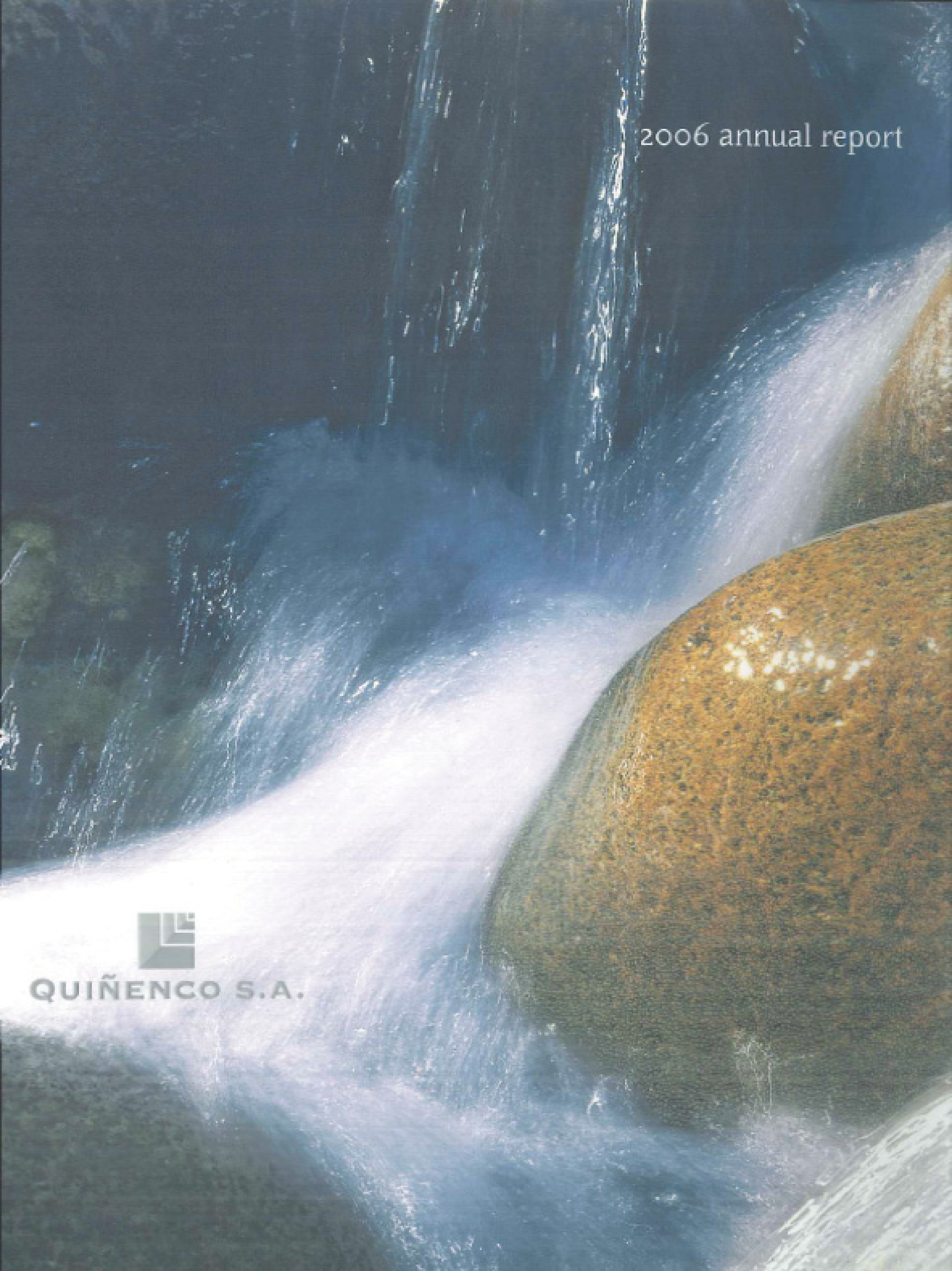


2006 annual report

QUIÑENCO S.A.

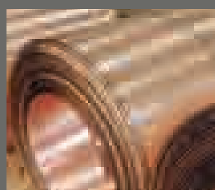
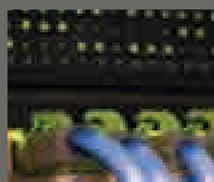
QUIÑENCO S.A.
R.U.T.: 91.705.000-7
Enrique Foster Sur 20, 14th Floor
Las Condes,
Santiago, Chile
Telephone: (56-2) 750-7100
Fax: (56-2) 750-7101
Website:
www.quinenco.cl or
www.quinencogroup.com

SHAREHOLDERS SERVICES
DCV Registros S.A.
Huérfanos 770, 22nd Floor
Santiago, Chile
Telephone: (56-2) 393-9003
atencionaccionistas@dcv.cl

INVESTOR RELATIONS
Contact Cindi Freeman
Investor Relations Manager
Telephone: (56-2) 750-7221
Fax: (56-2) 245-6241
cfreeman@lq.cl

STOCK EXCHANGES
In Chile (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: (56-2) 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 November 5, 2004, granted before the Santiago Notary Office of Mr. Andrés Rubio Flores. An abstract of this reform was registered on page 38,347, number 28,535 of the Santiago Register of Commerce of 2004, and it was published in the Official Gazette on November 29, 2004.

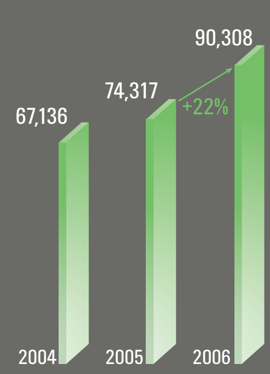
In accordance with Law N°18,046, QUIÑENCO S.A. (Quiñenco), an open stock company registered in the Securities Register under number 0597, is subject to regulation by the Chilean Superintendency of Securities and Insurance (SVS).

5 YEAR FINANCIAL HIGHLIGHTS

In millions of constant Ch$ as of December 31, 2006		2006	2005	2004	2003	2002
CONSOLIDATED RESULTS						
Net sales revenue	MCh$	616,102	430,829	404,603	387,471	433,964
Operating income		53,760	31,289	28,719	13,820	11,254
EBITDA		82,605	57,981	55,777	45,015	44,137
Proportionate share of net income of equity method investments		78,404	73,314	61,846	62,229	27,577
Other non-operating losses		(51,677)	(37,839)	(59,667)	(62,037)	(146,181)
Net income (loss) for the year		57,043	52,152	24,702	40,869	(82,654)
FINANCIAL POSITION						
Total assets	MCh$	1,491,083	1,391,135	1,413,162	1,508,513	1,668,010
Total liabilities		550,997	530,118	626,849	716,634	890,718
Minority interest		170,159	141,976	114,590	104,472	86,852
Shareholders' equity	MCh$	769,927	719,041	671,723	687,407	690,440
Current ratio (current assets/current liabilities)		3.01	2.69	1.47	1.54	0.85
Leverage (total liabilities/SH equity)		0.72	0.74	0.93	1.04	1.29
Earnings (loss) per share	Ch$	52.83	48.30	22.88	37.85	(76.55)
OTHER INFORMATION						
Number of shareholders		1,867	2,009	2,405	2,588	2,770
Number of shares outstanding		1,079,740,079	1,079,740,079	1,079,740,079	1,079,740,079	1,079,740,079

NET INCOME (LOSS) CONTRIBUTION FROM OPERATING COMPANIES

MCh$

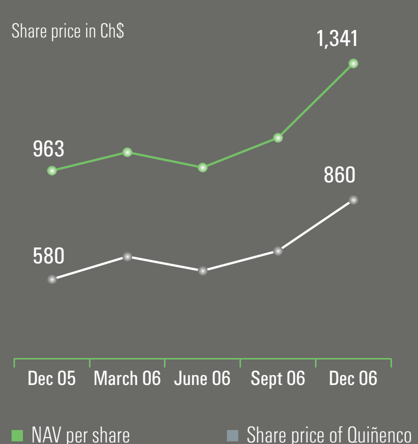


NAV/SHARE PRICE EVOLUTION

as of December 31, 2006

NAV US$2,721 mln

Market Cap US$1,744 mln



Letter from the Chairman

Dear Shareholder,

I am pleased to have this opportunity to present to you our Annual Report and Financial Statements for the year ended December 31, 2006.

We are able to look at our latest results with great satisfaction and believe they clearly evidence the soundness of our group companies and their capacity for sustained growth. Quiñenco earned net income of Ch$57,043 million, an increase of 9.4% over the Ch$52,152 million we reported in 2005. However, I want to point out that if we exclude non-recurring profits earned on the sale of investments in the retail sector in 2005, we would have more than doubled our results, due to the outstanding performance of our group companies, which continue to experience solid growth in a highly competitive business environment, characterized by constant change.

Our banking subsidiary, Banco de Chile, once again achieved historic results, increasing its net profit by 6% compared to the previous year. Net income, which reached Ch$195,248 million, reflects the bank's ability to prioritize profitability by growing volumes while, at the same time, keeping the lid on expenses and maintaining the quality of its assets. This business model has allowed the bank to steadily grow its operating revenues, fueled by a healthy loan portfolio expansion in such a way as to offset the effects of a higher level of loan loss provisions and related operating expenses.

During 2006, Banco de Chile expanded its network by adding 40 new branches and almost 200 ATMs. As planned, it also made important progress with respect to its "Neos" technology platform, under development for the last several years. Several stages of this plan were implemented in 2006, including the expansion of the commercial platform for the corporate and personal banking areas, making the bank and subsidiary network now complete. This has resulted in major improvements in terms of response time and accuracy, clearly benefiting the bank's clients. Despite these achievements, the bank will be challenged in 2007 to continue improving efficiency when it implements the remaining stages of this modern technology, which will place it in the forefront of the industry in Latin America. Further complementing the investments made by the bank domestically, I want to mention that it inaugurated a representative office in Beijing, opening the doors to new opportunities for the bank in Asia.

Compañía Cervecerías Unidas (CCU) also obtained the highest sales level in its history, surpassing 2004 and 2005 levels, which were already record years for the company. Fueled by strong consumer demand, CCU experienced significant volumes growth in its distinct product categories, accompanied by a period of stable prices, which served to boost operating profits by 17.4% and EBITDA by 10.8%. The high market shares CCU enjoys in its main product categories attest to the success of the company's continuous efforts in this area.

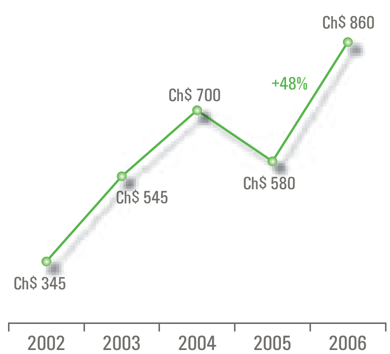
Within the framework of a campaign orienting consumers towards responsible beer consumption, the per capita amount reached 33.4 liters, its growth rate exceeding that of the country's economic growth rate, a repeat of the tendencies seen over the last four years. This bears well for CCU as it increases its marketing activities and strives for better positioning within the premium segment. Performance of the mineral water, nectars, functional drinks, pisco, and Argentine beer segments is no less noteworthy, all of these having shown increases since last year, making an important contribution to the company's bottom line of Ch$55,833 million, up by 13.5% over 2005. On the other hand, profitability of the wine segment was dampened by the appreciation of the Chilean peso vis-a-vis the US dollar, and domestic wine sales were weak. Although we have yet to see a recovery of this segment, we believe that over time, this situation will improve once the measures management is carrying out begin to take hold, such as a renewed emphasis on distribution, brand creation, wine quality and product innovation.

Telefónica del Sur earned net income of Ch$7,855 million in 2006, similar to the amount reported by the company in 2005. It is nonetheless interesting to note that fixed-line sales increased for the first time in a number of years, bucking industry trends, due to the successful introduction of a wireless fixed-line technology that permits users to freely roam throughout the city with uninterrupted fixed line telephony service. More than 30,000 handsets were sold following the launching of this service in 2006, and sustained consumer demand for this product bodes well for the future. Wide band internet is another area in which Telsur experienced significant growth, with an increase of 27% during the year. The company enjoys a unique position among its clients in the south of Chile, which stood at over 270,000 by year end.

The outstanding performance shown by Madeco in 2006 was highly influenced by the rise in copper prices, which reached historic levels in 2006. Nonetheless, the company was also able to grow its volumes, especially in cables in Brazil, Peru and Argentina, translating into an increase in operating profits and EBITDA of 82% and 63%, respectively, clearly the best performance by the company in many years. Madeco reported net income of Ch$30,204 million, an increase of 146% compared to 2005. Behind these results lies a clearly defined growth strategy, developed and meticulously implemented by management over the last four years.

The steady increase in copper prices also signified greater working capital needs for Madeco, which it financed in part by a capital increase in May. This fortified the company's capital structure, leaving it less susceptible to commodity price swings and in a position to make further investments in the region, as it recently did in Colombia and Peru.

QUIÑENCO SHARE PRICE EVOLUTION

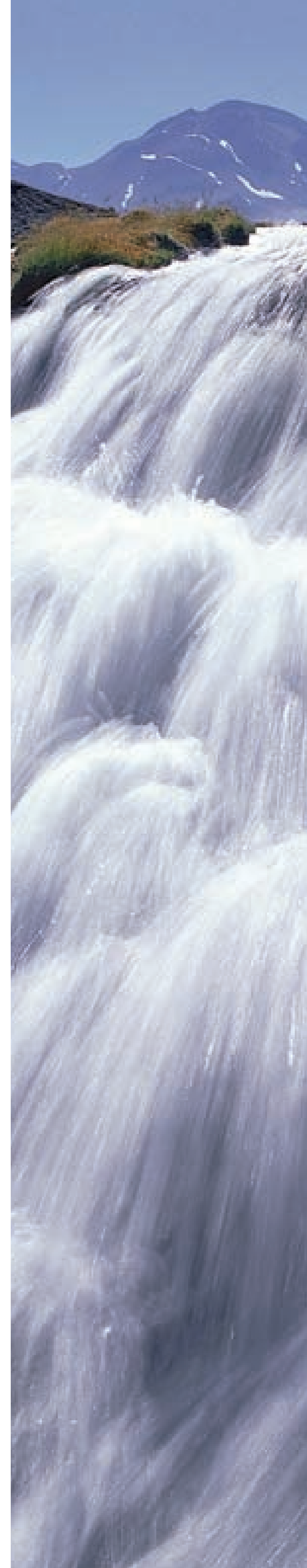


Quiñenco, in its capacity as parent company, is in the best financial position it has been in for over five years, benefiting from the cash contributions from its investments, as well as a reduction in interest expense and other non-operating expenses. Net financial debt at the corporate level has been reduced to approximately Ch$235,700 million, which includes cash and cash equivalents of over Ch$100,000 million. This leaves us well prepared to undertake new investments, as well as face the dynamics of each individual business from a very favorable position.

I also want to address the decision made by the Board of Directors last November to terminate Quiñenco's ADR program on the New York Stock Exchange. This decision was made within the context of a policy to optimize our level of operating expenses and in consideration of the fact that less than 5% of our shares were traded in the United States. The underlying ordinary shares are in the process of returning to the Chilean stock market, and this should be concluded within the next several months. Our evaluation considered that foreign investors are no longer impeded from investing directly in Quiñenco's ordinary shares in Chile and corporate governance standards are adequate, which ensure transparency and protection of minority shareholder rights.

I wish to express my appreciation for the trust you have deposited in the Board of Directors, management and all of the people who form part of our network, which enables us to concentrate on improving the value of the company and to project ourselves into the future with great optimism.

Guillermo Luksic Craig | Chairman of the Board



Quiñenco

Financial Services | Food & Beverage | Telecommunications | Manufacturing | Other

GROWTH STRATEGY

Strengthen value creation in core businesses through:

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

Investment criteria:

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

With a long and successful track record, Quiñenco is one of Chile's most important and diversified business conglomerates. Sales of group companies were in excess of US$3.2 billion in 2006, employing nearly 15,000 people throughout the country and region. Our investments are concentrated in keys areas of the economy such as the financial services, food and beverage, telecommunications and manufacturing sectors, the first two of which are the most relevant, representing 80% of total investments and 70% of corporate level assets.

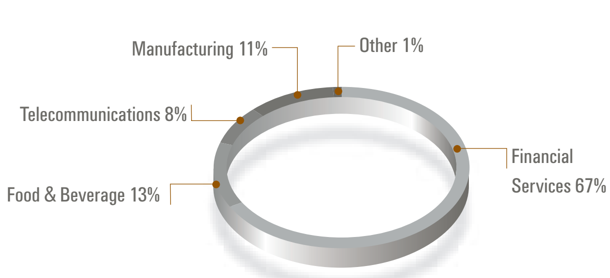
Our investment criteria is oriented towards the development of mass consumer brands and franchises, which enables us to secure the critical mass necessary to achieve economies of scale and greater efficiencies, while taking advantage of synergies across business units and distribution networks. In some instances, we join forces with strategic partners, complementing our knowledge, experience and resources. This allows us to offer our consumers world class services and products and over time, create value and attractive returns for our shareholders.

In our role as parent company, our main priority is to ensure that our companies are successful in their business dealings and leaders in their industries. Our results reflect time proven strategies which are oriented towards reinforcing the management capacity and performance of our group companies. We work together with the management of each entity, defining long-term strategies, projecting annual forecasts, supervising operating and financial performance, structuring and directing important mergers and acquisitions, and identifying synergies between the different business units, always focused on growth and improvement.

The nucleus of our business model consists of supporting the companies in which we have invested in order to increase their value and their returns to Quiñenco through dividends or eventually, divestments. Our track record speaks for itself, with proceeds from the sale of investments exceeding US$2.3 billion since our listing on the stock exchanges in 1997. These valuable resources prove fundamental to our ability to finance future acquisitions and support the sustained growth of our subsidiaries.

INVESTMENTS BY SECTOR

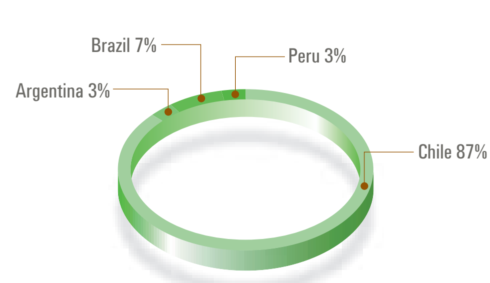
MCh$983,153 as of December 31, 2006



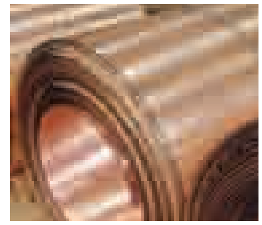
Book values as of 12.31.06
(Quiñenco and intermediate holding companies)

CONSOLIDATED ASSETS BY COUNTRY

As of December 31, 2006 MCh$1,491,083



History



1957

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

1960's

Lucchetti S.A. and Colcura Forestal S.A. become part of Forestal Quiñenco.

1970's

Quiñenco further diversifies by acquiring Hoteles Carrera.

1980's

Throughout the decade of the 80's, Quiñenco continues with its diversification strategy. Its starts out by investing in the financial sector by acquiring shares in Banco O'Higgins and Banco de Santiago. It then acquires a majority share in Madeco. Later on, together with the German group Schörghuber, Quiñenco acquires a majority share in Compañía Cervecerías Unidas (CCU), and in the telecommunications sector, a controlling stake in VTR.

1993

In order to fortify its presence in the financial services sector, Quiñenco forms a partnership with Banco Central Hispanoamericano, creating the OHCH group.

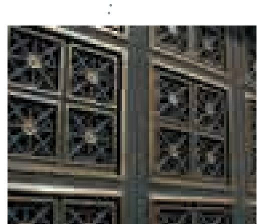
1999

Quiñenco sells its stake in OHCH to the BSCH consortium following the sale of Banco Central Hispanoamericano to BSCH. Shortly thereafter, Quiñenco acquires 51.2% of Banco de A. Edwards and an 8% interest in Banco de Chile, redefining its presence in the financial services sector.

