipated dissolution of Eurobanco S.A. was approved. OHCH owns 100% of Eurobanco S.A.

The equity value of OHCH in Eurobanco S.A. represents 0.04% of the total assets of OHCH at December 31, 1998.

The balance of goodwill arising from the investment in Eurobanco S.A. was amortized in the amount of ThCh\$ 3,312,734. Consequently, Quiñenco S.A. recognized its proportion of this charge, and following the criteria described in 2 above, the balance of unrealized income relating to this investment was amortized in the amount of ThCh\$ 679,543.

- (4) As is public knowledge, Quiñenco's partner in OHCH, Banco Central Hispanoamericano, has announced its merger with Banco Santander, agreed to by their respective Board of Directors, which will be ratified by the shareholders in March, 1999.

The Company is currently studying the effects that the new circumstances will create if the merger takes place.

- (5) Direct subsidiary of Lucchetti S.A. in the development stage.

The following shows the summarized balance sheets of the Lucchetti subsidiaries in the development stage at December 31, 1998 and 1997:

	Lucchetti (Argentina) S.A.(1)	Lucchetti Perú S.A.(1)	
	<u>1997</u>	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$	ThCh\$
<b>Assets</b>			
Current assets	6,268,874	15,117,026	15,513,759
Fixed assets	19,058,039	21,681,222	14,541,510
Other assets	<u>3,573,338</u>	<u>3,258,540</u>	<u>4,416</u>
Total	28,900,251	40,056,788	30,059,685
	=====	=====	=====
<b>Liabilities and equity</b>			
Current liabilities	7,394,417	31,683,386	18,694,771
Long-term liabilities	9,453,311	10,003,258	12,006,930
Capital and reserves	17,513,764	14,359,547	7,828,034
Accumulated deficit during development period	(2,391,770)	(8,737,860)	(2,251,566)
Deficit for the period	<u>(3,069,471)</u>	<u>(7,251,543)</u>	<u>(6,218,484)</u>
Total	28,900,251	40,056,788	30,059,685
	=====	=====	=====

- (1) The investments in the foreign subsidiaries Lucchetti (Argentina) S.A. and Lucchetti Perú S.A. are industrial projects oriented towards obtaining a high market participation and towards the positioning of the Lucchetti brand in the dry pasta market in the southern region of Latin America. Both projects contemplate significant disbursements of funds for the development of the brand, promotional expenses and publicity.

On October 1, 1997, the subsidiary Lucchetti (Argentina) S.A. inaugurated its industrial plant in Buenos Aires, Argentina. The plant began producing at normal levels in January 1998, and thus is consolidated as of that date. The industrial plant that the subsidiary Lucchetti Perú S.A. is building in the city of Lima began operating in a pre-operational stage at the end of August 1998, and it is estimated to produce at normal capacity during the first months of 1999.

Until December 31, 1997, both subsidiaries were in pre-operational stages. Given this situation, and in accordance with regulations from the Superintendency of Securities and Insurance, the deficit generated during the development stage was charged to Equity. As of January 1, 1998, the subsidiary Lucchetti (Argentina) S.A. began normal operations, therefore, its results were consolidated line by line.

At December 31, 1997

<u>Company</u>	<u>Holding</u>	<u>Equity of company</u>	<u>Book value of Quiñenco's proportional share</u>	<u>Unrealized income</u>	<u>Quiñenco's equity value</u>	<u>Proportion of results</u>
		ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Lucchetti (Argentina) S.A.	100.00	12,052,523	12,052,523	-	12,052,523	-
Lucchetti Perú S.A.	100.00	642,016	-	-	-	-
OHCH S.A.	50.00	322,729,616	161,364,808	(15,069,093)	146,295,715	8,059,181
Inversiones y Rentas S.A.	50.00	192,100,178	96,050,089	(119,856)	95,930,233	12,699,277
Startel S.A. (1)	-	-	-	-	-	4,799,792
Others	-	43,247,669	12,330,220	-	<u>12,330,220</u>	<u>(188,657)</u>
Total					<u>266,608,691</u>	<u>25,369,593</u>

(1) This investment was sold in 1997.

## b) Negative goodwill

The composition of Negative goodwill and Amortization of negative goodwill at the end of each year is as follows:

<u>Issuing Company</u>	<u>Negative goodwill</u>		<u>Amortization</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Agrícola El Peñón S.A.	895,755	23,927	13,158	9,267
Inversiones Río Grande S.A. y filiales	8,036	10,715	2,679	2,678
Madeco S.A. y filiales	572,828	69,232	10,827	9,892
VTR S.A. y filiales	-	-	-	1,296,934
Inversiones Hidronor	-	-	1,610,092	-
Others	<u>1,556</u>	<u>2,150</u>	<u>1,467</u>	<u>143,340</u>
Total	<u>1,478,175</u>	<u>106,024</u>	<u>1,638,223</u>	<u>1,462,111</u>

## c) Goodwill

The composition of Goodwill and Amortization of goodwill at the end of each year is as follows:

<u>Issuing Company</u>	<u>Goodwill</u>		<u>Amortization</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
VTR S.A. and subsidiaries (1) (2)	38,544,728	40,842,090	2,401,193	11,214,535
Madeco S.A. and subsidiaries (3)	41,347,333	32,511,345	2,348,110	2,973,368
O'Higgins Central Hispano Americano S.A.	588,024	619,525	31,502	21,363
Inversiones Río Grande S.A. y filiales		<u>424,124</u>	<u>598,189</u>	<u>175,427</u>
<u>239,003</u>				
Total	<u>80,904,209</u>	<u>74,571,149</u>	<u>4,956,232</u>	<u>14,448,269</u>