In the telecom sector, Quiñenco acquires a 14.3% stake in Entel and sells its 66% stake in VTR Hipercable to UIH Latin America.

2000

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



2001

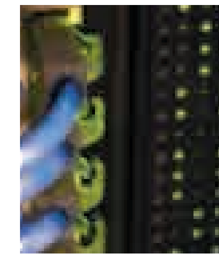
Quiñenco gains control of Banco de Chile through the acquisition of 52.7% of the voting rights. In other businesses, Quiñenco sells an 8% stake in Entel and divests its 39.4% interest in Plava Laguna, a tourist resort located on the Adriatic coast in Croatia.

2002

On the first day of the year, the merger between Banco de Chile and Banco Edwards becomes effective, creating the largest bank in Chile at that time.

1995

With the objective of strengthening VTR's telecom business, Quiñenco enters into a strategic alliance with SBC Communications, Inc. 1995 also marks the year in which Quiñenco gains a controlling interest in Banco de Santiago through the OHCH partnership.



1996

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

1997

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

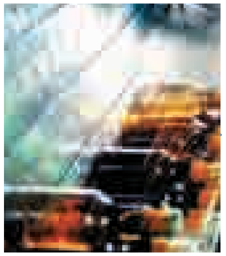
Quiñenco's interest in Startel, a leader in mobile telephony, is sold to CTC.

1998

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

In a joint venture with the Spanish construction company, Ferrovial Inmobilaria, Quiñenco ventures into real estate development through its investment in Habitaria.

2003



Quiñenco joins forces with Heineken, one of the largest brewers in the world, in IRSA, the controlling entity of CCU. Quiñenco begins to move out of the hotel industry by selling the emblematic Hotel Carrera of Santiago to the Chilean Ministry of Foreign Relations.

2004

Quiñenco divests 100% of its interest in Lucchetti Chile and acquires Calaf, a cookie and candy manufacturer, in a joint venture with CCU.

Quiñenco breaks into the retail sector by acquiring an 11.41% interest in Almacenes Paris.

2005

Quiñenco realizes important gains by selling it interest in Almacenes Paris to Cencosud in a public tender offer.

Quiñenco completes its exit from the hotel industry by divesting Hotel Araucano in Concepción.

2006

Group companies show a solid performance in 2006 in terms of sales and profits, contributing to a 9.4% increase in Quiñenco's earnings for the year.

Board of Directors

GUILLERMO LUKSIC CRAIG*
Chairman
Director of Companies

HERNAN BÜCHI BUC
Director
Civil Mining Engineer,
University of Chile

MATKO KOLJATIC MAROEVIC*
Director
Business Administrator,
Catholic University of 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 2005 and new elections will be held at the General Ordinary Shareholders Meeting in 2008.

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.

ANDRONICO LUKSIC CRAIG
Vice Chairman
Director of Companies

GONZALO MENENDEZ DUQUE*
Director
Business Administrator,
University of Chile

JUAN ANDRES FONTAINE TALAVERA
Director
Business Administrator,
Catholic University of Chile
Master in Economics,
University of Chicago, U.S.A.

JEAN - PAUL LUKSIC FONTBONA
Director
Director of Companies
B.Sc. Management and Science,
London School of Economics, England

Advisor to the Board

Gustavo Delgado Opazo
Director of Companies
General Accountant

* Member of the Directors' Committee

Organization

1 2 3 4 5 6 7 8 9 10

1 FRANCISCO PEREZ MACKENNA
Chief Executive Officer
Business Administrator,
Catholic University of Chile
MBA, University of Chicago, U.S.A.

2 LUIS FERNANDO ANTUNEZ BORIES
Chief Financial Officer
Civil Industrial Engineer,
Catholic University of Chile
MBA, Georgia State University, U.S.A.

3 DAVOR DOMITROVIC GRUBISIC
Attorney
University of Chile

4 MARTIN RODRIGUEZ GUIRALDES
Manager of Strategy and Performance Appraisal
Business Administrator,
Catholic University of Chile
MBA, Univ. of California
at Los Angeles (UCLA), U.S.A.

5 PEDRO MARIN LOYOLA
Manager of Performance Appraisal
Business Administrator,
Catholic University of Chile
M.S. Finance,
London School of Economics, England

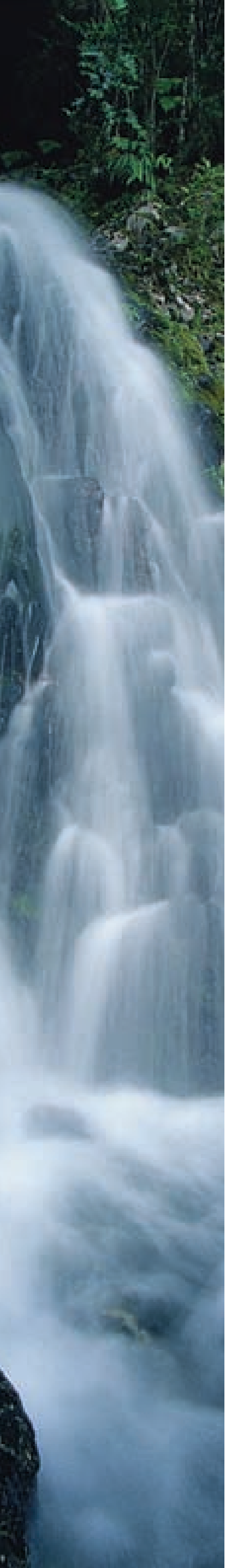
6 FELIPE JOANNON VERGARA
Manager of Business Development
Business Administrator,
Catholic University of Chile
MBA, The Wharton School,
Univ. of Pennsylvania, U.S.A.

7 OSCAR HENRIQUEZ VIGNES
General Accountant
Certified Public Accountant,
University of Chile
Graduate degree in Tax Planning,
Catholic University of Chile
Master of Tax Management,
Adolfo Ibañez University

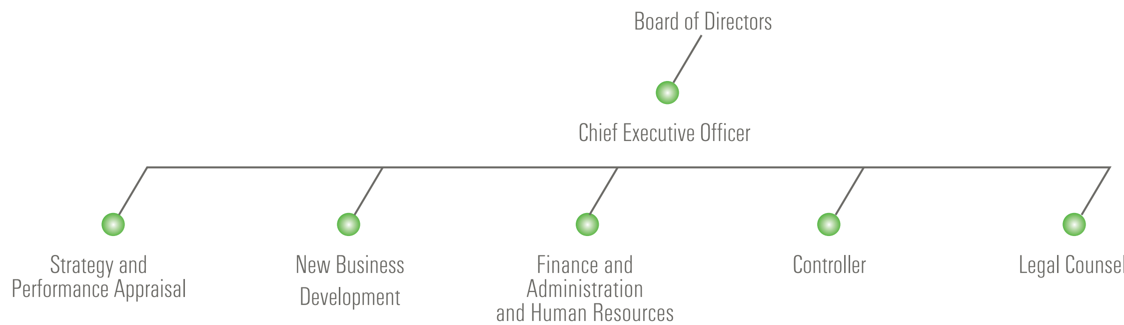
8 CINDI FREEMAN
Investor Relations Manager
B.A., University of the Pacific, U.S.A.
Master of International Management,
American Graduate School of
International Management
(Thunderbird), U.S.A.

9 MANUEL JOSE NOGUERA EYZAGUIRRE
Chief Counsel
Attorney,
Catholic University of Chile

10 FERNANDO SILVA LAVIN
Controller
Business Administrator,
Catholic University of Chile



Human Resources



People are our most valuable resource. We at Quiñenco know that if it were not for the commitment, dedication and loyalty that each employee puts into on a daily basis, none of our companies would enjoy the position they have worked so hard to earn in their respective industries. Therefore, one of the principal concerns of the parent company is to have access to the best talent in the market, both from a professional and human standpoint.

Those who form part of the Quiñenco group are highly qualified professionals. They know how to work as a team, are highly-committed to the organization, give of their maximum potential and are clearly results oriented. We have established effective personnel selection and recruitment mechanisms in order to attract excellent professionals, many of them with rising careers within the group.

At the same time, we have developed objective ways to evaluate personnel performance in order to assure that remuneration and benefits are coherent with the degree of responsibility assigned to each job, based on performance and results. This has helped to create a culture within our group that contributes to the formation of talent and development of skills, both individually and collectively.

Our human resources area is responsible for developing and managing programs, policies, training and related procedures that contribute to the well-being of the organization not only in terms of organizational efficiency, but which also aim to provide employees with career advancement opportunities, assure their job satisfaction and security at all times.

We are explicitly committed to the community and the environment, and seek a balance between the interests of our shareholders and those of our personnel.

Lastly, we strive to provide the tools necessary for our employees to adapt in the best way possible to the demands of a fast changing and increasingly competitive world.

PERSONNEL (AS OF DECEMBER 31, 2006)

Company	Executives	Professionals and Technicians	Other Workers	Total
Quiñenco	10	14	14	38
Banco de Chile	393	4,686	6,140	11,219
Madeco	48	757	2,186	2,991
Telsur	30	331	159	520
Other subsidiaries	13	53	52	118
Total	494	5,841	8,551	14,886

As of December 31, 2006, the affiliate companies CCU and Habitaria had 4,416 and 8 employees, respectively.

Social Responsibility

Contribution to our community through collaborative efforts is characteristic of our group's culture, enabling us to put our values into action and take part in projects of importance to society. In Quiñenco, we understand that social responsibility is not a response to social demands, but an opportunity to exercise leadership and contribute to the common good and progress of the country.

This spirit translates into active participation by our group companies in various activities and initiatives aimed at improving the health and education of Chileans, promoting the culture of our country and protecting the environment.

Working Together

Helping disabled children is a priority for our group. Our companies play a fundamental role in the Teletón, one of the most important collective efforts carried out annually on a nation wide basis. Our group contributes to this cause, not only through economic help but through the donation of time, dedication and enthusiasm.

Our companies also actively participate in various campaigns oriented towards helping disadvantaged children throughout Chile.

Educational Support

Considering the fundamental role of education in the country's development, we are committed to sponsoring high quality educational programs. We also support the design and implementation of communal programs that strive to improve the level of education available to needy children. This is carried out through the constant support by different group companies of public schools, through the granting of financial scholarships for primary, secondary and college education and donations of computer equipment and laboratories.

Cultural Development

The Quiñenco group promotes on a regular basis, cultural activities for the community at large. Each year, group companies sponsor art exhibitions by up and coming Chilean artists through local townships, colleges, community centers and restaurants. We also promote mass musical events such as concerts and live entertainment.

Likewise, we sponsor athletes and sports teams through our group companies, including tournaments for disabled athletes as well as a wide range of sports like family runs and international golf and ski competitions.

Living Better

Consideration of the environment is essential when planning and developing our investments. One of the basic principles of our group is that every company should work in harmony with the environment and promote nature conservation. We maintain native forests through one of our companies, unquestionably a concrete contribution to a better quality of life. We also have an annual donation plan which aims to promote respect for the conservation and replenishment of our natural environment.

2006 Financial Results

Net Income Contribution from Operating Companies

The following table shows the contribution of the main operating companies to Quiñenco's 2006 net income:
(In millions of Ch$ pesos as of December 31. 2006)

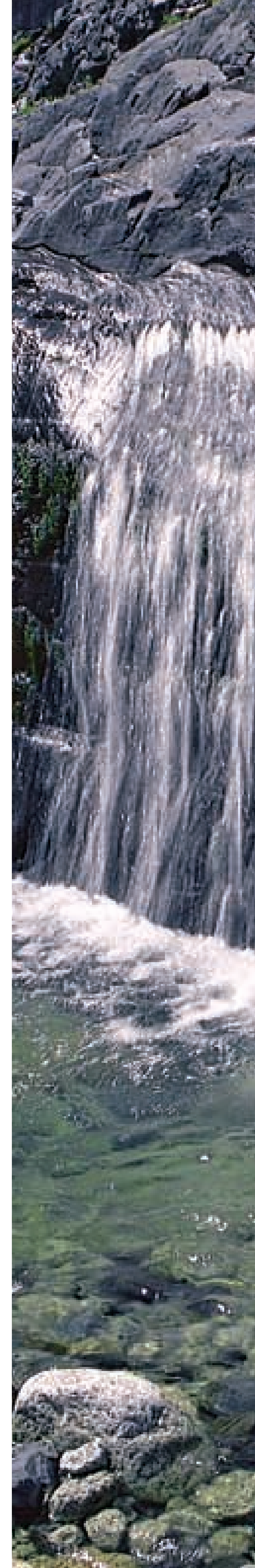
Companies	Quiñenco's Ownership (1)	Sales Revenue	Net Profit (Loss)	Quiñenco's Prop. Share	Total Assets	S/H Equity
Financial Services Banco de Chile	(2) 52.2%	(3) 560,729	195,248	57,650	12,760,213	834,631
Food & Beverage CCU	33.1%	545,797	55,833	18,456	702,407	349,228
Telecommunications Telsur	73.7%	56,042	7,855	5,790	130,514	70,246
Manufacturing Madeco	46.2%	559,141	30,204	14,046	416,782	251,555
Other Operating Companies				(5,634)		
Total Operating Companies				90,308		
Quiñenco & Holding Companies				(33,265)		
Net Income for the Year				57,043		

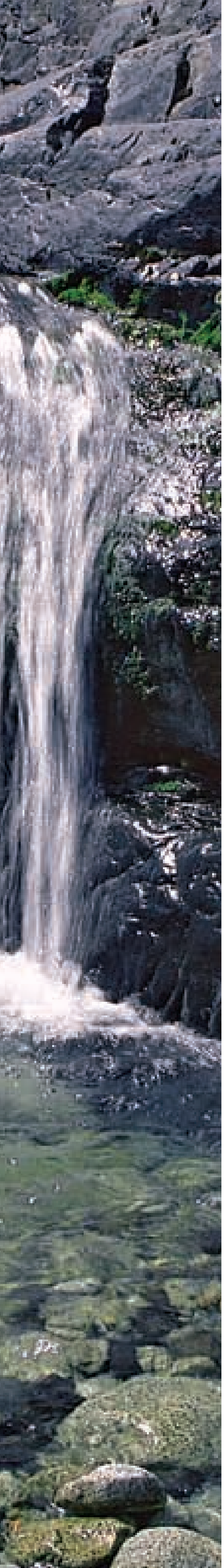
(1) Direct or indirect.
(2) Corresponds to voting rights. Quiñenco's dividend rights in the bank are 29.5%.
(3) Corresponds to operating revenues.

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

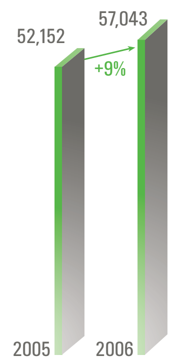
Quiñenco's net earnings reflected the strong performance of its main operating companies in 2006. Without exception, group companies experienced considerable growth in terms of sales and results from their operations, contributing to a 9.4% increase in Quiñenco's net income for the year, which reached Ch$57,043 million. These results come on the heel of the excellent results obtained during 2005 which included non-recurring gains on the sales of investments.

Quiñenco reported consolidated revenues of Ch$616,102 million in 2006, up 43.0% from the 2005 level. Consolidated revenues were boosted by the 49.8% or Ch$185,978 million increase in sales corresponding to Madeco's operations, as a result of higher average copper prices and an increase in volumes sold in Madeco's main markets.

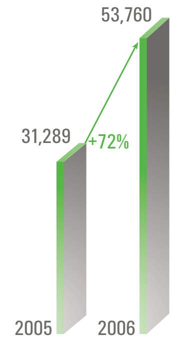




NET PROFIT



OPERATING INCOME



Composition of Consolidated Debt	2005 MCH$	2006 MCH$
Corporate level	342,915	336,556
Madeco	81,704	97,965
Telefónica del Sur	45,010	40,317
Total consolidated debt	469,629	474,838

Financial Results	2005 MCh$	2006 MCh$
Operating income	31,289	**53,760**
Share of net income from equity investments	73,314	78,404
Other non-operating income	29,683	5,407
Amortization of goodwill	(23,363)	(22,465)
Interest expense (net)	(26,342)	(23,726)
Other non-operating expenses	(12,325)	(9,704)
Price-level restatement and FX translation	(5,492)	(1,189)
Non-operating income	35,475	**26,727**
Other*	(14,612)	(23,444)
Net income	52,152	**57,043**

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

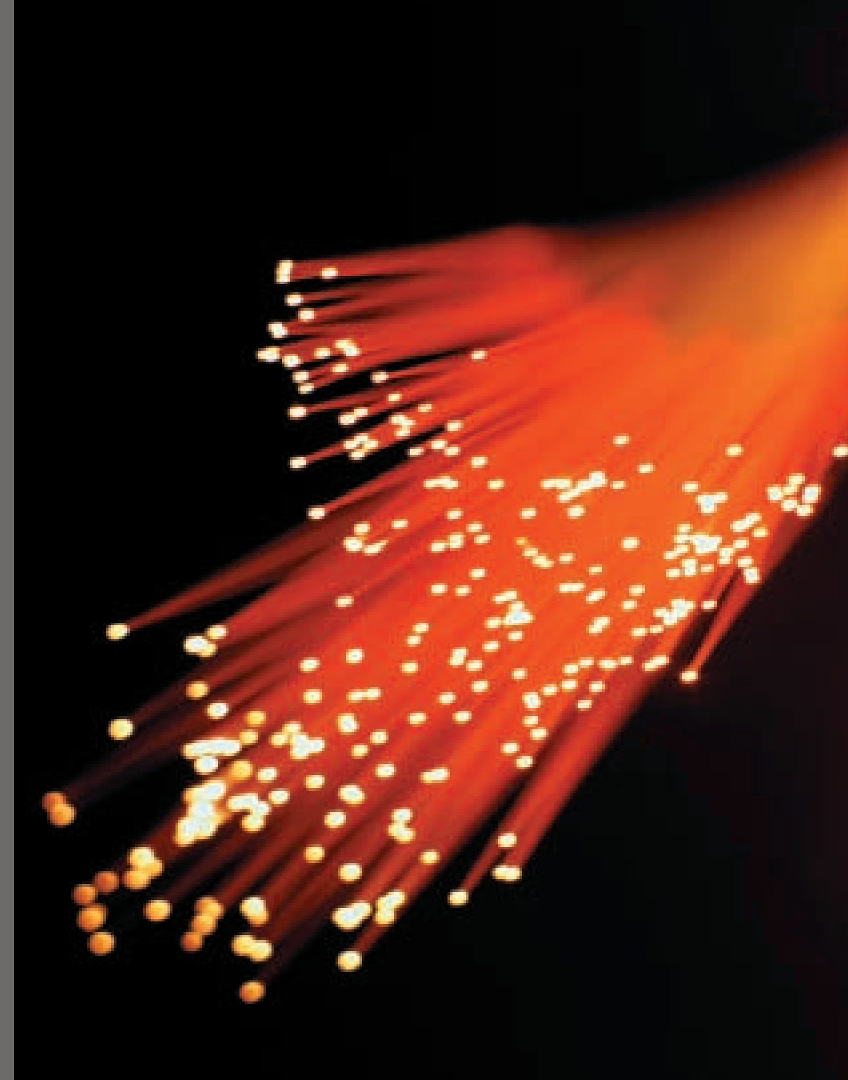
Consolidated operating income benefited from the rise in sales, jumping by 71.8% to Ch$53,760 million in 2006. The increase in operating profit for the year was mainly attributable to Madeco's operations, which, in spite of sustained increases in raw material costs, particularly copper and aluminum, as well as an increase in SG&A expenses, benefited from the higher sales level of the cable and brass mills business units.

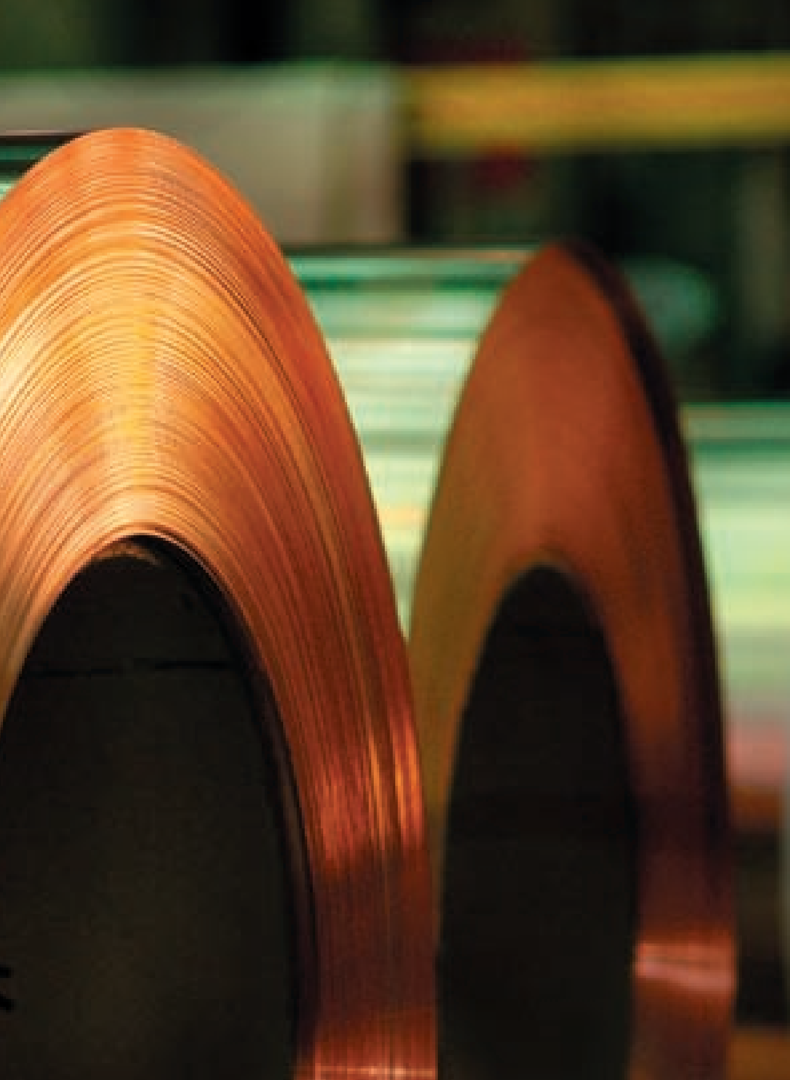
Quiñenco reported non-operating income of Ch$26,727 million, compared to Ch$35,475 million in 2005. The variation between the two years is largely explained by non-recurring gains in 2005 on the sale of investments in the retail sector which amounted to Ch$24,154 million.

Equity income (net) totaled Ch$78,404 million, an increase of 6.9% over 2005, mainly due to the solid results obtained from Quiñenco's two main equity investments, Banco de Chile and CCU.

Dividend cash flow amounted to Ch$49,294 million in 2006, down from the Ch$70,695 million received in 2005. In 2006, Banco de Chile reduced its pay-out ratio from 100% to 70% which explains the difference in dividends received between 2005 and 2006. Likewise, it is worth mentioning that dividends received in 2005 included an extraordinary dividend from Entel of Ch$10,845 million. Telefónica del Sur (eliminated in consolidated cash flow) distributed dividends of Ch$3,634 million to Quiñenco (Ch$ 3,512 million in 2005). Dividend cash flow coupled with cash reserves obtained from the sale of investments in prior periods will facilitate carrying out the company's investment plan and debt pay-down in 2007.

Business Activities

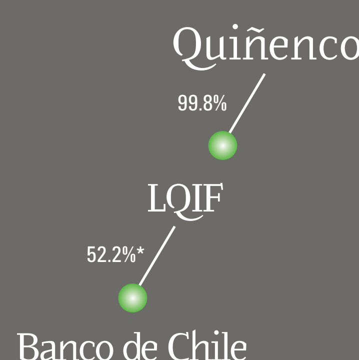




QUIÑENCO S.A.

Financial Services

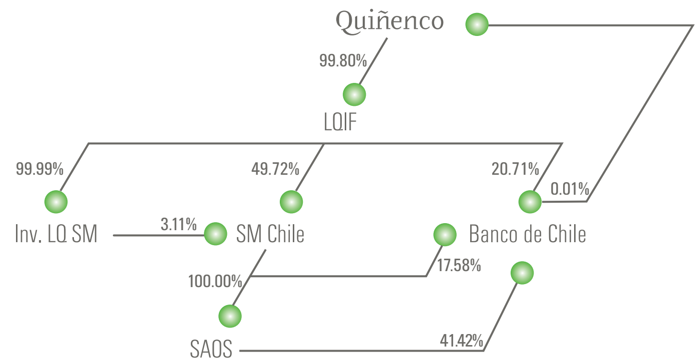
Banco de Chile



* Voting rights


BANCO DE CHIL

LQIF



LQ Inversiones Financieras (LQIF) is a wholly-owned subsidiary of Quiñenco whose sole purpose is to hold the company's investments in the financial sector. LQIF is the controlling entity of Banco de Chile, one of the country's principal banking institutions.

The management of LQIF is made up of executives and directors of Quiñenco who are responsible for defining its policies and growth strategy. Our long and successful track record in the Chilean financial services sector includes the merger of Banco Santiago with Banco O'Higgins in 1997; its subsequent sale to Banco Santander Central Hispano (BSCH) in 1999; the acquisition of Banco Edwards and Banco de Chile in 1999 and 2001 respectively, and their merger in 2002.

In 2006, the contribution to LQIF's net results from its investment in Banco de Chile was Ch$57,650 million, by far the most significant of all of the operating companies which comprise the group. Our investment in the financial services sector is sizeable, representing 59% of our total assets at the corporate level and 67% of total investments.

2006 Results

LQIF reported net income of Ch$32,946 million in 2006, an increase of 21.8% over the previous year. The rise in net income was primarily attributable to an increase in equity investment income related to Banco to Chile, which reached Ch$57,624 million. In addition, interest expense declined by 12.3% due to a lower indebtedness level and more favorable financing conditions, as well as better price-restatement results, both of which also served to boost net income for the year.

LQIF'S STAKE IN BANCO DE CHILE

	2005	2006*
Voting rights	52.2%	52.1%
Dividend rights	29.2%	29.5%
% of shares owned		
SM Chile	52.8%	52.8%
Banco de Chile	20.3%	20.7%

* Following the capitalization in May 2006 of 30% of 2005 net profits

Banco de Chile

Banco de Chile is one of the country's leading financial institutions, ranking first in size of locally-owned banks, and second in total loan volume. The bank's assets amount to approximately US$24 billion while its equity is roughly US$1.6 billion, with a market share of 18% in bank loans and 17% in time deposits. The market capitalization of Banco de Chile is over US$5.9 billion, making it one of the largest private institutions in Chile.

2006 was a successful year for Banco de Chile, having experienced a healthy 16% growth in the number of loan clients, a 10% increase in current accounts, a 19% rise in credit cards issued, and a 16% increase in loan volumes, particularly in the most profitable segments such as consumer loans, which grew by 22% compared to 2005.

Chile, Edwards and CrediChile are the trademarks under which Banco de Chile distributes its products, offering 293 points of sale and 1,456 automatic teller machines (ATMs) from Arica to Puerto Williams, as of December 31, 2006.

Additionally, the Bank offers such services as securitization, stock brokerage, investment and mutual funds, insurance brokerage, financial advising, factoring and foreign trade services through its subsidiaries, under the trademark Banchile.

In order to best support its clients and their growing businesses, Banco de Chile maintains branches in New York and Miami, as well as a network of representative offices in Buenos Aires, Mexico City and Sao Paulo and, as of September 2006, an office in Beijing, as well as and foreign trade services in Hong Kong.

Within the framework of an ambitious investment program, which included the incorporation of 40 new branches and 198 additional automatic teller machines (ATMs) during the year, Banco de Chile has consolidated its position as an innovative and modern banking institution. Project Neos, initiated in 2003, is behind a sweeping change of the bank's operating and technological platforms, which seek to provide state of the art information systems to support a business model based on the concept of "know your client". Results are already beginning to come in, and the bank has evidenced a substantial increase in the number of its clients, as well as higher sales levels. The business model focuses on the quality of client service and attempts to speed up response time and deliver products which are tailor made for clients at competitive prices. This is the first technology of its kind to be implemented in Latin America, keeping Banco de Chile in the forefront of the industry.

The successful performance of the bank has not gone unnoticed- in 2006 it won numerous awards in different areas such as: Best bank in Chile by Euromoney magazine; Best bank in Foreign Exchange Transactions granted by Global Finance; First place in Energy Efficiency according to CPC and the Chilean Ministry of Economics, in addition to an award as the financial institution with the greatest value creation for its shareholders, granted by Santander Bank and Capital magazine.

2006 Results

With particular focus on balanced loan growth and profitability as well as firm control over expenses and asset quality, Banco de Chile reported net income of Ch$195,248 million for the year ended December 31, 2006, surpassing its previous record net income level of Ch$184,519 million in 2005.

Operating revenues amounted to Ch$560,729 million, up 6.0% from the Ch$529,221 million reported in 2005. One of the main drivers of growth in operating revenues was net financial income, which rose by 8.8% to Ch$419,810 million. Net financial income, which is the sum of net interest income, net FX transactions and gains from forwards derivative contracts, grew as a result of a 10.4% increase in average interest earning assets, fueled by a significant expansion of the bank's loan portfolio. This increase more than offset the effects of a lower inflation rate, lower spreads and a less favorable funding structure. Fee income contracted by 4.7% to Ch$133,541 million, mainly due to lower fee income earned by the bank and its stock brokerage subsidiary.

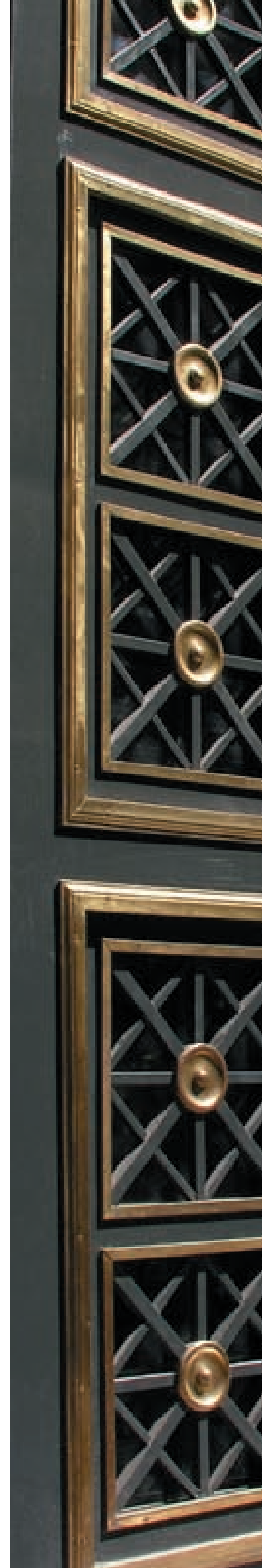
Gains on the sale of financial instruments (net of forwards derivative contracts) amounted to Ch$7,378 million, up by Ch$4,105 million over 2005, as a result of higher earnings on investment securities.

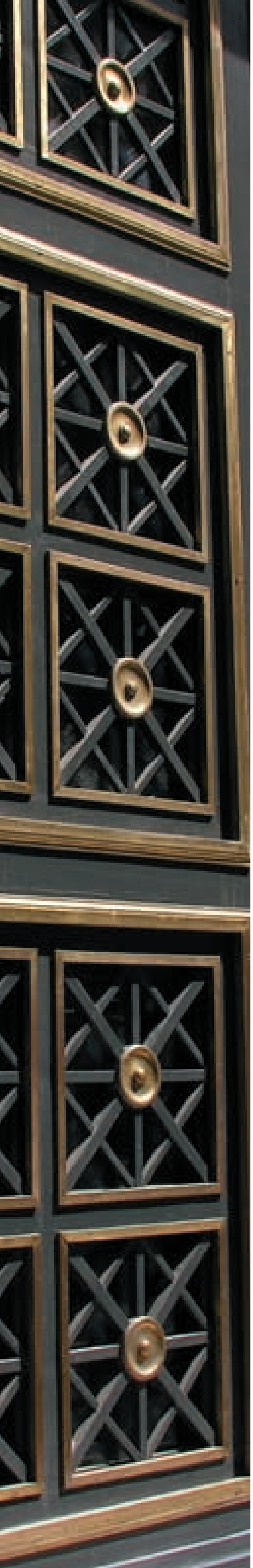
Provisions for loan losses increased by Ch$13,737 million to Ch$36,228 million, reflecting a higher risk profile associated with growth in the consumer loan area and a reduction in loan loss recoveries.

Other income and expenses increased from a loss of Ch$6,363 million to income of Ch$3,906 million, primarily due to higher non-operating income, and to a lesser extent, higher earnings related to equity investments.

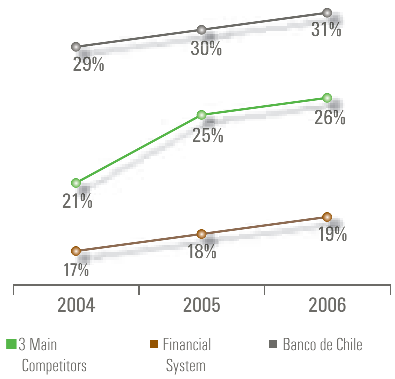
Operating expenses increased by 6.5% to Ch$300,536 million compared to 2005, in line with the growth in lending and transactions experienced during the year. A rise in advertising expenses, higher software and computer maintenance costs, higher expenses as a result of an expansion of the ATM and branch network in 2006 and higher salaries and personnel expenses mainly contributed to the increase in operating expenses in 2006.

As of December 2006, the Bank's loan portfolio had grown by 15.6% to Ch$9,652,147 million,



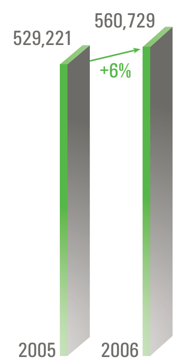


RETURN ON CAPITAL AND RESERVES

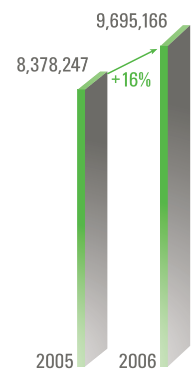


Key Financial Information		12.31.2005	12.31.2006
Total loans	MCh$	8,378,247	9,695,166
Total assets	MCh$	10,913,043	12,760,213
Shareholders' equity	MCh$	791,384	834,631
ROAA		1.75%	1.68%
ROAE		26.7%	25.0%
Net financial margin		4.2%	4.1%
Efficiency ratio		53.4%	53.6%
Market share (loans)		18.1%	18.0%

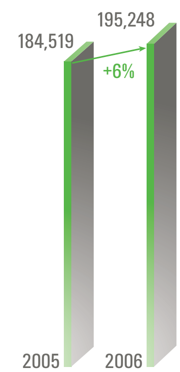
OPERATING REVENUE
MCh$560,729 in 2006



LOANS
MCh$9,695,166 in 2006



NET INCOME
MCh$195,248 in 2006



driven by a favorable economic environment and low interest rates. Loan portfolio growth was fueled by increases in factoring contracts, consumer loans, mortgage loans, contingent loans and foreign trade loans.

Banco de Chile was the second ranked bank in the country (in terms of loans) with a market share of 18.0% according to information published by the Chilean Superintendency of Banks for the period ended December 31, 2006. Its return on capital and reserves for the twelve-month period was 30.5%, the second highest in the Chilean financial system, according to the same source. The local financial system as a whole reported a return on capital and reserves of 18.6% in 2006.

Food and Beverage

Compañía Cervecerías Unidas

Quiñenco

33.1%

CCU

Compañía Cervecerías Unidas (CCU) is the leading beverage producer in Chile. Thanks to its ample range of products, a focused growth strategy and permanent dedication to innovation, CCU has forged a strong relationship with the millions of Chileans who consume its beers, soft drinks, mineral waters, fruit juices, wines, piscos and food snacks on a daily basis.

Over the past several years, the beer market in Chile has experienced important growth, bringing benefits to both consumers and CCU, whose sales of beer have now reached historic levels. Cristal, the top selling beer in the country, launched Red Ale in 2006, giving consumers a new alternative to a traditional beer. In addition, CCU's Royal Guard, Morenita, Escudo, Royal Light, Dorada and Lemon Stones brands, as well as Kunstmann and Austral, 50% owned by CCU, provide beer drinkers with an ample selection of delicious beers to choose from.

CCU also sells under licence the well-known international brands Heineken, Budweiser and Paulaner. The company has three production plants which have a total capacity of 630 million liters per year, located in Temuco, Antofagasta and Santiago. In Argentina, CCU is the second player in the beer market with a 16% share. It produces the Schneider, Santa Fe, Salta, Córdoba, and Rosario brands in its plants in Salta and Santa Fe. CCU Argentina also produces and sells under license the international brands, Budweiser and Heineken.

Through its subsidiary ECUSA, CCU is the number one bottler and distributor of mineral waters in Chile, leading the domestic market with its Cachantun and Porvenir brands. At the end of 2006, the company announced a joint venture with Watt's, through which ECUSA acquired 50% of the nectar Watt's, Ice Frut de Watt's, Yogu Yogu and Shake a Shake brands, a move that should allow CCU to take a more active role in developing fruit-based drinks in a fast growing market.

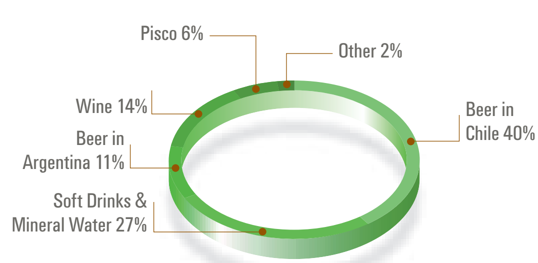
The company's Bilz, Pap, Kem and Kem Xtreme brands are well known in the Chilean soft drinks market. CCU also maintains a licensing agreement to produce Schweppes Holdings Ltd. and PepsiCo beverages. In 2006, the company began producing Gatorade under license to PepsiCo.

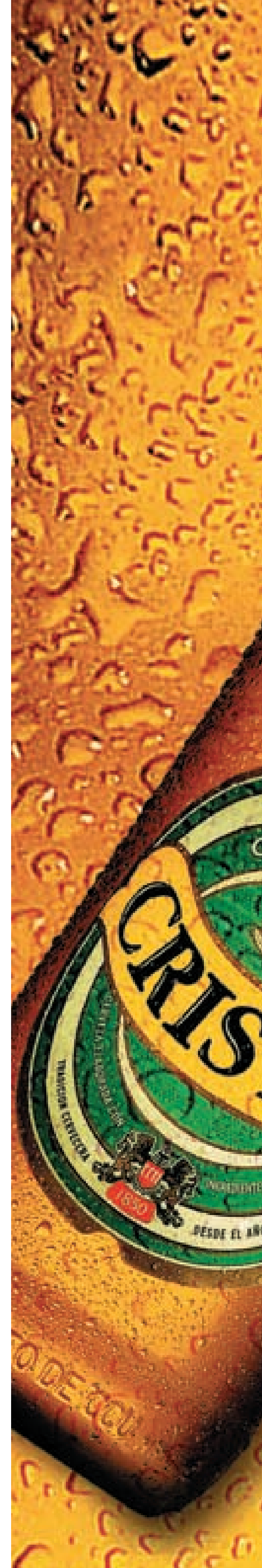
In the wine sector, CCU through its subsidiary Viña San Pedro, exports to almost 80 countries around the world and is also an important domestic supplier of fine wines of diverse vintages with its Santa Helena, Altair and Tabalí wineries in Chile and Finca La Celia in Argentina.