- (1) In December 1997, the Parent Company purchased 5.2% of VTR S.A. for ThCh\$ 9,791,955. Goodwill of ThCh\$ 4,527,696 arising from this transaction was charged to income in 1997 in view of the extraordinary income generated by that subsidiary (see below).
- (2) On December 18, 1997, VTR S.A. sold to Compañía de Telecomunicaciones de Chile S.A. (CTC) the 94,500 shares it held in CTC-VTR Comunicaciones Móviles S.A., equivalent to 45% of that company's share capital. The price was US\$ 425,000,000 and this generated a gain after tax of ThCh\$ 128,732,670. At December 31, 1997, Long-term accounts receivable included ThCh\$ 194,677,515, the equivalent of the above sales price, which was receivable in two equal payments due on January 4 and April 14, 1999. However, CTC chose to prepay this amount in 1998.
- (3) On January 7, 1997, Metal Overseas S.A., a subsidiary of Madeco S.A., acquired 67% of the share capital of the Brazilian cable company Ficap S.A. for ThCh\$ 57,312,656. This generated goodwill of ThCh\$ 24,597,698. In February 1998, Madeco S.A. acquired the balances of FICAP S.A. shares for ThCh\$ 27,750,940, generating further goodwill of ThCh\$ 7,756,387.
- (4) In June 1998, Madeco S.A. acquired the balance of the shares of Invescof S.A. (Perú) for ThCh\$ 8,786,218, generating goodwill of ThCh\$ 2,068,975.

NOTE 11 - OTHER ASSETS - OTHER NON-CURRENT ASSETS

The balance of Other non-current assets account, in Other assets, included:

	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
State industrial promotion grant (Argentina)	621,402	1,674,627
Recoverable VAT – long-term (Argentina)	4,281,452	-
Property under resale agreement	3,542,564	-
Loan issuance expenses	1,361,819	2,011,573
Inventories to be consumed after one year	413,966	854,467
Deposits received	2,421,427	278,703
Bond issue expenses	1,506,260	1,668,125
Recoverable tax credits	6,802,889	5,138,276
Others	<u>2,577,987</u>	<u>1,809,493</u>
Total	<u>23,529,766</u>	<u>13,435,264</u>

NOTE 12 - SHORT-TERM BANK LOANS

a) Short-term bank loans are summarized as follows:

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
Payable in:		
United States dollars	60,404,472	56,134,983
Inflation-linked units (UFs)	8,814,396	22,809,846
Chilean pesos (not indexed)	<u>19,998,849</u>	<u>14,019,986</u>
Total	<u>89,217,717</u>	<u>92,964,815</u>
	=====	=====

b) Short-term liabilities

Short-term liabilities are summarized as follows:

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
Payable in:		
US Dollars	35,214,549	43,403,479
Other foreign currencies	16,488,635	26,933,032
Inflation-linked units (UFs)	4,514,449	16,325,559
Chilean pesos (not indexed)	<u>53,317,140</u>	<u>58,622,851</u>
	<u>109,534,773</u>	<u>145,284,921</u>
	=====	=====

c) Long-term liabilities:

Long-term liabilities are summarized as follows:

	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
Bonds payable (1) (2)	34,953,928	34,372,482
Notes payable to related companies	870	1,220
Notes payable	66,980,267	80,845,569
Miscellaneous creditors	25,610,671	16,908,194
Provisions	5,747,163	7,485,470
Other long-term liabilities	<u>1,468,124</u>	<u>3,193,663</u>
	<u>134,761,023</u>	<u>142,806,598</u>
	=====	=====

(1) See restrictions in Note 19

(2) Bonds payable are summarized as follows:

<u>Company</u>	<u>Original value at issuance</u>	<u>1998</u>	<u>1997</u>
	UF	ThCh\$	ThCh\$
Compañía Nacional de Teléfonos, Telefónica del Sur S.A.	2,800,000	26,951,213	29,723,149
Compañía de Teléfonos de Coyhaique S.A.	130,000	1,546,076	1,755,930
Empresas Lucchetti S.A.	850,000	-	1,721,393
Madeco S.A.	693,000	<u>6,456,639</u>	<u>7,546,278</u>
Subtotal		34,953,928	40,746,750
<u>Less: Current portion</u>		<u>(3,643,654)</u>	<u>(6,374,268)</u>
Total long term		<u>31,310,274</u>	<u>34,372,482</u>

Long-term liabilities at December 31, 1998 are payable as follows:

<u>Year</u>	<u>ThCh\$</u>
1999	5,518,029
2000	24,782,171
2001	8,582,369
2002 and thereafter	<u>95,878,454</u>
Total	<u>134,761,023</u>

d) Long-term bank loans

Long-term bank loans are payable as follows:

<u>Principal payments within</u>	<u>At December 31, 1998</u>
	ThCh\$
1 to 2 years	71,395,031
2 to 3 years	58,187,643
3 to 4 years	21,759,211
4 to 5 years	40,842,737
5 to 6 years	4,133,453
more than 6 years	<u>4,310,376</u>
	200,628,451
Current portion	<u>52,297,553</u>
Total long-term bank loans	<u>252,926,004</u>