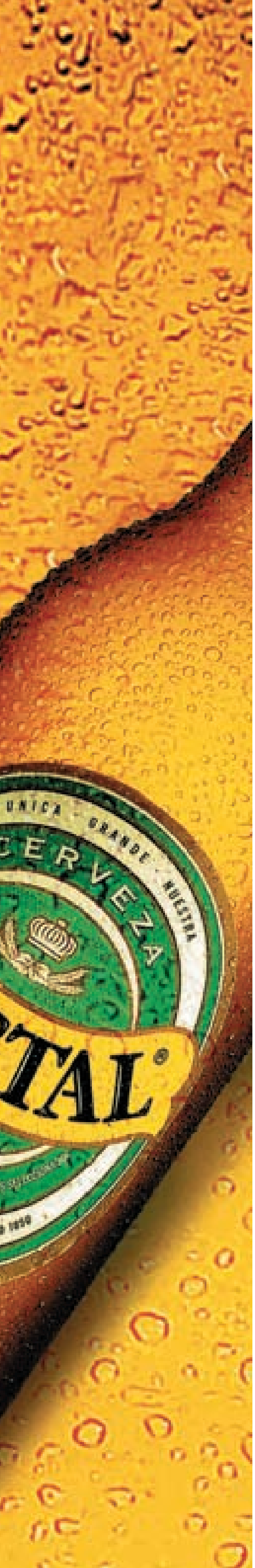
A new pisco bottling plant is currently under construction in Valle del Limarí, which is expected, upon termination in 2007, to become an important link in supplying the new pisco-based drinks recently introduced in the Chilean market which include Ruta Sour Mango, Campanario Mango and Mistral Nobel.

CCU's pilot plan, recently put into action in the cities of Osorno and Puerto Montt to distribute beer, pisco, soft drinks and non-alcoholic beverages and wine on a single distribution platform, has been met with great success. Based on these initial results, CCU widened the pilot plan to include the majority of the cities in the south of Chile, representing approximately 18% of company sales.

2006 SALES COMPOSITION
MCh$545,797





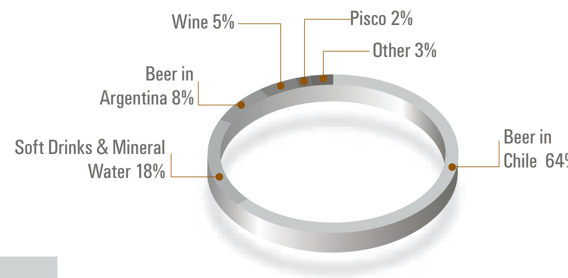


Market Shares	2005	2006
Beer in Chile	88%	86%
Beer in Argentina	16%	16%
Soft drinks	22%	22%
Mineral water	67%	72%
Fruit juice	58%	59%
Domestic wine (VSP)	19%	19%
Export wine (VSP)	12%	11%

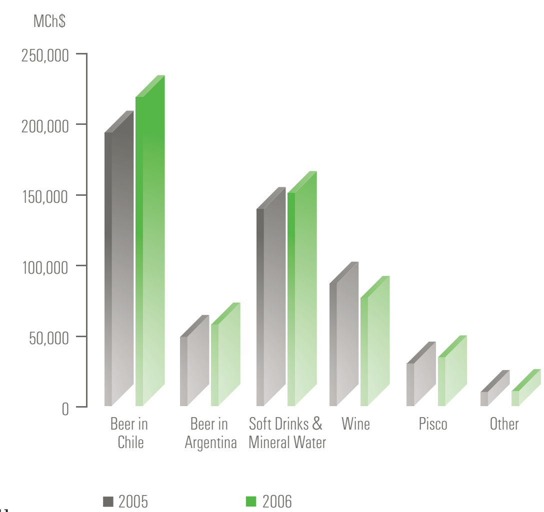
Volume Sold (*)	2005	2006	Change
Beer in Chile	4,170	4,709	+13%
Beer in Argentina	2,269	2,444	+8%
Soft drinks & mineral water	4,742	5,183	+9%
Domestic wine (VSP)	525	463	-12%
Export wine (VSP)	400	400	-
Pisco	203	205	+1%

(*) Thousands of hectoliters

2006 EBITDA BY SEGMENT
MCh$121,761



SALES
MCh$545,797 in 2006



2006 Results

In 2006, CCU reached new milestones, including a record level of sales, operating income and EBITDA generation. Consolidated sales revenue rose by 8.6% to Ch$545,797 million, attributable to an 8.9% increase in volumes sold as well as higher average prices. The growth in sales volumes was led by the beer and soft drink segments, although with the exception of the wine segment, all product segments experienced strong growth during the year.

Operating income jumped by 17.4% to Ch$79,692 million in 2006, mainly due to the higher sales levels associated with the beer and soft drinks segments, although higher direct costs and SG&A expenses partially offset the increase. In addition, a decline in operating income from the domestic and export wine and other income also partially offset the overall rise in operating profits for the period. EBITDA reached Ch$121,761 million showing an increase of 10.8% over 2005.

CCU reported non-operating losses of Ch$9,909 million, compared to non-operating losses of Ch$9,511 million in 2005. The slight deterioration in non-operating results is mostly explained by an increase in other non-operating expenses related to fixed asset obsolescence and restructuring charges and amortization of goodwill expense, partially offset by a higher level of financial income and other non-operating income related to property sales.

The aforementioned 17.4% increase in operating income in 2006 was reflected in CCU's net income for the year, which rose by 13.5% to Ch$55,833 million, partially offset by a reduction in non-operating results and an increase in income taxes during the twelve month period.

Telecommunications

Telefónica del Sur

Quiñenco

73.7%

Telsur


1
9
Link
Act

Telefónica del Sur is the principal provider of telecommunications services in the south of Chile, with more than 270,000 clients distributed among its varied product offerings. It operates between Chile's 8th and 11th Regions, which cover the cities of Concepción, Temuco, Valdivia, Osorno, Puerto Montt, Castro and Coyhaique.

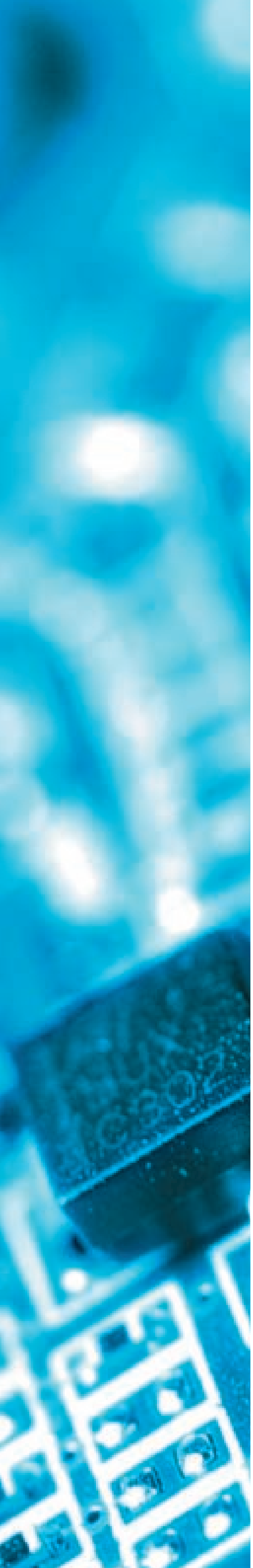
Telefónica del Sur has made it a key priority to remain on the cutting edge of product and service innovation. During the past several years, the company has significantly expanded its service network, transforming itself into a telecommunications operator that, apart from its traditional fixed line service, offers Internet (ISP), tele-security, wireless voice and data services for businesses and other specialized services like data transmission, hosting and call centers.

Aimed at providing the highest quality services possible to its clients, Telefónica del Sur began to transform its network in 2006, with the initiation of the FTTC project (fiber-to-the-curb), which is designed to increase network capacity by widening broad band services to incorporate TVoIP, high speed games and on-line videoconferencing. In addition, the company offers tele-security and Centrex IP services, oriented to companies whose functioning revolves around Internet protocol.

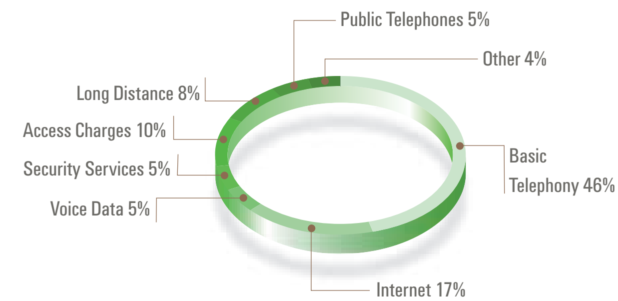
Thanks to strategic alliances forged with a number of telecom operators, Telefónica del Sur has been able to further penetrate its market by offering a greater range of products and services. The alliance with Direct TV to launch what is now known as "five play", a bundling of five different services, including fixed-line telephony with PHS capacities, wide band internet, satellite television and telesecurity services, was enthusiastically welcomed by the public. Telefonica del Sur was recently awarded the Effie prize for best new product launch, attesting to the success "five play" has had among its many consumers.

2006 Results

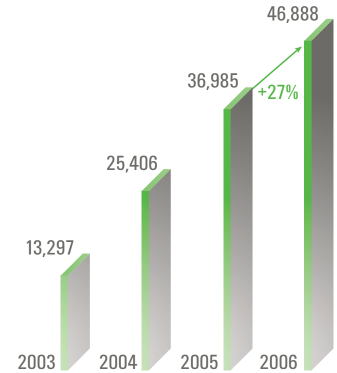
Telefónica del Sur's revenues reached Ch$56,042 million in 2006, up slightly from the Ch$55,873 million reported in 2005. Although the overall sales level in 2006 remained



2006 SALES COMPOSITION
MCh$56,042



WIDE BAND CLIENTS



Market Shares	2005	2006
Concepción	13%	13%
Temuco	45%	48%
10th region	81%	84%
11th region	88%	88%

relatively constant compared to 2005, the growing importance of Internet, security services and data services in Telsur's revenue mix is clearly seen. These services grew by 10.4% during 2006, more than offsetting the decline in long distance, public telephones, access charges and other traditional services. Revenue from fixed line telephony remained in line with that of 2005, reversing the industry trend, thanks to the successful introduction of a wireless fixed line telephone which allows the user mobility to roam freely among the city with no interference of service (PHS).

Internet revenue jumped by 12.0% to Ch$9,643 million in 2006. The strong growth in this area was due to a 26.8% increase in the number of wide band clients. Likewise, revenue from security and data services experienced rapid growth in 2006, increasing by 11.8% and 4.0%, respectively.

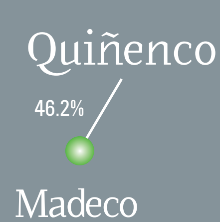
Operating profits fell by 8.4% to Ch$12,147 million, mainly as a result of higher marketing and sales expenses associated with the launching of the PHS telephone earlier in the year.

Non-operating losses decreased from Ch$2,991 million in 2005 to Ch$2,155 million in 2006. The improvement in non-operating results was primarily due to a 26.8% reduction in interest expense as a result of a debt restructuring carried out in 2004 and 2005, lower interest rates and a lower indebtedness level. In addition, price-level restatement losses were almost reduced to zero as a consequence of the lower inflation rate.

Net profit in 2006 increased slightly to Ch$7,855 million. The improvement in bottom line results for the year was attributable to the aforementioned improvement in non-operating results and a lower tax burden.

Manufacturing

Madeco



MADECO

Market Shares	2005	2006
Wire & Cable		
Chile	38%	30%
Brazil	19%	15%
Peru	73%	65%
Argentina	6%	9%
Brass Mills		
Chile	58%	50%
Argentina	12%	11%
Coin blanks	4%	16%
Flexible Packaging		
Chile	28%	29%
Argentina	7%	6%
Aluminum Profiles	69%	67%

Madeco is the leading manufacturing company of copper and aluminium products and flexible packaging products in Latin America, a position it has enjoyed for many years in the markets in which it has an established presence.

The company operates throughout Latin America, with 16 manufacturing plants in Chile, Brazl, Peru and Argentina. It exports a large variety of products to approximately 20 countries, mainly Latin America, USA and Europe, supported by a network of seven sales representatives abroad.

Madeco has four main businesses, the production of copper and aluminium cables, brass mills, flexible packaging and aluminium profiles. It supplies important sectors of the economy such as construction, industry, electricity transmission and distribution, telecommunications and mining.

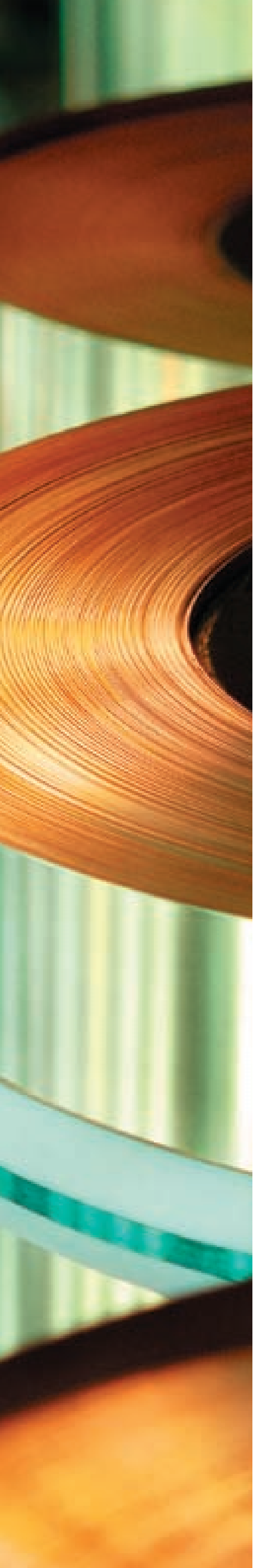
In order to strengthen its financial structure, Madeco took a US$ 50 million syndicated credit in 2006, in order to prepay existing bank debt and finance its additional working capital needs associated with the sharp rise in copper prices. Additionally, it began to benefit from operating efficiencies derived from the restructuring of its brass mills plant, Madeco Chile during the year.

Implementation of the SAP software information system, already at work in the Brazilian subsidiary, Ficap, was initiated in Madeco Chile and Indeco Peru in 2006, aimed at improving management control. In addition, Madeco Chile began the initial implementation of a management tool (Gestión por Competencia) designed to help the company retain and develop the careers of its key employees.

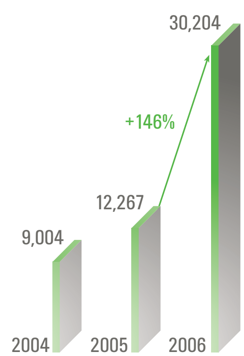
Madeco successfully completed the objectives of its strategic plan for the year 2006, which consisted of a sustained increase in sales, supported by a strengthened commercial area, and increase in exports, the recovery of market shares, greater operating efficiencies and a reduced cost structure. The success of these measures is reflected in the company's profitability level and positioning in its main markets.

2006 Results

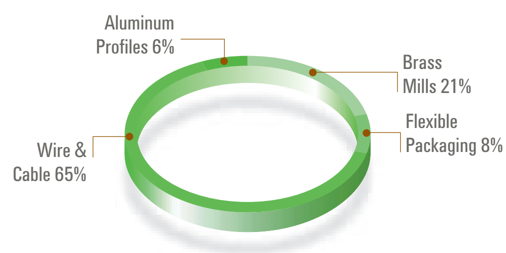
Madeco's sales level rose by 49.8% to Ch$559,141 million in 2006. The growth in sales during the year was attributable to higher average copper prices and an increase in volumes sold. Prices increases accounted for 86.4% of the total increase in revenues. Cable and brassmill sales were particularly strong, increasing during the year by 66.4% and 46.3%, respectively.



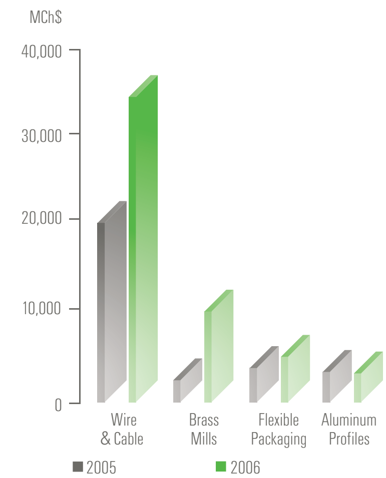
NET INCOME
MCh$30,204 in 2006



2006 SALES COMPOSITION
MCh$559,141



OPERATING INCOME
MCh$51,766 in 2006



Sales corresponding to the cable business unit were up by Ch$143,710 million to Ch$360,226 million as a consequence of strong demand for copper wire and copper and aluminum cables in Madeco's main markets of Brazil, Chile and Peru. The increase in sales was price driven, although a 15.5% increase in the volume sold also contributed to the boost in sales. Brass mills sales jumped by Ch$37,794 million also due to the rise in copper prices, more than offsetting a 5.1% decline in volumes sold. Likewise, the flexible packaging and aluminum profiles units also reported an increase in sales of 2.5% and 11.2% respectively.

In spite of higher costs associated with raw materials, particularly copper and aluminum, as well as a 15.4% increase in SG&A expenses related to the higher sales level, the strong sales level led to an 82.1% increase in operating profits for the period. Operating income rose by 82.1% to Ch$51,766 million, mainly attributable to the 73.3% and 373.9% growth experienced by the cable and brass mills units during the year.

Madeco reported non-operating losses of Ch$14,846 million, up by 6.6% from the Ch$13,928 million reported in 2005, mostly explained by a 12.3% increase in interest expense as a consequence of higher working capital needs, as well as an increase in other non-operating expenses (net). This increase was partially offset by an improvement in results related to foreign exchange differences (due to the revaluation of the Brazilian real and the Peruvian sole) and price-level restatement (due to a lower inflation rate).

Madeco reported net income of Ch$30,204 million in 2006. This represented an increase of 146.2% compared to 2005, attributable to the significantly stronger operating performance shown by the company in 2006, which more than offset the aforementioned increase in non-operating losses and higher taxes.

Corporate Affairs

Dividend Policy

At the Annual Shareholders' Meeting to be held on April 27, 2007, the Board of Directors will propose to maintain its dividend policy of distributing at least 30% of annual (liquid) net profits.

DIVIDEND HISTORY

Dividend Number	Payment date	Dividend per Share*	Total Dividend*	For the year ended December 31st
N° 14	January 9, 2004	Ch$11.24745	ThCh$12,144,323	Interim 2003
N° 15	May 11, 2004	Ch$6.20807	ThCh$6,703,102	2003
N° 16	May 5, 2005	Ch$12.97685	ThCh$14,011,625	2004
N° 17 and 18	May 10, 2006	Ch$14.44793	ThCh$15,600,009	2005

* historic figures

Distribution of 2006 Net Income

Net income for 2006 totaled ThCh$56,043,964. The Board of Directors has proposed to distribute 2006 net income as follows:

1) Absorption of the accumulated deficit from the development period of ThCh$1,529,842.

2) Payment of a dividend of ThCh$17,112,887 corresponding to the distribution of 2006 net income as follows:

a) Payment of a minimum obligatory dividend of ThCh$16,214,770, to be paid in accordance with the date established at the Annual Shareholders' Meeting.

b) Payment of an additional dividend of ThCh$898,117, to be paid in accordance with the date established at the Annual Shareholders' Meeting.

3) Allocation of the balance of ThCh$38,400,235 to retained earnings.

The proposed dividend distribution corresponding to 2006 net income is equivalent to 30.00% of net earnings for the year.

Calculation of Allowable Dividend Distribution	ThCh$
Net Income 2006	57,042,964
Accumulated deficit from the development period	(1,529,842)
Allowable distribution of 2006 earnings	55,513,122
2006 dividend as a percentage of allowable distribution	30.83%
Amortization of negative goodwill (consolidated)*	(1,463,881)

* In co
distributab
dividend.

Corporate Affairs

Shareholders

Quiñenco's share capital is divided in 1,079,740,079 subscribed and paid-in shares. Its shares have been traded on the New York Stock Exchange (NYSE) and the Santiago Stock Exchange (Bolsa de Comercio de Santiago) since 1997. On November 16, 2006, Quiñenco's Board of Directors agreed to terminate the company's ADR program in the United States and share trading on the NYSE was suspended on January 19, 2007. Quiñenco's shares will continue to trade on the Chilean stock exchanges.

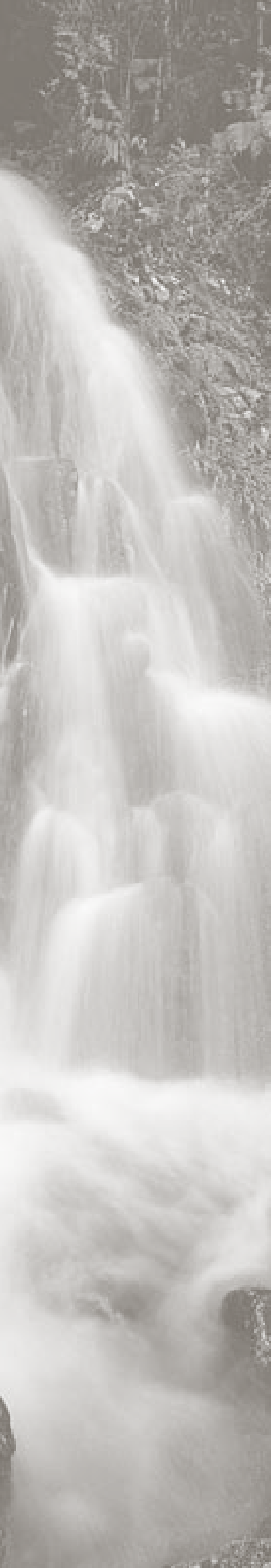
The twelve largest shareholders as of December 31, 2006 are:

Corporate I.D.	Name	Shares	%
77.636.320-0	Andsberg Inversiones Ltda.*	365,300,976	33.83
59.039.730-k	Ruana Copper A.G. Agencia Chile*	240,938,000	22.31
78.306.560-6	Inmobiliaria e Inversiones Río Claro S.A.*	143,427,860	13.28
96.536.010-7	Inversiones Consolidadas S.A.*	125,427,859	11.62
59.030.820-k	The Bank of New York **	43,149,760	4.00
90.818.000-3	Axxion S.A.	42,426,998	3.93
96.894.180-1	Bancard Inversiones Ltda.	22,954,976	2.13
96.871.750-2	Inversiones Salta S.A.*	18,000,000	1.67
96.684.90-8	Moneda S.A. A.F.I. para Pionero F.I. Mobiliaria	12,429,779	1.15
98.001.000-7	A.F.P. Cuprum	8,919,585	0.82
99.012.000-5	Compañía Seg. Vida Consorcio Nac. de Seguros S.A.	4,501,537	0.42
90.249.000-0	Bolsa de Comercio de Santiago Bolsa de Valores	3,581,733	0.33
	Totales	1,031,059,063	95.49
	OTHER INFORMATION as of 12.31.2006		
	Number of outstanding shares	1,079,740,079	
	Number of shareholders	1,867	

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

Quiñenco is controlled 82.9% 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. and Inmobiliaria e Inversiones Río Claro S.A. The Luksburg Foundation indirectly holds a 94.6% interest in Andsberg Inversiones Ltda., a 100% interest in Ruana Copper A.G. Agencia Chile and a 97.3% interest in Inversiones Orengo S.A.

Andrónico Mariano Luksic Craig and his family control 100% of the shares of Inversiones Consolidadas S.A. and Inversiones Salta S.A. Guillermo Antonio Luksic Craig and his family control 100% of the shares of Inmobiliaria e Inversiones Río Claro S.A. There are no formal agreements as to the voting or disposition of shares between members of the controlling shareholder group.



Quiñenco

ADR Shareholders 4% *

Luksic Group 83%

Chilean Stock Exchange Shareholders 13%

(*) The ADR program in the United States terminated on January 19, 2007.

SHARE TRANSACTIONS BY CONTROLLING SHAREHOLDERS

	Number of Shares		Transaction Amount (*)		Unit Price (*) (**)	
	Purchased	Sold	Purchased ThCh$	Sold ThCh$	Purchased Ch$	Sold Ch$
2006						
Andsberg Inversiones Ltda.	1,137,817	–	728,203	–	640.00	–
2005						
Inmobiliaria e Inversiones Río Claro S.A.	1,217,502	(608,751)	827,901	(415,509)	680.00	(682.56)
Inversiones Consolidadas S.A.	608,751	–	415,509	–	682.56	–

(*) Historic figures
(**) Average price

SHARE TRANSACTIONS BY OFFICERS AND EXECUTIVES OF THE COMPANY

	Number of Shares Purchased (sold)		Transaction Amount (**) Purchased (sold)		Unit Price (**) (***) Purchased (sold)	
	2006	2005	2006 ThCh$	2005 ThCh$	2006 Ch$	2005 Ch$
Francisco Pérez Mackenna (CEO) (*)	(334,799)	(334,799)	(214,271)	(227,663)	(640.00)	(680.00)
Martín Rodríguez Guiraldes (Executive) (*)	(83,188)	(83,190)	(53,240)	(56,569)	(640.00)	(680.00)
Pedro Marín Loyola (Executive) (*)	(38,665)	(38,665)	(24,746)	(26,292)	(640.00)	(680.00)
Luis Fernando Antúnez Bories (Executive) (*)	(145,367)	(145,369)	(93,035)	(98,851)	(640.00)	(680.00)
Felipe Joannon Vergara (Executive) (*)	(179,439)	(179,439)	(114,841)	(122,019)	(640.00)	(680.00)
Oscar Henríquez Vignes (Executive) (*)	(37,493)	(37,494)	(23,996)	(25,496)	(640.00)	(680.00)
Manuel José Noguera Eyzaguirre (Executive) (*)	(179,439)	(179,439)	(114,841)	(122,019)	(640.00)	(680.00)
Davor Domitrovic Grubisic (Executive) (*)	–	(36,322)	–	(24,699)	–	(680.00)
Alessandro Bizzarri Carvallo (Ex-Executive) (*)	(49,210)	(49,211)	(31,494)	(33,463)	(640.00)	(680.00)
Sergio Cavagnaro Santa María (Ex-Executive) (*)	–	(159,347)	–	(107,719)	–	(676.00)
Jorge Tagle Ovalle (Ex-Executive) (*)	(53,896)	(53,899)	(34,493)	(36,651)	(640.00)	(680.00)
	(1,101,496)	(1,297,174)	(704,957)	(881,441)		

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

Corporate Affairs

Stock Share Price and Volume Traded

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

Year	Number of Shares	Transaction Amount (*) ThCh$	Average Price Ch$
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
2005			
1st Quarter	11,133,223	7,794,040	700.07
2nd Quarter	11,314,120	7,665,592	677.52
3rd Quarter	10,580,528	7,528,891	711.58
4th Quarter	11,720,344	7,710,086	657.84
2004			
1st Quarter	28,137,796	15,280,208	543.05
2nd Quarter	10,422,736	5,428,486	520.83
3rd Quarter	29,218,704	18,306,609	626.54
4th Quarter	15,182,803	10,597,645	698.00

(*) Historic figures

Corporate Headquarters

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

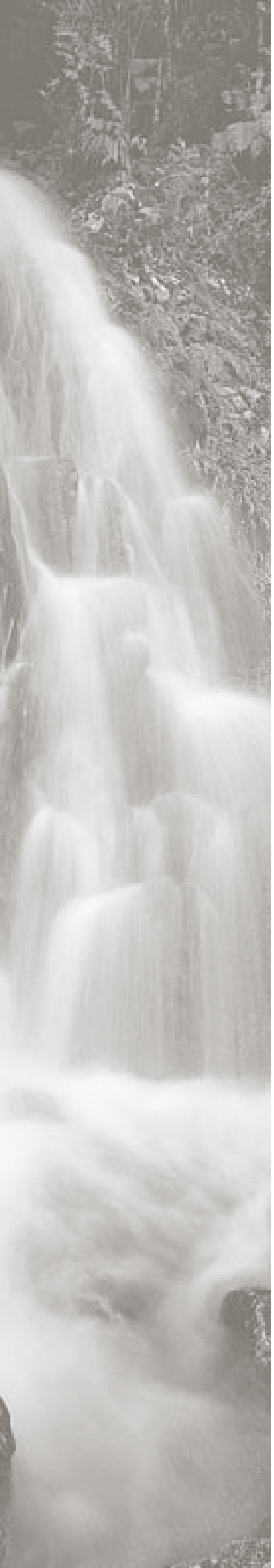
Insurance

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

Investment Policy

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

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



Financing Policy

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

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

Risk Factors

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

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

Quiñenco is predominantly engaged in business in Chile. Consequently, its results of operations and financial condition are to a large extent dependent on the overall level of economic activity in Chile. The Chilean economy had a GDP growth rate of approximately 4% for the year 2005. There can be no assurance regarding future rates of growth relating to the Chilean economy. Some of the factors that would be likely to have an adverse effect on the Company's business and results of operations include future downturns in the Chilean economy, a return to the high inflation experienced by Chile and currency fluctuations.

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

Quiñenco believes that its businesses face an increasingly high level of competition in the industries in which they operate. Increased competition

Corporate Affairs

is manifested in prices, costs and sales volumes of the products and services produced and marketed by Quiñenco's businesses. While the Company expects that its businesses, based on their past experience and track records, will be able to continue to successfully compete within their industries, there is no assurance that competition will not continue to increase in the future, including a possible ongoing trend of consolidation in certain industries. Increased competition could affect the profit margins and results of operations of Quinenco's businesses, which as a result, could materially and adversely affect the dividend cash flow Quinenco receives from its businesses.

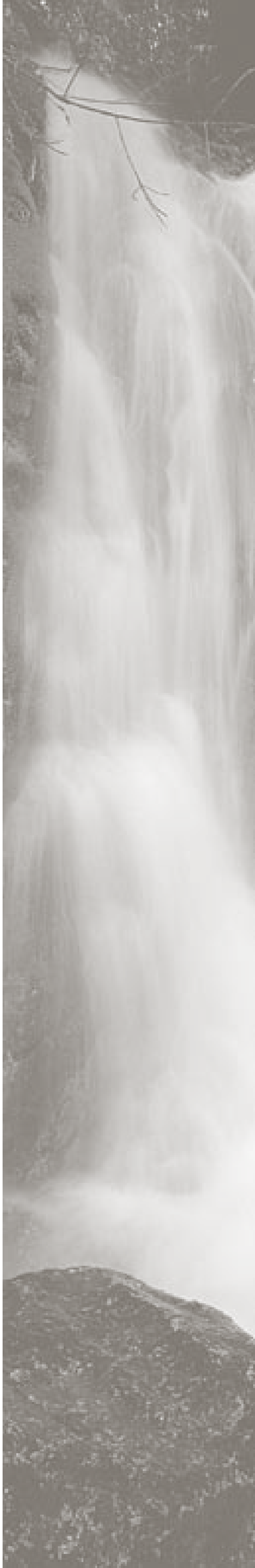
Historically, Quiñenco and its group companies have required significant amounts of capital to finance their operations and expand their businesses. As such, future growth is directly related to the Company's access to capital. In the past, Quiñenco and its group companies have satisfied their capital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

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

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

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

In addition, the market value of securities of Chilean companies is, to varying degrees, affected by economic and market conditions in other emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Chile, investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Chilean issuers. There can be no assurance that the Chilean stock market will continue to grow or even sustain its gains and that the market value of the Company's



securities would not be adversely affected by events elsewhere, especially in emerging market countries.

Directors' Committee

The Directors' Committee is composed of three members, Guillermo Luksic Craig, Gonzalo Menéndez Duque, and Matko Koljatic Maroevic. These members were appointed by the Board of Directors on May 5, 2005. The Directors' Committee had been composed of the same three members since January of 2005, in accordance with the appointment made by the Board of Directors on November 8, 2004 in an extraordinary board meeting. The committee is presided over by Gonzalo Menéndez Duque and meets on a monthly basis. Francisco Pérez Mackenna, CEO, Luis Fernando Antúnez, CFO, and Fernando Silva Lavín, Controller, are also regular participants at each session.

Each of the members of the Directors' Committee is related to the controlling shareholder under the terms described in Article 50 bis of the Corporations Law (Ley de Sociedades Anónimas).

The Directors' Committee, in accordance with Article 50 of the Corporations Law and its predetermined meeting schedule, carried out the following activities in 2006:

1) An examination of and subsequent report on the type of operations referred to in Articles 44 and 89 of the Corporations Law. The Committee reviewed in detail the information relative to the following transactions: (a) a loan of UF221,000 plus interest to the subsidiary company, Indalsa S.A., payable in 24 months, guaranteed by shares of Calaf S.A.; and (b) a proposal to jointly develop the second stage of the "Jardin de Ursulinas" real estate project with the company Almagro S.A.

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

3) Review and approval of the Company's Form 20-F for the year 2005 that was registered with the Securities and Exchange Commission of the United States.

4) A review of the reports issued by the Company's external auditors. During 2006, the committee reviewed the 2005 Audited Financial Statements presented by Management, prior to submitting them to shareholders for approval. Other reports included the interim financial report as of June 30, 2006 and the Internal Control Report periodically sent to the Company's administration.

Corporate Affairs

5) The committee proposed to the Board of Directors the designation of Ernst & Young Servicios Profesionales de Auditores and Asesorías Limitada as external auditors for the year 2006. If this firm for whatever reason can not be contracted, it would then propose 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.

Audit Committee

As a listed company and foreign private issuer on the New York Stock Exchange (NYSE), Quiñenco complies with the NYSE's listing standards and regulations of the Securities and Exchange Commission (SEC). In accordance with the Law Sarbanes Oxley of 2002, on June 2, 2005, the company formed an audit committee whose function is to help ensure the reliability of the Company's financial statements, accounting and control processes, as well as supervise the external auditors. In 2006, the committee was composed of one member, Matko Koljatic Maroevic, an independent member of the audit committee as defined by current regulations.

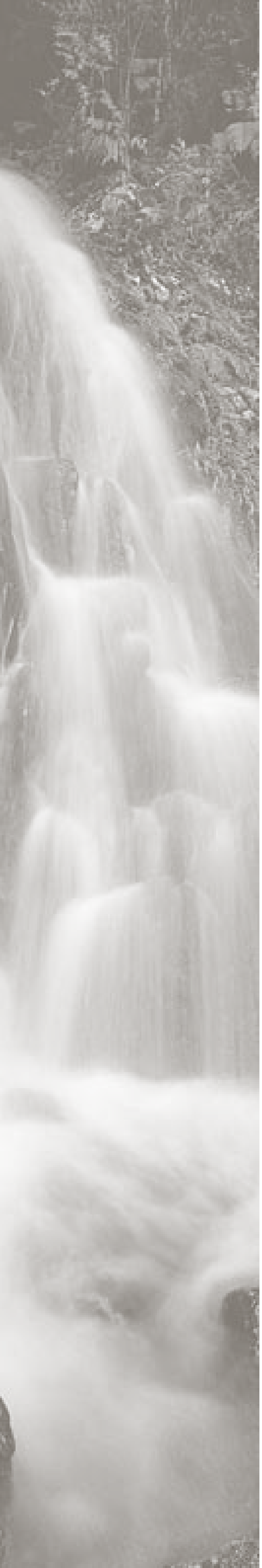
On November 16, 2006, Quiñenco's Board of Directors agreed to terminate the company's ADR program in the United States to which effect it communicated its decision with Bank of New York as Depositary bank and its deposit agreement with said bank terminated on January 19,2007. As a consequence of the program termination, the NYSE suspended share trading of Quiñenco's ADRs on January 22, 2007 and the SEC was duly notified by Form 25 dated January 26, 2007. No objection was made by the SEC and subsequently, inscription of Quiñenco's ADRs was cancelled by the NYSE on February 5, 2007.

As a result of the termination of the ADR program and in keeping with company's objectives behind the termination of the program in the United States, Quiñenco is no longer required to maintain an Audit Committee as prescribed under the Law Sarbanes Oxley. Subsequently, on February 28, 2007, the Audit Committee was terminated and has since ceased to perform any function.

Board Compensation

As agreed upon at the Annual Shareholders' Meeting held in 2005, compensation paid to members of the Board of Directors during the year was as indicated below (per diem and profit sharing, respectively):

Guillermo Luksic Craig, ThCh$4,245 and ThCh$33,830 (ThCh$5,770 and ThCh$25,626 in 2005); Andrónico Luksic Craig, ThCh$772 and ThCh$33,830 (ThCh$192 and ThCh$25,626 in 2005); Jean-Paul Luksic Fontbona, ThCh$2,123 and ThCh$33,830 (ThCh$2,885 and ThCh$25,626 in 2005); Hernán Büchi Buc, ThCh$3,086 and ThCh$33,830 (ThCh$2,499 and ThCh$25,626 in 2005); Joaquín Errázuriz Hochschild, ThCh$0 and ThCh$0 (ThCh$0 and ThCh$20,714 in 2005); Juan Andrés Fontaine Talavera, ThCh$2,699 and ThCh$33,830 (ThCh$3,268 and ThCh$25,626 in 2005); Gonzalo Menéndez Duque, ThCh$3,279 and ThCh$33,830 (ThCh$3,268 and ThCh$25,626 in 2005); Vladimir Radic Piraíno, ThCh$0 and ThCh$0 (ThCh$0 and ThCh$20,714 in 2005) and Matko Koljatic, ThCh$3,279 and ThCh$33,830 (ThCh$2,885 and ThCh$25,626 in 2005). In addition, Guillermo Luksic Craig, Gonzalo Menéndez Duque and Matko Koljatic received compensation for their services as members of the Directors' Committee in 2006 of ThCh$5,503, ThCh$5,503 and ThCh$10,086 (ThCh$5,034, ThCh$5,034 and ThCh$5,489 in 2005), respectively.



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

- In Banco de Chile (per diem and fees, respectively) Guillermo Luksic Craig, ThCh$9,110 and ThCh$43,606 (ThCh$20,564 and ThCh$42,971 in 2005); Andrónico Luksic Craig, ThCh$8,191 and ThCh$130,818 (ThCh$16,161 and ThCh$128,914 in 2005) and Gonzalo Menéndez Duque, ThCh$139,925 and ThCh$43,606 (ThCh$161,013 and ThCh$42,971 in 2005).
- In Madeco S.A. (per diem and Director's Committee, respectively), Guillermo Luksic Craig, ThCh$1,015 and ThCh$399 (ThCh$2,791 and ThCh$0 in 2005); Andrónico Luksic Craig, ThCh$408 and ThCh$0 (ThCh$595 and ThCh$0 in 2005); Jean-Paul Luksic Fontbona, ThCh$813 and ThCh$600 (ThCh$2,386 and ThCh$0 in 2005) and Hernán Büchi Buc, ThCh$1,423 and ThCh$600 (ThCh$2,791 and ThCh$0 in 2005).
- In Telefónica del Sur S.A. (per diem and profit sharing, respectively), Guillermo Luksic Craig, ThCh$5,051 and ThCh$22,597 (ThCh$8,381 and ThCh$27,071 in 2005) and Gonzalo Menéndez Duque, ThCh$9,889 and ThCh$35,013 (ThCh$11,249 and ThCh$32,646 in 2005).
- In Industria Nacional de Alimentos S.A. (per diem), Guillermo Luksic Craig, ThCh$319 (ThCh$1,244 in 2005); Andrónico Luksic Craig, ThCh$0 (ThCh$318 in 2005); and Hernán Büchi Buc, ThCh$8,287 (ThCh$6,891 in 2005).