NOTE 13 - PROVISIONS AND WRITE-OFFS

The following are the provisions accrued at year end:

	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
Current liabilities		
Additional losses of subsidiaries in development period	1,631,714	891,397
Employee vacations	4,241,175	4,414,828
Utilities	274,655	328,778
Commercial expenses	533,330	-
Lawsuits	160,053	130,158
Distributors volume growth agreement	100,530	170,408
Sales incentives	-	158,186
Salaries and fees	702,374	1,540,315
Long-distance calls	161,147	306,136
Accrued freight expenses	709,066	-
International satellite signals	2,461,158	1,927,812
Advertising and promotion and corporate image	102,875	302,646
Directors' remuneration	622,764	1,928,991
Exports and imports costs	305,879	320,207
Severance indemnities	736,662	775,370
Employee benefits	626,739	762,844
Installation costs of products sold	263,898	370,245
Connection costs	338,292	25,474
Suppliers' invoices	-	687,277
Contingencies (Argentina)	-	142,172
Projects	101,993	1,077,131
General expenses, balance sheets, annual reports and other publications	800,069	1,163,750
Others	<u>2,100,337</u>	<u>2,246,496</u>
Total	16,974,710	19,670,621
	=====	=====

NOTE 14 - INCOME TAX

Income taxes are summarized as follows:

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
Quiñenco S.A.	451,518	-
Agrícola El Peñón S.A.	3,506	81,155
Madeco S.A.	3,787,145	4,623,505
Inversiones Río Grande S.A.	276,660	1,230,771
VTR S.A.	2,019,116	22,069,808
Inmobiliaria del Norte S.A.	157,113	-
Inversiones Financieras S.A.	6,335	-
Inversiones Nacionales Ltda.	-	<u>13,321</u>
Total	<u>6,701,393</u>	<u>28,018,560</u>
	=====	=====

The Parent Company does not have any timing differences between book and taxable income.

The Subsidiaries calculated deferred taxes only for reporting purposes. The results obtained from such calculation determined a net consolidated asset of ThCh\$493,196 at December 31, 1998.

These taxes correspond primarily to timing differences in the allowance of doubtful accounts, accelerated depreciation, bond issue expenses, severance indemnity, write-offs, and accumulated tax losses carryforwards.

NOTE 15 - SEVERANCE INDEMNITIES

The companies having agreements with their personnel for the payment of severance indemnities have made provisions as described in Note 2 q). The changes in the provisions for this purpose are summarized as follows:

	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
Beginning balance	3,999,764	3,612,020
Increase in provision	1,537,992	1,439,712
Payments of the period	<u>(2,237,233)</u>	<u>(1,051,968)</u>
Closing balance	3,300,523	3,999,764
	=====	=====
Short-term provisions	736,662	775,370
Long-term provisions	<u>2,553,701</u>	<u>3,224,394</u>
Total	<u>3,290,363</u>	<u>3,999,764</u>
	=====	=====

## NOTE 16 - SHAREHOLDERS' EQUITY

a) The changes in Shareholders' equity during the years 1997 and 1998 in historical amounts are summarized as follows:

	<u>Paid-in capital</u>	<u>Accumulated deficit during development period of subsidiaries</u>	<u>Reserves</u>	<u>Retained earnings</u>	<u>Income for the year</u>	<u>Accumulated translation adjustments, net</u>	<u>Total</u>
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Balances at January 1, 1997	250,680,330	(2,464,404)	7,731,022	-	28,561,506	-	284,508,454
Allocation of 1996 net income	-	2,464,404	-	26,097,102	(28,561,506)	-	-
Payment of dividends	-	-	-	(8,568,459)	-	-	(8,568,459)
Increase in capital	116,582,183	-	-	-	-	-	116,582,183
Expenses relating to capital increase	(4,880,682)	-	-	-	-	-	(4,880,682)
Price-level restatements	19,820,202	-	487,054	1,284,242	-	-	21,591,498
Proportional share of losses of subsidiaries in development period	-	(7,250,028)	3,324,548	-	-	-	(3,925,480)
Net income for the year	-	-	-	-	80,103,942	-	80,103,942
Balances at December 31, 1997	382,202,033	(7,250,028)	11,542,624	18,812,885	80,103,942	-	485,411,456
Restatement of December 31, 1997 balances to December 31, 1998 constant pesos	398,636,720	(7,561,779)	12,038,957	19,621,839	83,548,412	-	506,284,149
Balances at January 1, 1998	382,202,033	(7,250,028)	11,542,624	18,812,885	80,103,942	-	485,411,456
Allocation of 1997 net income	-	7,250,028	-	72,853,914	(80,103,942)	-	-
Payment of dividends	-	-	-	(32,041,577)	-	-	(32,041,577)
Price-level restatements	16,434,687	-	496,333	2,948,383	-	-	19,879,403
Translation adjustments, net	-	-	-	-	-	1,477,930	1,477,930
Proportional share of losses of subsidiaries in development period	-	(5,696,614)	(1,234,223)	-	-	-	(6,930,837)
Net income for the year	-	-	-	-	26,339,138	-	26,339,138
Balances at December 31, 1998	398,636,720	(5,696,614)	10,804,734	62,573,605	26,339,138	1,477,930	494,135,513

- b) The ordinary shareholders' meeting of April 30, 1997 approved the payment of the final dividend on 1996 net income amounting to ThCh\$ 8,568,459.
- c) On June 27, 1997, the Company placed 118,100,000 shares by means of an ADR issue at Ch\$ 750.96 per share. On the same date, 37,040,842 shares were placed in the domestic market at the same price per share. In July, 103,356 additional shares were placed in the domestic market.

The total number of shares issued during June and July 1997 was 155,244,198. Together with the 924,495,881 shares previously issued, the total outstanding shares aggregate 1,079,740,079.

- d) The following items are included in Expenses relating to capital increase:

	<u>ThCh\$</u>
Placement commissions	3,058,524
Legal and auditing services, printing, and others	<u>1,822,158</u>
Total	4,880,682 =====

- e) Other reserves include the recognition of the proportional share of equity adjustments recorded by subsidiary companies Agrícola El Peñón S.A. and Inversiones Río Grande S.A.

As of December 31, 1998 and 1997, Other reserves included the recognition of the proportional share of equity adjustments recorded by the associated company O'Higgins Central Hispanoamericano S.A.

As of December 31, 1998, the account Translation adjustments, net included the exchange differences resulting from the application of Technical Bulletin N°64 of the Institute of Chilean Accountants (Note 28).

- f) The Accumulated deficit during development period of subsidiaries included the recognition of the proportional share of equity adjustments recorded by the subsidiaries of Agrícola El Peñón S.A., Inversiones Río Grande S.A., Madeco S.A., VTR S.A. and Inversiones Nacionales Ltda.
- g) The ordinary shareholders' meeting of April 30, 1998 approved the payment of a final dividend amounting to ThCh\$ 32,041,577.
- h) The capital of the Company at December 31, 1998 was divided into 1,079,740,079 shares of no par value.

NOTE 17 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Balances with related companies at December 31 of each year were as follows:

## a) Current assets

Notes and accounts receivable from related parties:

<u>Company</u>	<u>Nature of Relationship</u>	At December 31,	
		<u>1998</u>	<u>1997</u>
		ThCh\$	ThCh\$
Embalajes Alucraft S.A.	Investment	-	93,801
Comercial Systral (Perú) S.A.	Subsidiary in development stage	112,867	43,462
V.T.R.. Telefónica S.A.	Subsidiary in development stage	-	4,749,404
Systral S.A. (Perú)	Subsidiary in development stage	131,337	-
Inversiones y Rentas S.A.	Investment (equity method)	3,131,891	3,327,107
V.T.R. Galaxy (Chile) S.A.	Indirect	1,977,463	1,818,360
Embotelladoras Chilenas Unidas S.A.	Indirect	8,570	72,799
Minera Los Pelambres	Indirect	1,283,762	-
Compañía Cervecerías Unidas S.A.	Indirect	34,309	307,323
U.I.H. Latin América S.A.	Indirect	4,399,632	3,860,896
Lucchetti (Argentina) S.A.	Subsidiary in development stage	-	1,556,879
Lucchetti Perú S.A.	Subsidiary in development stage	14,183,686	5,715,376
Promosol S.A.	Indirect	1,293,762	256,468
El Litoral S.A.	Indirect	-	164,362
Others		<u>201,008</u>	<u>367,999</u>
Total		<u>26,758,287</u>	<u>22,334,236</u>
		=====	=====

The accounts receivable from Lucchetti Perú S.A. have been classified as short-term, in accordance with Empresas Lucchetti S.A.'s policy. The subsidiary will settle its obligations with its parent with cash generated from operations and by obtaining loans in the Peruvian financial market. During 1999, Lucchetti Perú S.A.'s cash flow will be benefited by the reduction of inventory and recoverable taxes (VAT) arising from the postponement of the start up of the plant which will be producing at normal capacity during the first quarter of 1999. The Subsidiary has an industrial plant with a book value of approximately US\$ 46 million free of encumbrances.

## b) Long-term assets

Notes and accounts receivable from related parties:

<u>Company</u>	<u>Nature of Relationship</u>	At December 31,	
		<u>1998</u>	<u>1997</u>
		ThCh\$	ThCh\$
Lucchetti (Argentina) S.A.	Subsidiary in development stage	-	9,452,093
Quechumalal Ltda.	Indirect	-	54,182
Comercial Sur O'Higgins Central Hispanoamericano S.A.	Indirect	131,721	-
Promosol S.A.	Investment (equity method)	4,695	327,398
	Indirect	<u>35,433</u>	<u>35,433</u>
Total		<u>171,849</u>	<u>9,869,106</u>

## c) Current liabilities

Notes and accounts payable to related parties:

<u>Company</u>	<u>Nature of Relationship</u>	At December 31,	
		<u>1998</u>	<u>1997</u>
		ThCh\$	ThCh\$
Ruana Copper A.G. Agencia Chile	Shareholder	-	81,243
Agromercantil Ltda.	Indirect	-	11,429
Inversiones Norte Grande S.A.	Indirect	-	3,989,166
Nieto S.A.	Indirect	1,351,749	-
SBC International Inc.	Indirect	20,545,545	46,493
Cobrecon S.A.	Indirect	215,314	146,473
Others		<u>74,365</u>	<u>112,544</u>
Total		<u>22,186,973</u>	<u>4,387,348</u>

## d) Long-term liabilities

Notes and accounts payable to related parties:

<u>Company</u>	<u>Nature of Relationship</u>	At December 31,	
		<u>1998</u>	<u>1997</u>
		ThCh\$	ThCh\$
Inversiones O'Higgins Punta Arenas Ltda.	Investment (equity method)	-	1,220
Others		<u>870</u>	<u>-</u>
Total		<u>870</u>	<u>1,220</u>

## e) Transactions

The main transactions with related parties and affecting the income statement accounts are:

<u>Company</u>	<u>Nature of relationship</u>	<u>Amount of transaction</u>		<u>Gain (loss)</u>		<u>Type of transaction</u>
		<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>	
		<u>ThCh\$</u>	<u>ThCh\$</u>	<u>ThCh\$</u>	<u>ThCh\$</u>	
Cía. Cervercerías Unidas S.A.	Indirect	128,273	178,306	110,559	163,801	Services and purchases of raw materials
Banco Santiago	Indirect	405,750	194,678	405,750	40,847	Dividends, services and investments
Banco Santiago	Indirect	(33,931,801)	6,906,068	(1,017,098)	767,303	New loan
O'Higgins Central Hispanoamericano S.A.	Investment (equity method)	12,595	209,777	12,595	216,780	Interest earned
Santiago Fondos Mutuos	Indirect	483	274,360	483	274,360	Investments
Embotelladoras Chilenas Unidas S.A.	Indirect	41,911	-	35,518	-	Sales of products and services
Embotelladoras Chilenas Unidas S.A.	Indirect	(11,932)	335,961	(11,932)	80,175	Services
Colada Continua Chilena S.A.	Investment (equity method)	55,555	1,496,618	47,081	-	Purchases
Promosol S.A.	Indirect	1,837,708	2,170,439	(1,837,708)	(1,383,531)	Sales of products and services
Consultora Inmobiliaria e Inversiones Arko	Indirect	12,258	16,867	(12,258)	(16,867)	Sales of products and services
Santiago Corredores de Bolsa S.A.	Indirect	139,116	154,683	139,116	154,683	Services and investments
Lucchetti (Argentina) S.A.	Indirect	-	4,303,784	-	812,684	Sales of products and services
Lucchetti Perú S.A.	Indirect	9,608,317	3,523,372	1,713,503	1,211,771	Sales of products and services
Ruana Copper A.G. Agencia Chile	Shareholder	6,511	81,243	(6,511)	(81,423)	Interest earned
Inversiones Norte Grande S.A.	Indirect	239,207	600,858	(239,207)	(600,858)	Interest earned
Inversiones Portezuelo S.A.	Indirect	-	178,581	-	(178,581)	Payment of interest
Minera Michilla S.A.	Indirect	21,167	114,746	19,229	97,242	Billings
Embalajes Alucraf S.A.	Indirect	-	187,064	-	158,529	Billings
Comercial Systral S.A. (Perú)	Indirect	-	181,973	-	181,973	Billings and services
Minas El Tesoro S.A.	Indirect	-	177,217	-	(177,217)	Interest earned
Industrias Polymer S.A.	Indirect	279,905	391,736	(279,905)	(221,375)	Interest earned
CTC-VTR Comunicaciones Móviles S.A.	Indirect	-	16,182	-	(16,182)	Interest earned
SBC International Inc.	Indirect	596,601	729,376	(505,594)	(451,941)	Consulting and expenses
VTR Telecable Chile S.A.	Indirect	3,808	71,132	3,227	60,281	Service
VTR Servicios Públicos	Indirect	5,124	-	5,124	-	Service
Minera Los Pelambres S.A.	Indirect	2,436,197	151,118	2,065,214	101,550	Service
Others		178,452	119,250	(51,236)	(107,874)	

NOTE 18 - MINORITY INTEREST

Minority interest is summarized as follows:

	At December 31,		Income Statement	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Madeco and subsidiaries	85,244,097	86,093,406	(5,300,064)	(8,838,581)
VTR and subsidiaries	52,153,016	100,948,996	(7,877,432)	(54,902,484)
Lucchetti and subsidiaries	10,546,889	9,658,389	1,743,836	(391,675)
Hoteles Carrera	1,340,360	1,646,429	17,299	(36,840)
Other	<u>57,176,751</u>	<u>93,604,702</u>	<u>302,297</u>	<u>(783,084)</u>
Total	206,461,113	291,951,922	(11,114,064)	(64,952,664)
	=====	=====	=====	=====

NOTE 19 - GUARANTEES, ENCUMBRANCES, CONTINGENCIES AND COMMITMENTS

Pledges granted by the Parent Company to cover its own obligations are as follows:

In Favor of	Type	Assets Pledged	Balance of		Maturity Date	In Effect	
			Guaranteed Loans	Guaranteed Loans		1998	1997
			1998	1997		1998	1997
			M\$	M\$		Yes	Yes
Siemens Bet. A.G.	Pledge	8,000,000 Madeco Shares	9,840,309	9,200,531	June 5, 2000	Yes	Yes

Pledges granted by the Parent Company to cover related companies' obligations, plus pledges granted by related companies are as follows:

<u>Number of shares</u>	<u>Percentage</u>	<u>Company</u>	<u>Beneficiary</u>	<u>Amount of obligation</u>
	%			ThCh\$
73,500,000	42.58	Madeco	Banco del Estado de Chile	30,513,323
28,542,032	16.04	OHCH	BCH (Grand Cayman)	21,759,725
106,372,098	3.85	CNT	CTC	14,588,600
14,523,203	8.78	CNT	Banco del Estado de Chile (1)	-
4,431,850	2.68	CNT	Banco BICE (1)	-

(1) The loans obtained from Banco del Estado de Chile and Banco BICE were paid in full during the first quarter of 1998. Consequently, the Company is currently working to terminate the pledge on the shares with Banco BICE. The pledge on the shares with Banco del Estado has been lifted.