Board of Directors External Consulting Expenses

In 2006, the Board of Directors did not incur any expenses with respect to external consultants.

Management Compensation

Compensation paid to Quiñenco's main executives during the year 2006, including salaries, benefits and performance bonuses, totaled ThCh$2,841,380.

Incentive Plan

Quiñenco does not have a long-term incentive plan for the company's main executives as of December 31, 2006.

Employee Severance Payments

In 2006, the Company did not incur expenses associated with severance payments to its managers and key executives.

Corporate Structure

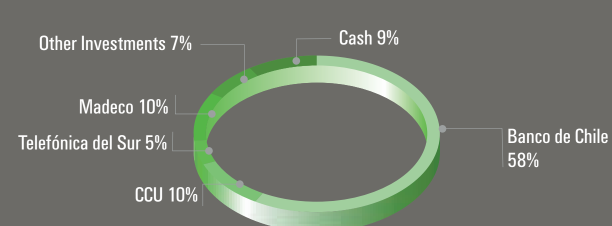
Subsidiaries and Affiliate Companies

At December 31, 2006

Quiñenco

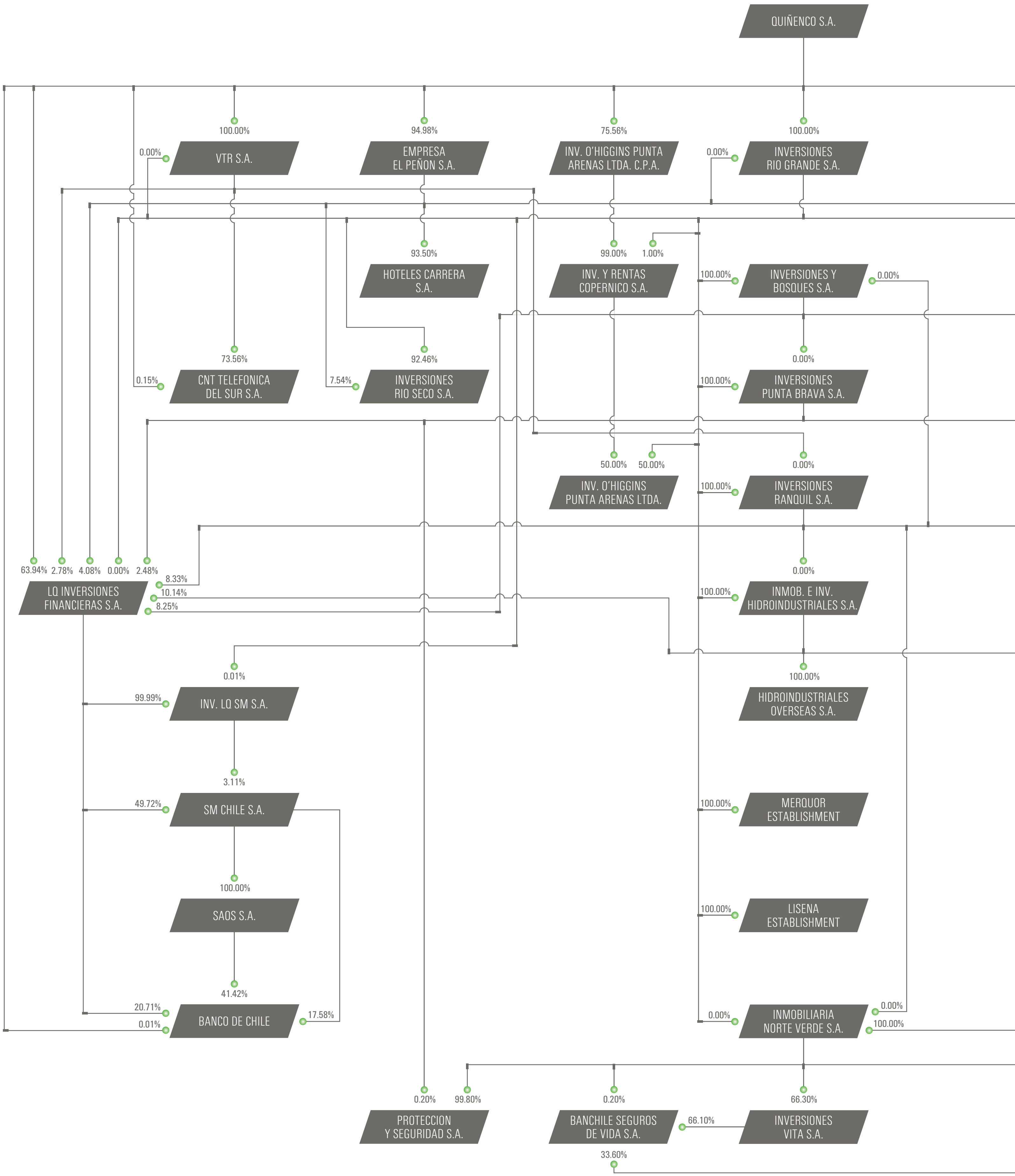
COMPOSITION OF ASSETS

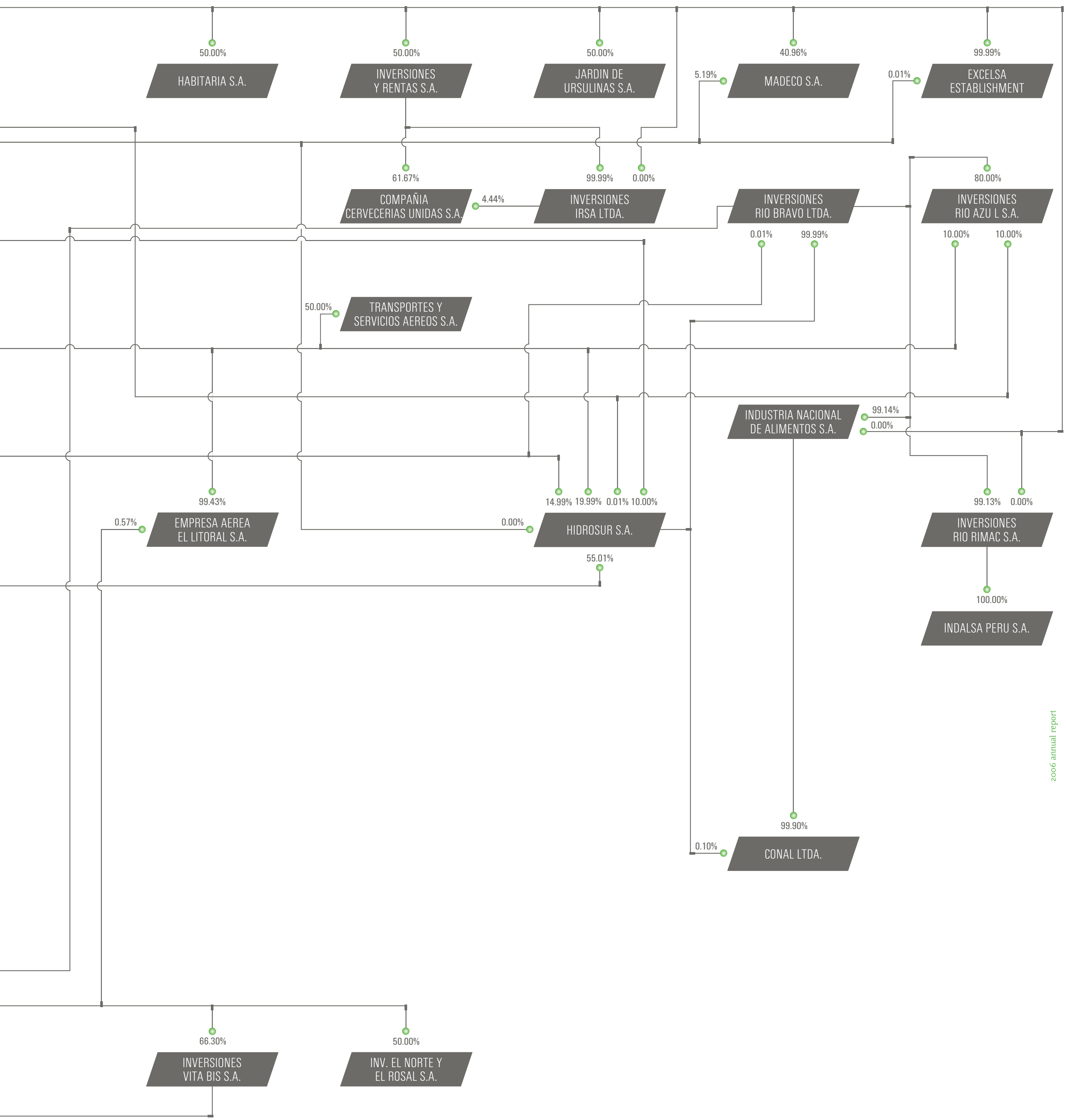
As of 12.31.06 MCh$1,120,091



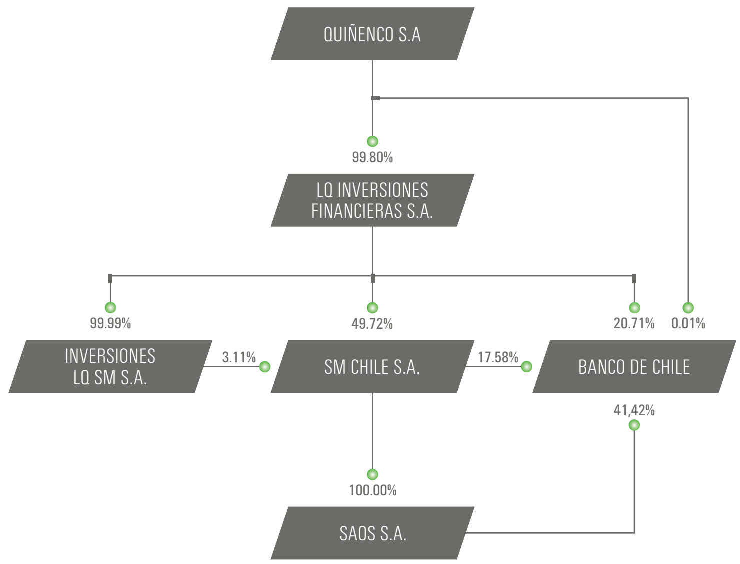
Corporative level (Quiñenco and intermediate holding companies)

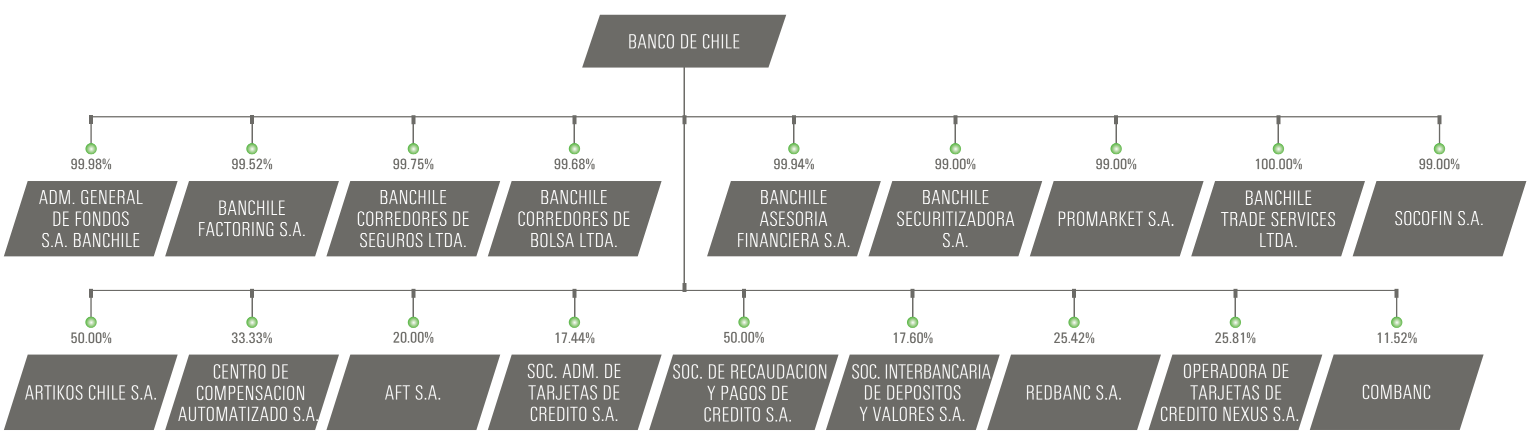
Quiñenco S.A. Subsidiaries and Affiliates



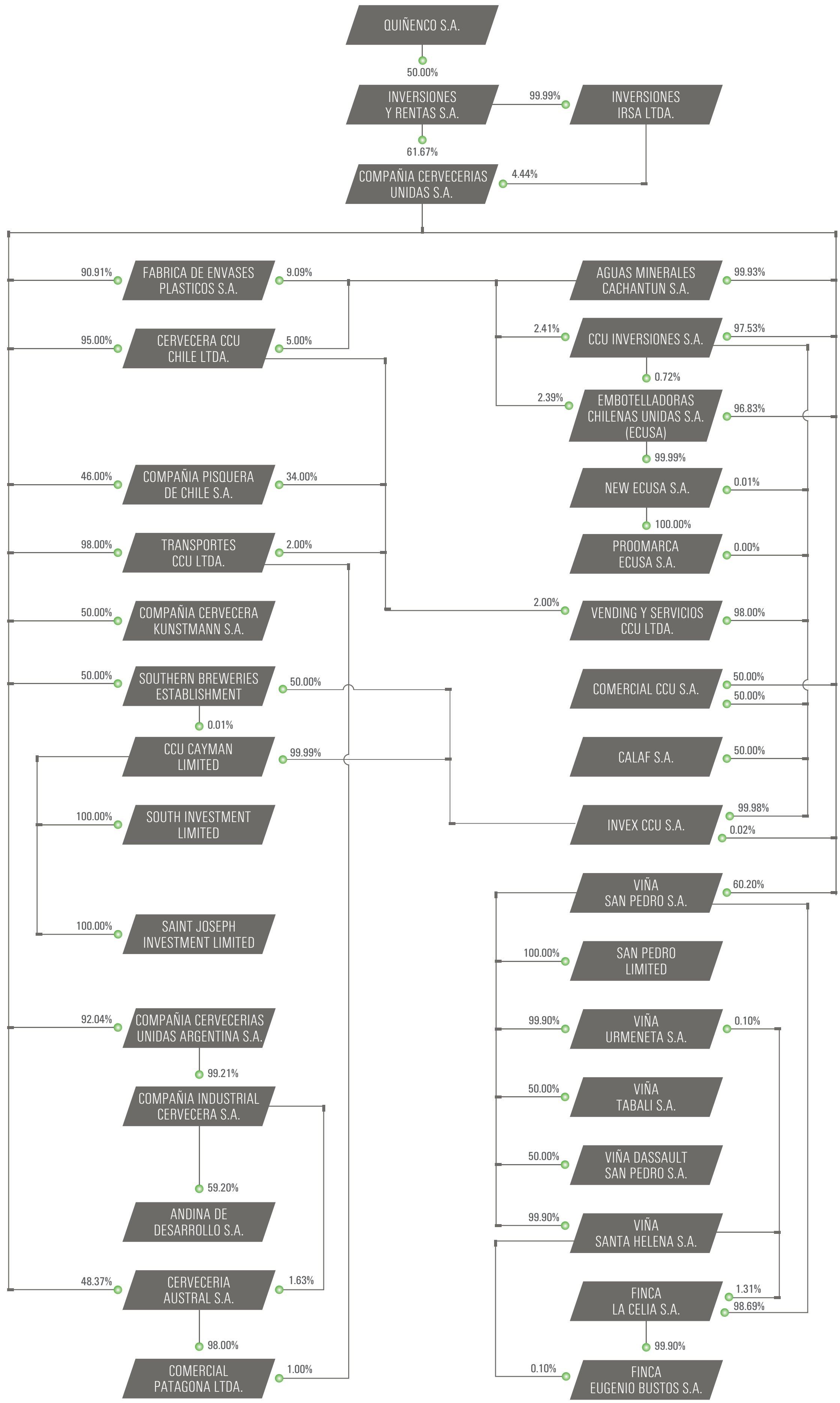

50.00%
HABITARIA S.A.
50.00%
INVERSIONES Y RENTAS S.A.
50.00%
JARDIN DE URSULINAS S.A.
5.19%
40.96%
MADECO S.A.
0.01%
99.99%
EXCELSA ESTABLISHMENT
61.67%
COMPAÑIA CERVECERIAS UNIDAS S.A.
4.44%
99.99%
0.00%
INVERSIONES IRSA LTDA.
INVERSIONES RIO BRAVO LTDA.
0.01%
99.99%
80.00%
INVERSIONES RIO AZU L S.A.
10.00%
10.00%
50.00%
TRANSPORTES Y SERVICIOS AEREOS S.A.
INDUSTRIA NACIONAL DE ALIMENTOS S.A.
99.14%
0.00%
99.43%
14.99%
19.99%
0.01%
10.00%
99.13%
0.00%
0.57%
EMPRESA AEREA EL LITORAL S.A.
0.00%
HIDROSUR S.A.
INVERSIONES RIO RIMAC S.A.
55.01%
100.00%
INDALSA PERU S.A.
99.90%
0.10%
CONAL LTDA.
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