The Company has certain financial covenants set by loan agreements that require them to maintain a ratio of current assets to current liabilities greater than 1 and maintain certain debt to equity and interest coverage ratios. The majority of the companies were in compliance with the financial covenants. For the subsidiaries of the Company that were in default, the necessary waivers have been obtained.



#### Inversiones Nacionales Limitada y filiales

a) Inversiones Nacionales Ltda. and its subsidiaries have granted mortgages over land and pledges over machinery and buildings for ThCh\$ 7,810,368.

b) Indirect commitments

Empresas Lucchetti S.A. and its subsidiaries maintain the following outstanding commitments:

Empresas Lucchetti S.A. has guaranteed financing received by Lucchetti Overseas S.A. for a long-term bank loan amounting to US\$20 million, granted by ABN AMRO Bank and Credit Suisse. Additionally, Empresas Lucchetti S.A. pledged its Lucchetti Perú S.A.'s shares in favor of such banks.

Empresas Lucchetti S.A. has guaranteed the obligations of Lucchetti Perú S.A. obtained from Swiss Bank totaling US\$ 21 million.

Agromaule S.A. is co-debtor with Empresas Lucchetti S.A. guaranteeing a long-term loan received from Banco de Chile totaling UF 343,578 at December 31, 1998.

Empresas Lucchetti S.A. pledged various trademarks to guarantee loans obtained by Augromaule S.A. from Banco de Chile.

Empresas Lucchetti S.A. has guaranteed loans received by Lucchetti Perú S.A. from the following banks: Banque Européenne Pour L'Amérique Latine (BEAL), US\$ 5 million, Corpbanca New York, US\$ 1.14 million; and Corpbanca Chile, US\$ 3.3 million.

In addition, Empresas Lucchetti S.A. has guaranteed loans obtained by Italpasta S.A. from Banco A. Edwards amounting to UF 100,000.

c) Guarantees received from third parties

During 1998 and 1997, Italpasta S.A. received real estate and vehicles to guarantee loans and finished goods inventories given on consignment.

Agrícola El Peñón S.A.

Agrícola El Peñón S.A. and its subsidiary have granted a pledge over assets for a value of ThCh\$ 7,250,403 and a mortgage over buildings amounting to ThCh\$ 11,515,571.

#### MADECO S.A. y filiales

a) Direct Commitments

Madeco S.A. and its subsidiaries have granted a mortgage over assets for ThCh\$ 130,386 and a pledge over machinery for a total of ThCh\$ 2,277,729.

At December 31, 1997, Madeco S.A. had guaranteed a loan obtained by a subsidiary in a private placement with foreign financial institutions, which at December 31, 1998, had an outstanding balance of US\$ 131.5 million. The loan agreement requires that Madeco S.A. maintain a current assets to current liabilities ratio of 1 and maintains certain debt to equity and interest coverage ratios, all of which Madeco was complying with at December 31, 1998.

## b) Guarantees

Madeco S.A. and its subsidiaries have granted direct guarantees for policies, invoices, checks, and documents for various operations. Meanwhile, they have received guarantees from clients and sub-contractors.

### VTR S.A. and subsidiaries

VTR S.A. and its subsidiaries maintain obligations for the issuance of bonds. The latter requires that the issuing subsidiaries maintain a current assets to current liability ratio greater than 1 and maintain certain debt to equity and interest coverage ratios less than 1.5. Additionally, the subsidiary is prohibited from investing more than 20% of its equity in companies not approved by the Chilean government for investments by private Chilean pension funds or that do not require the certification of the Chilean Risk Rating Commission.

VTR S.A. and its subsidiaries are involved in various legal proceedings incidental to its business. Management believes that these lawsuits will not result in material obligations for the parent and its subsidiaries.

### VTR S.A.

Through a public deed, dated October 14, 1998, VTR S.A. and its subsidiary, VTR Larga Distancia S.A., signed an agreement denominated "Liberation, Contingencies and Guarantees," in which VTR S.A. became solely responsible for the payments and/or disbursements that VTR Larga Distancia makes in relation to any situation or circumstance originated between January 1994 until the date of the agreement, and that do not correspond to the contingencies and issues subscribed in the agreement. Consequently, VTR Larga Distancia S.A. is freed from any contingencies. In order to guarantee the faithful compliance of the agreements VTR S.A. delivered promissory bank notes totaling UF159,793.8713 at December 31, 1998.

### VTR Hipercable S.A.

VTR Hipercable S.A. and its subsidiaries have given various mortgages, guarantees, pledges over shares and certain network assets, deposits with the Central Bank of Chile and its trademarks to guarantee a syndicated bank loan for US\$ 164,285,714.24 from ING Barings (US) Capital Corp. and others. The loan agreement also requires VTR Hipercable S.A. to maintain a debt to EBITDA ratio of below 5.25:1, and a debt to cable subscribers ratio of less than US\$ 350, and contains certain limitations on borrowings from third parties and restrictions on the composition of its principal shareholders and the shareholders in VTR S.A.. The Parent company VTR S.A. has subordinated payments due to it by VTR Hipercable S.A. for the servicing of this debt.

NOTE 20 - GUARANTEES RECEIVED FROM THIRD PARTIES

At December 31, 1998 and 1997, there were no guarantees received from third parties.

NOTE 21 - FOREIGN CURRENCY ASSETS AND LIABILITIES

Balances denominated in foreign currency at December 31, of each year end are included in the accompanying financial statements as follows:

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThUS\$	ThUS\$
Current assets:		
Cash and time deposits	17,708	4,960
Accounts receivable	37,394	71,494
Accounts receivable from related companies	39,365	44,807
Other assets	<u>67,268</u>	<u>546,544</u>
Total assets	161,735	667,805
	=====	=====
Current liabilities:		
Short-term bank loans and current portion of long-term liabilities	417,021	414,424
Current portion of long term liabilities	-	10,122
Accounts payable and supplier notes payable	51,286	69,406
Other accounts payable	22,309	27,605
Accounts payable to related companies	-	8,714
Notes payable - long term	110,903	111,561
Provisions	5,315	2,288
Other	<u>11,507</u>	<u>-</u>
Total liabilities	618,341	644,120
	=====	=====

NOTE 22 - OTHER NON-OPERATING INCOME AND EXPENSES

Non-operating income and expenses for each year are summarized as follows:

## a) Other non-operating income

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
Realization of profits	1,221,848	1,510,945
Gain on sale of VTR Larga Distancia	14,225,482	-
Gain on sale of securities	6,617,075	7,919,160
Gain on sale of fixed assets	197,419	2,574,944
Rental income	80,655	245,314
Gain on sale of investment in Startel S.A.	-	149,565,546
Dividends received	697,071	1,060,176
Adjustment to market value of shares	-	1,245,571
Recovery of taxes	1,511,114	1,470,187
Other	<u>3,247,013</u>	<u>1,360,397</u>
Total	<u>27,797,677</u>	<u>166,952,240</u>

## b) Other non-operating expenses

	At December 31,	
	<u>1998</u>	<u>1997</u>
	ThCh\$	ThCh\$
Profit sharing	419,861	1,713,697
Severance payments	108,132	425,400
Loss on sale of investments and fixed assets	2,375,094	203,003
Consulting services	1,136,750	-
Depreciation of rented assets	380,168	442,911
Bond issue expenses	187,042	161,374
Provision for pending lawsuits	-	558,368
Taxes and bank charges	165,757	14,168
Other expenses	172,818	529,820
Provision for adjustment to stock market prices	9,546	855,147
Directors' allowances and fees	337,856	273,971
Obsolescence of fixed assets	67,057	244,987
Corporate restructuring expenses	1,155,211	634,046
Other	<u>1,317,941</u>	<u>1,200,356</u>
Total	<u>7,833,233</u>	<u>7,257,248</u>

NOTE 23 - DIRECTORS' REMUNERATION

During 1998, the Directors of Quiñenco received ThCh\$ 1,447,875 (ThCh\$ 693,694 in 1997) for attendance at meetings, remuneration, profit sharing and fees from both the Company and its subsidiaries.

NOTE 24 - SHARE TRANSACTIONS

Based on the Parent Company's share register, the following transactions were carried out by the majority shareholders, chairman, directors, managers and/or inspectors of accounts during 1998 and 1997:

	<u>1998</u>		<u>1997</u>	
	Purchases	Sales	Purchases	Sales
Inversiones Lota Schwager S.A.	-	90,323,177	-	-
Inversiones Lota Schwager "1" S.A.	45,161,588	45,161,588	-	-
Inversiones Lota Schwager "2" S.A.	45,161,589	45,161,589	-	-
Inversiones Tronco Alto S.A.	-	194,835,071	-	-
Inversiones Tronco Alto "1" S.A.	97,417,536	97,417,536	-	-
Inversiones Tronco Alto "2" S.A.	97,417,535	97,417,535	-	-
Sociedad Inmobiliaria y de Inversiones Río Claro S.A.	142,580,623	-	-	-
Inversiones Consolidadas Ltda.	142,580,625	18,000,000	-	-
Inversiones Salta S.A.	18,000,000	-	-	-
Citibank N.A.	8,061,560	8,749,110	131,267,670	664,700

NOTE 25 - CONTROLLING SHAREHOLDERS

<u>Type of shareholder</u>	<u>Percentage of ownership</u>		<u>Number of shareholders</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	%	%		
Holding of 10% or more	89.58	82.94	5	4
Holding of less than 10% with investment of UF 200 or more	9.96	16.63	596	647
Holding of less than 10% with investment of less than UF 200	<u>0.46</u>	<u>0.43</u>	<u>1,982</u>	<u>1,917</u>
Total	100.00	100.00	2,583	2,568
	=====	=====	=====	=====
Controlling shareholders	82.33	82.33	5	5
	=====	=====	=====	=====

NOTE 26 - SANCTIONS

There were no sanctions applied to the Parent Company, its directors or management by the Superintendency of Securities and Insurance in 1998.

By Resolution 155 of June 11, 1997, the Superintendency of Securities and Insurance fined the Parent Company UF 400 for publishing in El Mercurio newspaper of that same day a notice announcing the offer of shares while the inscription was still being processed in the Securities Register of that authority. The Superintendency also suspended the public offer of the shares until their inscription was finalized and ordered a new clarifying declaration in the same newspaper. On June 12, 1997, the Superintendency inscribed the share issue of the Parent Company under No.473. On June 14, the clarifying publication was made and the fine was paid on June 18.