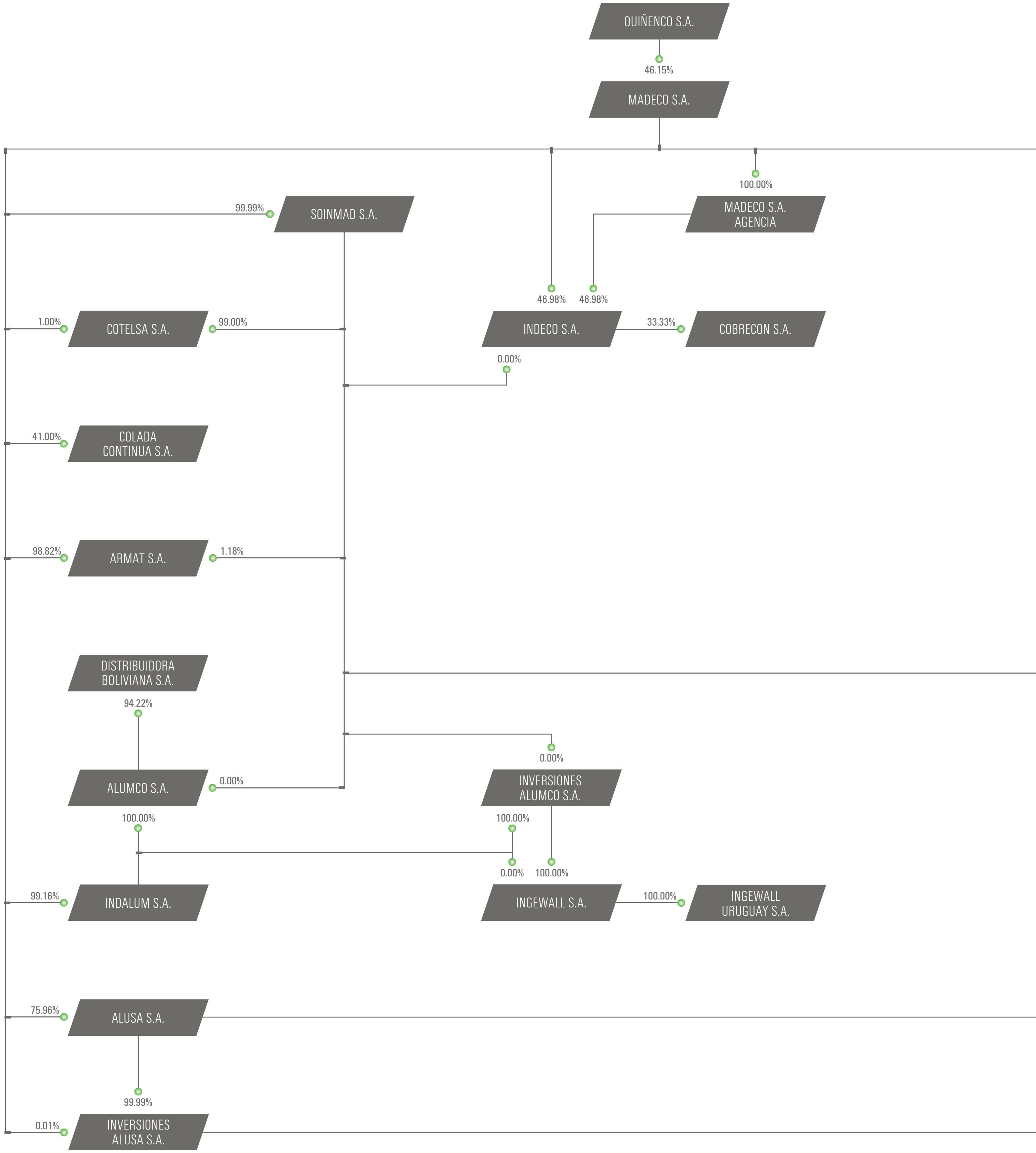


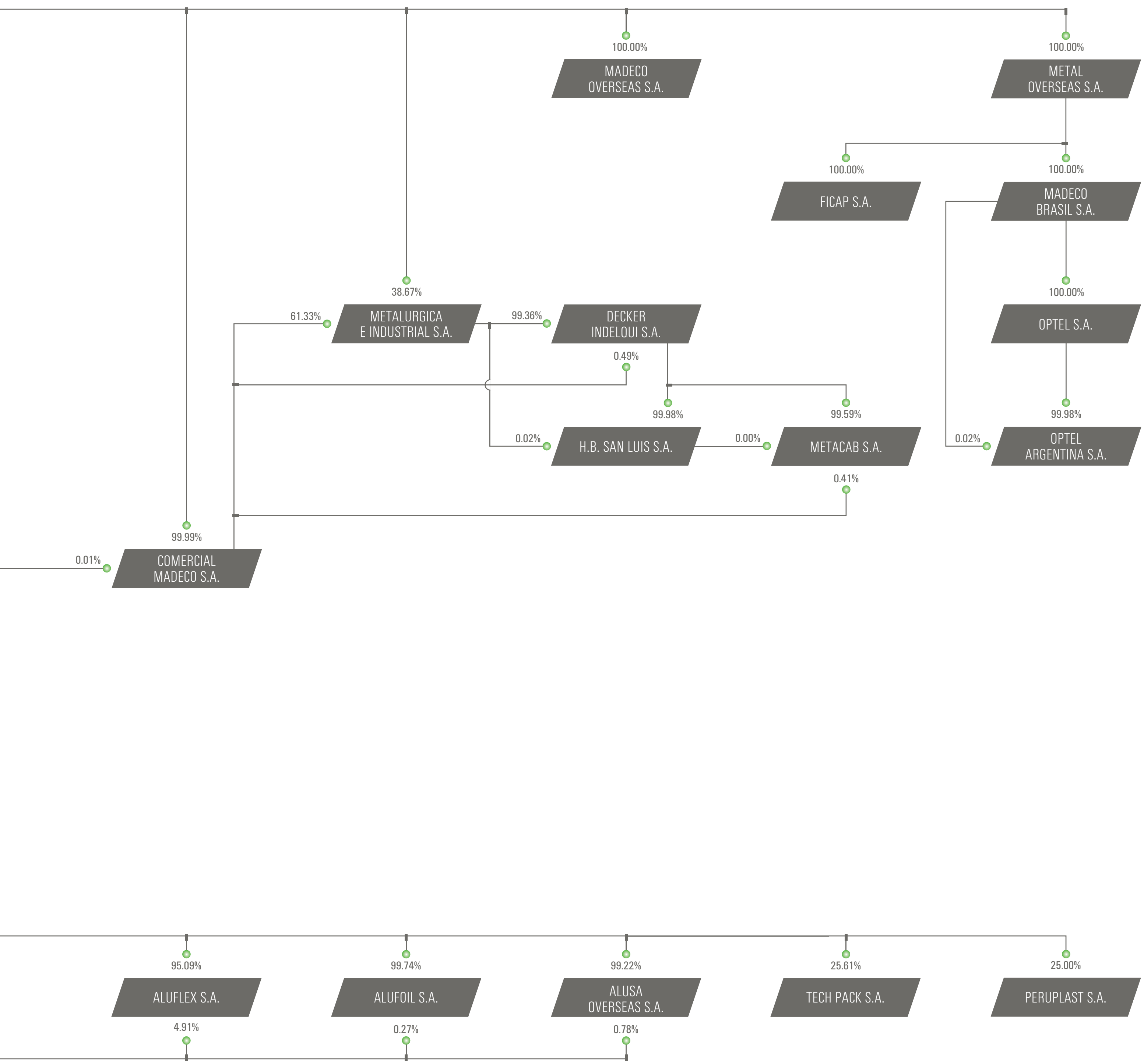


Compañía Cercecerías Unidas S.A. Subsidiaries and Affiliates

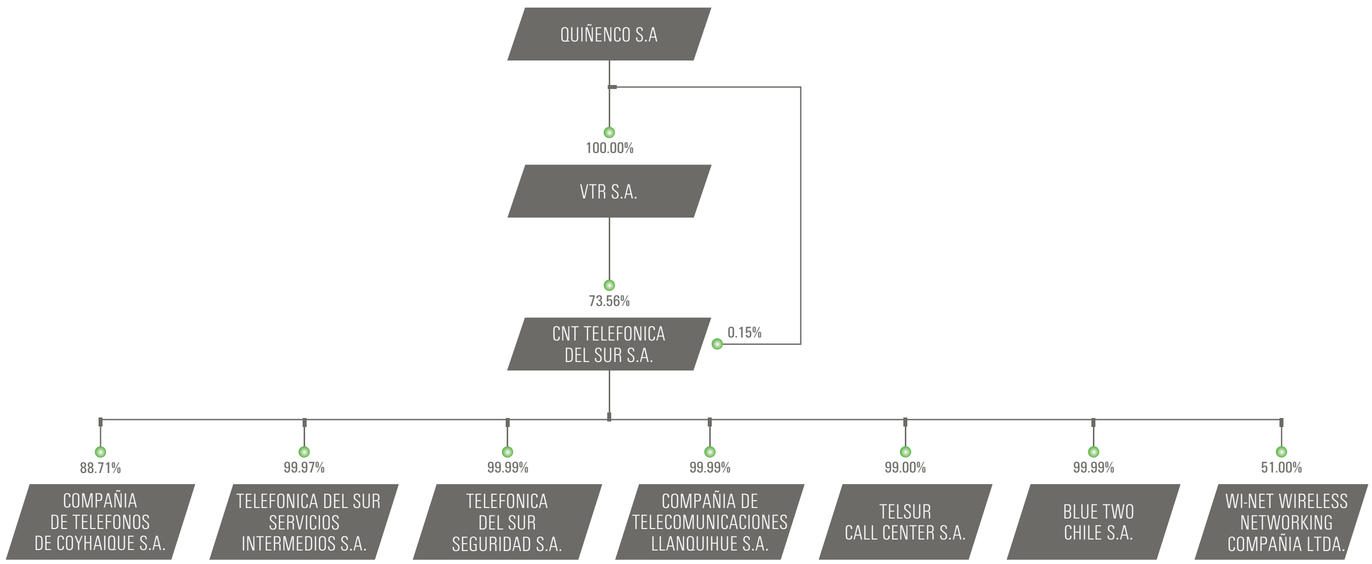


Madeco S.A. Subsidiaries and Affiliates




100.00%
MADECO OVERSEAS S.A.
100.00%
METAL OVERSEAS S.A.
100.00%
FICAP S.A.
100.00%
MADECO BRASIL S.A.
100.00%
OPTEL S.A.
99.98%
OPTEL ARGENTINA S.A.
0.02%
38.67%
61.33%
METALURGICA E INDUSTRIAL S.A.
99.36%
DECKER INDELQUI S.A.
0.49%
99.98%
99.59%
0.02%
H.B. SAN LUIS S.A.
0.00%
METACAB S.A.
0.41%
99.99%
0.01%
COMERCIAL MADECO S.A.
95.09%
ALUFLEX S.A.
4.91%
99.74%
ALUFOIL S.A.
0.27%
99.22%
ALUSA OVERSEAS S.A.
0.78%
25.61%
TECH PACK S.A.
25.00%
PERUPLAST S.A.

Compañía Nacional de Teléfonos, Telefónica del Sur S.A. Subsidiaries



Report on the Summarized Consolidated Financial Statements

As of and for the years ended December 31, 2006 and 2005

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

Quiñenco S.A.

and Subsidiaries

C O N T E N T S

Ch$	-	Chilean pesos
ThCh$	-	Thousands of Chilean pesos
MCh$	-	Millions of Chilean pesos
US$	-	United States dollars
ThUS$	-	Thousands of United States dollars
MUS$	-	Millions 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.

Ernst & Young

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, 2006 and 2005 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 did not audit the consolidated financial statements of Compañía Cervecerías Unidas S.A. and subsidiaries, an indirect equity method investment which represented ThCh$ 115,440,508 and ThCh$ 104,502,911 of total assets as of December 31, 2006 and 2005, respectively, and accounted for ThCh$ 18,456,045 and ThCh$ 15,776,122 of net income for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other auditors. The included Rational 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, 2006 and 2005 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 27-2 to the consolidated financial statements and in accordance with Law N°19,396, the subordinated debt obligation with the Chilean Central Bank assumed by the subsidiary Sociedad Matriz del Banco de Chile S.A. through its subsidiary Sociedad Administradora de la Obligación Subordinada S.A. has not been recorded as a liability.

5. 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 26, 2007

Consolidated Balance Sheets

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

	As of December 31,	
	2006	2005
Assets	ThCh$	ThCh$
Current assets		
Cash	5,334,859	5,908,617
Time deposits	89,656,579	24,629,772
Marketable securities	559,690	1,543,454
Accounts receivable, net	98,696,040	70,867,023
Notes receivable, net	6,187,118	5,473,845
Other accounts receivable, net	9,019,183	4,525,415
Notes and accounts receivable from related companies	12,520,214	5,084,186
Inventory, net	98,688,790	76,713,193
Recoverable taxes	9,811,680	4,655,198
Prepaid expenses	1,063,937	1,094,970
Deferred taxes	6,539,932	3,996,962
Other current assets	30,019,384	70,230,038
Total current assets	368,097,406	274,722,673
Property, plant and equipment		
Land	15,866,376	14,606,001
Buildings and infrastructure	157,064,118	154,453,051
Machinery and equipment	345,036,802	335,094,981
Other property, plant and equipment	55,195,484	49,971,243
Revaluation from technical appraisals	13,079,383	13,466,115
Less: Accumulated depreciation	(328,421,278)	(304,703,558)
Property, plant and equipment, net	257,820,885	262,887,833
Other assets		
Investments in related companies	530,341,671	527,866,493
Investments in other companies	32,849,408	2,742,401
Goodwill, net	291,468,171	306,552,855
Negative goodwill, net	(13,294,368)	(16,898,759)
Long-term accounts receivable	1,891,878	2,169,715
Notes and accounts receivable from related companies	1,158,525	1,614,129
Deferred taxes	4,022,261	6,564,102
Intangible assets	560,812	560,048
Amortization of intangible assets	(245,545)	(183,012)
Other assets	16,412,043	23,193,773
Total other assets	865,164,856	854,181,745
Total assets	1,491,083,147	1,391,792,251

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

Liabilities and shareholders' equity	As of December 31 2006 ThCh$	 2005 ThCh$
Current liabilities		
Current bank obligations	17,754,432	24,956,397
Current portion of long-term bank obligations	29,572,343	17,119,451
Bonds payable - current portion	16,762,406	15,972,928
Other long-term obligations due within one year	488,364	418,424
Dividends payable	566,108	410,030
Accounts payable	25,552,264	19,456,719
Notes payable	1,275,115	676,549
Other accounts payable	2,814,688	2,147,318
Notes and accounts payable to related companies	442,251	431,658
Provisions	15,256,317	14,874,984
Withholdings	2,504,188	2,658,003
Income taxes	-	657,709
Deferred income	8,269,204	1,739,062
Other current liabilities	1,218,196	985,602
Total current liabilities	122,475,876	102,504,834
Long-term liabilities		
Long-term bank obligations	171,550,039	160,148,885
Bonds payable	239,199,159	251,431,662
Notes payable	266	261
Other accounts payable	5,744,033	5,939,727
Notes and accounts payable to related companies	-	8,185
Provisions	11,441,880	9,927,555
Other long-term liabilities	585,424	814,101
Total long-term liabilities	428,520,801	428,270,376
Minority interest	170,159,229	141,975,622
Shareholders' equity		
Paid-in capital	497,964,027	497,964,027
Other reserves	5,447,634	(5,821,475)
Retained earnings	211,002,458	176,275,451
Accumulated deficit during development stage	(1,529,842)	(1,528,780)
Net income	57,042,964	52,152,196
Total shareholders' equity	769,927,241	719,041,419
Total liabilities and shareholders' equity	1,491,083,147	1,391,792,251

The accompanying notes 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	
	2006 ThCh$	2005 ThCh$
Operating income		
Revenues	616,101,593	430,828,827
Cost of sales	(511,047,712)	(352,168,683)
Gross margin	105,053,881	78,660,144
Administrative and selling expenses	(51,294,123)	(47,370,900)
Net operating income	53,759,758	31,289,244
Non-operating income and expenses		
Interest income	4,881,142	3,110,355
Equity participation in income of equity-method investments	79,161,144	75,078,217
Other non-operating income	5,406,491	29,682,626
Equity participation in losses of equity-method investments	(757,076)	(1,764,060)
Amortization of goodwill	(22,464,610)	(23,363,234)
Interest expense	(28,607,069)	(29,452,002)
Other non-operating expenses	(9,704,452)	(12,325,031)
Price-level restatement, net	(1,330,104)	(4,435,957)
Foreign currency translation, net	141,225	(1,056,174)
Net non-operating income	26,726,691	35,474,740
Income before income taxes, minority interest and amortization of negative goodwill	80,486,449	66,763,984
Income tax expense	(4,194,501)	(6,925,302)
Income before minority interest and amortization of negative goodwill	76,291,948	59,838,682
Minority interest	(20,712,865)	(9,523,750)
Income before amortization of negative goodwill	55,579,083	50,314,932
Amortization of negative goodwill	1,463,881	1,837,264
Net income	57,042,964	52,152,196

The accompanying notes 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	
	2006 ThCh$	2005 ThCh$
Cash flows from operating activities		
Collection of accounts receivable	715,051,244	549,354,608
Interest income received	3,780,573	4,913,160
Dividends and other distributions received	49,294,303	70,694,571
Other income received	14,553,772	3,543,189
Payments to suppliers and employees	(677,527,438)	(497,473,928)
Interest paid	(25,313,733)	(27,981,967)
Income taxes paid	(10,287,638)	(3,436,261)
Other operating expenses paid	(4,370,526)	(3,326,786)
VAT and other taxes paid	(9,534,991)	(10,282,882)
Net cash flows provided by operating activities	55,645,566	86,003,704
Cash flows from financing activities		
Capital increase	9,463,145	30,920,436
Borrowings	147,953,355	116,510,708
Bonds issued	–	47,691,082
Other borrowings from related companies	1,307,568	–
Other sources of financing	6,508,524	–
Dividends paid	(17,559,222)	(16,036,359)
Capital distributions	(214,670)	(4,532)
Repayment of loans	(139,482,106)	(185,579,465)
Repayment of bonds	(10,887,137)	(73,628,812)
Payment of share issuance costs	–	(791,029)
Payment of bond issuance costs	–	(1,311,818)
Other amounts used in financing activities	(1,651,864)	(542,142)
Net cash flows used in financing activities	(4,562,407)	(82,771,931)
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	4,312,166	6,305,878
Proceeds from sales of permanent investments	718,813	304,757
Proceeds from sales of investments in other companies	–	72,998,146
Collection of specific term loans from related companies	84,416	–
Collection of other loans from related companies	1,234,642	8,971,782
Other income from investments	1,428,536	1,254,151
Additions to property, plant and equipment	(26,748,979)	(19,047,284)
Payments of capitalized interest	(72,350)	(48,914)
Purchase of permanent investments	(1,805,970)	(10,799,128)
Investments in securities	(79,068,046)	–
Other loans granted to related companies	(8,614,213)	(4,046,848)
Other investing activities	–	(2,913,202)
Net cash flows provided by (used in) investing activities	(108,530,985)	52,979,338
Net cash flows	(57,447,826)	56,211,111
Effect of price-level restatement on cash and cash equivalents	574,982	(3,665,719)
Net increase (decrease) in cash and cash equivalents	(56,872,844)	52,545,392
Cash and cash equivalents, beginning of year	97,425,552	44,880,160
Cash and cash equivalents, end of year	40,552,708	97,425,552

The accompanying notes 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	
	2006 ThCh$	2005 ThCh$
Reconciliation between net income and operating cash flows		
Net income	57,042,964	52,152,196
Results from sale of assets		
(Gain) loss on the sale of property, plant and equipment	(104,468)	1,412,211
Gain on the sale of investments	(128,724)	(24,210,390)
Loss on the sale of investments	503,409	-
(Gain) on sale of other assets	(31,627)	-
Charges (credits) to net income which do not represent cash flows		
Depreciation	28,765,280	26,598,593
Amortization of intangible assets	79,783	93,550
Write-offs and provisions	8,473,019	3,005,636
Equity participation in income of equity-method investments	(79,161,144)	(75,078,217)
Equity participation in losses of equity-method investments	757,076	1,764,060
Amortization of goodwill	22,464,610	23,363,234
Amortization of negative goodwill	(1,463,881)	(1,837,264)
Price-level restatement, net	1,330,104	4,435,957
Foreign currency translation, net	(141,225)	1,056,174
Other credits which do not represent cash flows	(3,476,307)	(4,653,914)
Other charges which do not represent cash flows	9,556,342	10,008,960
Changes in assets affecting cash flows (increase) decrease		
Accounts receivable	(28,204,357)	(8,086,039)
Inventory	(25,740,341)	(2,524,309)
Other assets	43,395,799	51,450,034
Changes in liabilities affecting cash flows increase (decrease)		
Accounts payable related to operating income	3,139,010	(5,147,873)
Interest payable	7,166,829	14,765,893
Income taxes payable, net	(9,919,369)	4,672,554
Other accounts payable related to non-operating income	3,404,598	2,989,882
VAT and other taxes payable	(2,774,679)	249,026
Minority interest	20,712,865	9,523,750
Net cash flows provided by operating activities	55,645,566	86,003,704

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

Summarized Notes to the Consolidated Financial Statements

As of December 31, 2006 and 2005

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

In the opinion of the management, these summarized notes provide sufficient but less detailed information than that contained in the consolidated financial statements filed with the Chilean Superintendency of Securities and Insurance ("SVS") 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:
  - Transactions with related parties
  - Investments in other companies
  - Provisions
  - Trading investments
  - Investment instruments
  - Transactions with derivative instruments
  - Foreign currency balances
  - Contingencies, commitments and other responsibilities
  - Commissions
  - Current and deferred income taxes
  - Directors' expenses and salary
  - Reported material information

b) Information included in the following notes was summarized:

- 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

Quiñenco S.A. (herein referred to individually as the "Parent Company" or on a consolidated basis as the "Company") is registered in the Chilean Securities 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

Industria Nacional de Alimentos S.A., Registration No. 64

Compañía Nacional de Teléfonos Telefónica del Sur S.A., Registration No. 167

LQ Inversiones Financieras S.A., Registration No. 730

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Periods covered

These financial statements cover the years ended December 31, 2006 and 2005.

b) Basis of preparation

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

The Company maintains its accounting records in Chilean pesos in accordance with Chilean GAAP. Certain accounting practices applied by the Company that conform to Chilean GAAP may not conform to accounting principles generally accepted 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 2.1% 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,			
	2006			2005
	% 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	0.0000	94.9794	94.9786
O'Higgins Punta Arenas Ltda. CPA and subsidiary	75.5579	0.0000	75.5579	75.5579
LQ Inversiones Financieras S.A. and subsidiary	63.9383	36.0617	100.0000	100.0000
Madeco S.A. and subsidiaries	40.9640	5.1858	46.1498	47.8114

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

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

The financial statements of Industria Nacional de Alimentos S.A. and subsidiaries are included in the consolidation through Inmobiliaria e Inversiones Hidroindustriales S.A. and subsidiaries.