NOTE 27 - RESEARCH AND DEVELOPMENT EXPENSES

The Parent Company had no significant research and development expenses. The research and development expenses charged during 1998 total ThCh\$ 133,535 (ThCh\$ 966,151 in 1997) and accumulated incurred research and development expenses total ThCh\$ 1,142,339 over the last five years.

NOTE 28 - INVESTMENTS ABROAD AND ASSOCIATED OBLIGATIONS

Effective January 1, 1998, the Company began applying Technical Bulletin N°64 of the Chilean Institute of Public Accountants. The bulletin modified the methodology in which investments abroad are valued and the treatment of the exchange differences produced from obligations obtained as hedge instruments for investments abroad.

Quiñenco S.A. does not have direct investments abroad, in which case, the credits in the account Translation adjustments, net come from its subsidiaries.

The liabilities incurred by the Company, designated as instruments to cover risk exposure of exchange differences of its investments abroad, had the following capital balances at January 1, 1998:

	<u>US\$</u>
Quiñenco S.A.	90,971,351
Lucchetti Overseas S.A.	20,000,000
Italpasta S.A.	3,050,000
Madeco Overseas S.A.	110,000,000
Madeco S.A.	99,500,000
Invercob S.A.	131,473
Alusa Overseas S.A.	17,722,000

The detail of the reserve account Translation adjustments, net is as follows:

- Proportional credits from direct and indirect subsidiaries	ThCh\$ 6,119,389
- Proportional charges for adjustments of designated liabilities	ThCh\$ (4,641,459)
- Net balance for the year	ThCh\$ 1,477,930
	=====

#### NOTE 29 - YEAR 2000 ISSUE

The Parent company has not incurred any material expenses in relation to the "Year 2000 Issue."

The detail of the expenses incurred by the subsidiaries regarding the Year 2000 compliance is as follows:

	<u>1998</u>	<u>1997</u>
	M\$	M\$
Hardware	548,774	-
Software	698,243	-
Consulting and others	<u>306,563</u>	<u>-</u>
	1,553,580	-
	=====	=====

During the years 1998 and 1997, the subsidiaries have not recorded any provisions nor write-offs regarding the Year 2000 issue.

#### NOTE 30 - SUBSEQUENT EVENTS

On January 15, 1999, the Company informed the Superintendency of Securities and Insurance that during the ordinary meeting N°23 held on January 13, 1999, the Board of Directors acknowledged that their subsidiaries, Inversiones Río Grande S.A. and Inversiones Ranquil S.A., formed Inversiones Río Bravo Limitada, a limited liability Company. The objective of the new subsidiary is the development of new investments.

On January 13, 1999, the Brazilian Central Bank modified its exchange rate policy, allowing the fluctuation of the dollar. After the announcement, the parity between the Real versus the Dollar reached 1.8. The net effect of the devaluation of the Brazilian currency in Ficap S.A.'s financial statements is estimated to be a loss of approximately US\$ 5 million.

Ficap S.A. has currently initiated a restructuring process, aimed at compensating the losses previously mentioned.

On February 5, 1999, Empresas Lucchetti S.A. accepted an offer to purchase all its shares in its subsidiary Nieto S.A. The agreed upon sale price with Corpora Aconcagua S.A., the buyer, is US\$ 10 million, out of which US\$ 6.3 million will be received by Empresas Lucchetti S.A. The remaining portion will be disbursed to the other shareholders. This operation, which is to be finalized in March 1999, will result in a loss of ThCh\$ 1,889,520, which has been accrued in the financial statements at December 31, 1999.

The Offer to purchase the shares is subject to the conditions established in it in favor of the buyer.

On March 3, 1999, the Company informed to the Superintendency of Securities and Insurance of the following:

“On February 12, 1999, the Company received a letter from Banco Central Hispanoamericano that reads as follows:

- We refer to O’higgins Central Hispanoamericano’s Shareholders’ Agreement of November 16, 1995.

With reference to clause seven, Annex “A,” Banco Central Hispanoamericano S.A. (“BCH”) is hereto exercising its right to terminate its joint participation in OHCH and notifies that the valuation attributed by BCH to one hundred percent of the paid-in capital of OHCH is one billion two hundred million American Dollars (USD 1,200,000,000), resulting in the corresponding participation of each group amounts to USD 600,000,000.

During the extraordinary shareholders’ meeting of February 16, 1999, the Board of Directors of Quiñenco S.A. became aware of the situation previously stated, thus taking the decision to inform the Superintendency as a Reserve Matter, alluding to Article 10 of Decree N°18,045 of the Securities Market. Acknowledging that Quiñenco S.A. diverges from the interpretation of the Shareholders’ Agreement and the merger between BCH and Banco Santander, the Company has taken the necessary steps to guard its interests.

After allowing a reasonable amount of time to reach a solution, and without progress in the talks, the Board of Directors decided to remove the character of Reserve Matter of the information given to the Superintendency during the ordinary shareholders’ meeting of March 3 of the present year, thus releasing it as an Essential Matter to the public.

As a consequence, the Company is currently undertaking all the necessary legal actions, in addition to the economic and financial alternatives that the situation requires. The Board of Directors will focus all of its decisions in obtaining the best conditions and benefits for the Company, which will be informed to the Superintendency at its due time.

General Manager

Chief Accountant