With respect to the information contained in Note 22, Contingencies and Restrictions, concerning the situation affecting the indirect subsidiary Indalsa Perú S.A. , which has resulted in an orderly liquidation of its assets, Industria Nacional de Alimentos S.A. has not consolidated the financial statements of Indalsa Perú S.A. as of December 31, 2005, in accordance with the provisions of Technical Bulletin No. 72 of the Chilean Association of Accountants and Resolution No. 01642 of the SVS dated March 11, 2003.

On November 10, 2006, shareholders at the Extraordinary Shareholders' Meeting of Industria Nacional de Alimentos S.A. approved the division of the company between Inversiones Río Rimac S.A. and Industria Nacional de Alimentos S.A., the legal successor. As a result, the Peruvian operations were transferred to Inversiones Río Rimac S.A. except for the litigation rights which have been maintained in Industria Nacional de Alimentos S.A. Taking into account the explanation given in the preceding paragraph, Inversiones Río Rimac S.A. has decided not to consolidate the financial statements of Indalsa Perú S.A. as of December 31, 2006.

The financial statements of Inversiones Río Rimac S.A are included in the consolidation of Inmobiliaria e Inversiones Hidroindustriales S.A. and subsidiaries.

As indicated in Note 22, Contingencies and Restrictions, as of December 31, 2005, Industria Nacional de Alimentos S.A. made an allowance for the investment made in Indalsa Perú S.A., based on Technical Bulletins Nos.33 and 64 and Circular 150 of January 31, 2003 of the Chilean Association of Accountants. This criterion has been maintained for Inversiones Río Rimac S.A as of December 31, 2006.

Note 10 c) shows the summarized financial statements of the indirect subsidiary Indalsa Perú S.A. as of December 31, 2006 and 2005.

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

In November 2005, the Parent Company and its subsidiary Inversiones Río Grande S.A. exercised 50% of their preemptive rights in the capital increase of the subsidiary Madeco S.A., subscribing for 281,781,913 shares. In May 2006, the Parent Company and its subsidiary Inversiones Río Grande S.A. did not participate in the issue of 192,802,758 shares made by this subsidiary. As a consequence, the Company's direct and indirect ownership interest in Madeco S.A. decreased from 51.23% to 46.15%. 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 effective 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).

In June 2006, Comercial Madeco S.A. bought 106,393,873 shares in Metalúrgica Industrial S.A. from Agencia Madeco S.A. (Cayman Islands), increasing its shareholding from 24.249% to 61.238%. Comercial Madeco S.A. therefore consolidated this company and its subsidiaries from that date.

On March 31, 2005, Madeco S.A., through its indirect subsidiary Madeco Brasil Ltda., signed an agreement with Corning International Corporation to acquire Corning Inc.'s 50% interest in Optel Ltda. for the nominal price of one Brazilian real, thus resolving the effects of the arbitration sentence in the proceedings brought by both companies before the American Arbitration Association in New York.

As a result, the financial statements of this indirect subsidiary have been included in the consolidated financial statements of the subsidiary Madeco S.A. as of December 2005.

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

Effective November 2005, the indirect subsidiary CNT Telefónica del Sur S.A. has included the subsidiary Compañía de Telecomunicaciones de Llanquihue S.A. in its consolidated financial statements, and effective September 2006, the subsidiary WINET Wireless Networking Ltda.

The consolidated financial statements of CNT Telefónica del Sur S.A., included in the consolidated financial statements of VTR S.A. and subsidiaries, do not consolidate the financial statements of Blue Two Chile S.A. as it is in the development stage. The summarized financial statements of this development stage subsidiary are included in Note 10 e).

The consolidated financial statements of LQ Inversiones Financieras S.A. and its subsidiary LQ SM S.A. do not include the consolidation of the financial institutions Banco de Chile and SM Chile S.A., as these financial 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 includes 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 Banchile Compañía de Seguros de Vida S.A. 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, equity accounts and income and expense accounts have been restated according to changes in the official Chilean consumer price index (CPI), which amounted to 2.1% for 2006 (3.6% for 2005).

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 contracted in Unidades de Fomento ("UF") are converted to pesos at Ch$18,336.81 per UF (Ch$17,974.81 per UF in 2005).

Assets and liabilities in United States dollars have been converted using the current exchange rate as of December 31, 2006, Ch$532.39 per US$1.00 (Ch$512.50 per US$1.00 in 2005).

g) Time deposits

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

h) Marketable securities

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

i) Inventory

Inventory of finished products, by-products and works in-process is valued at restated cost, which includes indirect manufacturing expenses. Inventory of merchandise, raw materials, warehoused materials and goods in transit is valued at its restated cost. Inventory does not exceed their 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 at 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 and the incremental values resulting from technical appraisals performed as of March 31, 1979, in accordance with Circular No 1,529 of the SVS.

Property, plant and equipment 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.

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

o) Leased property, plant and equipment

Property, plant and equipment acquired under financial leases are shown under 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

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

q) Investments in related companies

Investments in related companies are shown at their equity-method value after eliminating any unrealized income on 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 or Accumulated deficit during the development stage, as appropriate.

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

r) Investments in other companies

Investments in other companies 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 return on the investment, but not exceeding 20 years.

t) 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 at the end of the year, as well as revenue and expenses accounts. The actual results may differ from the estimates.

u) Financial derivative contracts

The Parent Company enters into forward currency contracts to hedge its foreign exchange exposure.

The subsidiary Madeco S.A. also has forward currency contracts, interest-rate swaps and options to hedge its exchange rate fluctuation risks.

Hedging instruments for existing transactions are shown at their market value, and unrealized gains and losses are shown as a charge to Other assets or a credit to Other liabilities (short or long-term), depending on whether the difference will result in a gain or a loss.

Hedging instruments for expected transactions are shown at their market value and differences are shown as a charge to Other assets or a credit to Other liabilities (short or long-term) for the unrealized gain or loss. The effects are recognized in results in the period in which the contract expires.

v) 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 at the end of each year. Accrued interest is included in current liabilities. The difference between the nominal value and placement value of the bonds, and the costs incurred in their issuance and placement, are shown in Other assets and are amortized over the term of the bonds.

w) 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.

x) 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.

y) Operating income

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

The telecommunications sector subsidiaries follow a policy of recording revenue when the services are provided. They include an estimate of accrued traffic and services which are not yet billed, based on a calculation of unbilled domestic and international calls and data transmission. 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.

z) Computer software

Computer software which was acquired as part of computer purchase programs is shown in Other assets under Property, plant and equipment and is amortized over 4 years, in accordance with Circular 981 of the SVS.

aa) Sales transactions under 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.

ab) Vacation provision

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

ac) 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 Statement of Income.

ad) Compensation plans

The compensation plans of the subsidiary Madeco S.A. by the granting of stock options, effective from January 1, 2006, are shown in the financial statements in accordance with the International Financial Information Standard NIIF No 2 “Share based Payments”, recording the fair value effect of the shares granted as a charge to remunerations. This charge is shown on a straight-line basis over the period between the granting of the options and the date on which the options become vested.

NOTE 3 – ACCOUNTING CHANGES

During 2006, there were no accounting changes that would significantly affect the interpretation of these consolidated financial statements.

NOTE 4 – TIME DEPOSITS

The detail of these as of December 31, is as follows:

	2006 ThCh$	2005 ThCh$
Banco Santander Chile	25,186,129	5,012,458
Banco Estado	23,659,181	–
Banco de Chile	17,438,321	19,448,476
Banco BBVA	13,120,247	–
Banco BICE	5,062,454	–
Banco de Crédito e Inversiones	4,851,498	–
Deposits in Brazilian banks	261,552	96,104
Centrum Bank (Vaduz)	77,197	72,734
Total	89,656,579	24,629,772

NOTE 5 - BALANCES AND TRANSACTIONS WITH RELATED COMPANIES

a) Notes and accounts receivable from related companies:

Company	Short-term As of December 31,		Long-term As of December 31,	
	2006 ThCh$	2005 ThCh$	2006 ThCh$	2005 ThCh$
Blue Two Chile S.A.	7,274,262	1,199,366	–	–
Inversiones y Rentas S.A.	3,684,422	3,008,038	–	–
Sodimac S.A.	987,990	376,693	–	–
Embotelladoras Chilenas Unidas S.A.	201,639	176,534	–	–
Minera Los Pelambres S.A.	189,578	898	–	–
Minera Michilla S.A.	54,843	–	–	–
Calaf S.A.	42,421	39,997	–	–
Inmobiliaria Adriático S.A.	41,721	41,332	159,153	233,403
Colada Continua S.A.	10,794	648	–	–
Transporte y Servicios Aéreos S.A.	8,872	10,003	999,354	1,380,026
Cobrecón S.A.	3,821	87,758	–	–
Cervecera CCU Chile Ltda.	2,940	9,174	–	–
Compañía Cervecerías Unidas S.A.	2,090	36,622	–	–
Viña San Pedro S.A.	1,988	20,407	–	–
Inversiones Consolidadas S.A.	–	31,102	–	–
Banco de Chile	–	13,959	–	–
Other	12,833	31,655	18	700
Total	12,520,214	5,084,186	1,158,525	1,614,129

b) Notes and accounts payable to related companies:

Company	Short-term As of December 31,		Long-term As of December 31,	
	2006 ThCh$	2005 ThCh$	2006 ThCh$	2005 ThCh$
Colada Continua Chilena S.A.	216,916	292,351	–	–
Minera Michilla S.A.	109,325	77,463	–	–
Cobrecón S.A.	55,232	38,536	–	–
Sodimac S.A.	49,821	15,189	–	–
Viña San Pedro S.A.	3,385	–	–	–
Embotelladoras Chilenas Unidas S.A.	1,559	–	–	–
Cervecera CCU Chile Ltda.	–	1,292	–	–
Other	6,013	6,827	–	8,185
Total	442,251	431,658	–	8,185

c) Significant transactions with related companies:

Company	Relationship	Transaction	Years ended December 31, 2006 Amount ThCh$	2006 Effect on income (charge) credit ThCh$	2005 Amount ThCh$	2005 Effect on income (charge) credit ThCh$
Banco de Chile	Subsidiary (not consolidated)	Interest expense	250,636	(250,636)	338,931	(338,931)
Plan de incentivos para ejecutivos	Executive officers	Payments, in lieu of payment, Note 17	1,066,861	-	1,101,334	-
Blue Two Chile S.A.	Subsidiary (not consolidated)	Current account	3,137,204	-	3,429,992	-
Blue Two Chile S.A.	Subsidiary (not consolidated)	Sale of services	395,839	395,839	170,219	170,219
Blue Two Chile S.A.	Subsidiary (not consolidated)	Accrued interest	170,616	170,616	230,863	230,863
Blue Two Chile S.A.	Subsidiary (not consolidated)	Purchase of materials	1,074,431	-	260,359	-
Cobrecón S.A.	Affiliate	Production services	975,201	-	976,254	-
Colada Continua Chilena S.A.	Affiliate	Production services	1,579,335	-	1,578,404	-
Colada Continua Chilena S.A.	Affiliate	Sales	212,773	17,801	100,178	(86,050)
Embotelladoras Chilenas Unidas S.A.	Affiliate	Sales of products	962,071	808,463	789,913	661,219
Minera Los Pelambres S.A.	Common shareholders	Cable invoicing	1,463,259	1,229,629	222,268	186,780
Minera Michilla S.A.	Common shareholders	Purchase of raw materials	1,051,440	-	735,304	-
Sodimac S.A.	Common director	Sales	6,777,715	5,695,559	5,006,451	4,207,102
Sodimac S.A.	Common director	Services	223,002	(187,397)	-	-
Transportes CCU Ltda.	Common shareholders	Sales	215,091	180,749	-	-

The Company has accounts and obligations, 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 is calculated at market rates. The maturities of such transactions are shown in the respective notes on short-term and long-term bank obligations.

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

NOTE 6 - INVENTORY, NET

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

	2006 ThCh$	2005 ThCh$
Finished goods	36,639,670	27,646,251
Raw materials	25,444,681	20,880,989
Work-in-process	22,515,801	16,385,994
Supplies	6,958,992	5,767,540
Merchandise and imports in transit	3,761,598	3,170,133
Merchandise	3,302,832	2,774,726
Materials and packaging	65,216	87,560
Total	98,688,790	76,713,193

Inventory is shown net of an allowance for obsolescence amounting to ThCh$2,802,846 and ThCh$2,832,945 in 2006 and 2005, respectively.

NOTE 7 - CURRENT AND DEFERRED INCOME TAXES

a) Income taxes

For the year ended December 31, 2006, the Parent Company had accumulated tax losses of ThCh$2,830,064 (ThCh$4,977,723 in 2005) and has made no current provision for income taxes.

Composition of tax expense:

	Year ended December 31,	
	2006 ThCh$	2005 ThCh$
Current tax expenses (provision for tax)	(9,532,588)	(7,865,611)
Tax expense adjustment from previous year's provision	(169,363)	1,553,876
Deferred income taxes	81,413	(1,741,818)
Tax benefit for tax losses	(3,887,227)	2,874,667
Amortization of complementary accounts	(723,840)	874,298
Deferred tax assets and liabilities arising from changes in valuation allowance	4,530,783	(3,701,398)
Other	5,506,291	1,080,684
Total	(4,194,501)	(6,925,302)

b) The detail of undistributed retained earnings for tax purposes of the Parent Company as of December 31, 2006 is as follows:

	ThCh$
Earnings with 15% credit, origin 1999	49,817,444
Earnings with 15% credit, origin 2000	61,443,209
Earnings without credit, origin 2000	10,079,055
Earnings with 15% credit, origin 2001	11,966,422
Earnings without credit, origin 2001	2,796,958
Earnings without credit, origin 2002	4,555,552
Earnings with 15% credit, origin 2002	2,446,355
Earnings with 15% credit, origin 2003	7,179,628
Earnings without credit, origin 2003	29,590,269
Earnings with 10% credit, origin 2003	8
Earnings with 16% credit, origin 2003	7,262,682
Earnings with 16.5% credit, origin 2003	10,153,961
Earnings with 15% credit, origin 2004	8,247
Earnings with 16% credit, origin 2004	3,966
Earnings with 16.5% credit, origin 2004	2,396
Earnings without credit, origin 2004	8,661,075
Earnings without credit, origin 2005	8,843,603
Earnings with 15% credit, origin 2005	3,002,124
Earnings with 16% credit, origin 2005	173
Earnings with 16.5% credit, origin 2005	15,142
Earnings with 17% credit, origin 2005	1,771
Exempt earnings without credit	3,369,914
Non-income earnings	161,646,904
Exempt earnings with 10% credit	1,714,213

c) Tax obligations

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

	As of December 31,	
	2006 ThCh$	2005 ThCh$
First category income tax	(9,466,337)	(7,651,658)
Additional income tax	(66,221)	(213,953)
Sub total	(9,532,558)	(7,865,611)
Monthly income tax installments	8,455,457	2,232,184
Other tax credits	3,586,653	4,975,718
Total taxes (payable) recoverable	2,509,552	(657,709)

d) Recoverable taxes

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

	2006 ThCh$	2005 ThCh$
Income tax recoverable	2,509,552	–
Balance of VAT fiscal credit	7,150,371	4,435,471
Other taxes recoverable	151,757	219,727
Total recoverable taxes	9,811,680	4,655,198

e) Composition of deferred income taxes:

	As of December 31,							
	2006				2005			
	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	2,547,777	378,439	–	15,651	1,507,202	1,759,364	–	–
Deferred income	24,614	–	–	–	10,223	–	–	–
Vacations provision	313,123	–	–	–	248,161	11,412	–	–
Amortization intangible assets	–	–	–	–	–	–	–	–
Leased property, plant and equipment	125,896	51,556	–	3,323,795	20,158	227,755	–	3,394,523
Manufacturing expenses	–	–	443,468	–	–	–	522,289	–
Depreciation of property, plant and equipment	–	1,570	1,932	15,980,142	–	963	–	16,538,402
Severance indemnities	–	–	–	649,390	–	–	–	689,258
Other events	206,133	5,203,360	156,820	713,188	532,122	6,198,069	246,061	898,686
Miscellaneous provisions	1,456,112	651,419	–	–	323,366	411,339	–	–
Accumulated tax losses	2,861,384	37,701,770	–	–	3,582,147	40,852,902	–	–
Allowance for disposable property, plant and equipment	41,762	226,513	–	–	50,056	432,269	–	–
Allowance for value of investment in Brazil	1,457,860	4,981,022	–	–	7,089,239	–	–	–
Allowance for obsolescence	1,237,328	95,398	–	–	657,798	93,305	–	–
Complementary accounts, net of amortization	(13,641)	(2,036,560)	–	(10,142,529)	(20,118)	(2,132,964)	–	(10,969,249)
Valuation allowance	(3,116,196)	(32,692,589)	–	–	(9,235,042)	(30,738,692)	–	–
Total	7,142,152	14,561,898	602,220	10,539,637	4,765,312	17,115,722	768,350	10,551,620

NOTE 8 – OTHER CURRENT ASSETS

The following is a detail of other current assets:

	As of December 31,	
	2006 ThCh$	2005 ThCh$
Repurchase agreements	24,004,382	65,740,080
Disposable assets held for sale, net	3,748,647	2,974,719
Copper hedging contracts at their fair value	1,014,754	–
Time deposits in guarantee	677,991	740,169
Other	573,610	775,070
Total	30,019,384	70,230,038

NOTE 9 –PROPERTY, PLANT AND EQUIPMENT

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

	As of December 31,	
	2006 ThCh$	2005 ThCh$
Accumulated depreciation:		
Buildings and infrastructure	66,110,553	60,744,759
Machinery and equipment	233,764,383	216,999,502
Other property, plant and equipment	23,435,416	21,700,616
Revaluation from technical appraisals	5,110,926	5,258,681
	328,421,278	304,703,558
Depreciation		
Cost of sales	26,186,352	24,778,061
Administrative and selling expenses	2,578,928	1,820,532
	28,765,280	26,598,593
Other non-operating expenses	906,568	1,363,461
	29,671,848	27,962,054
Other property, plant and equipment		
Leased assets	20,019,713	18,912,769
Furniture and supplies	6,416,952	7,700,903
Construction in progress	4,146,997	2,085,457
Computer software	6,302,104	6,116,046
Office machines	6,782,873	6,949,215
Tools and other	3,253,721	3,798,838
Strategic projects	550,361	561,919
Computer equipment	335,275	326,354
Other	7,387,488	3,519,742
	55,195,484	49,971,243
Technical appraisals:		
Land	3,090,828	3,065,285
Buildings and infrastructure	8,269,380	8,160,814
Machinery and equipment	1,719,175	2,240,016
	13,079,383	13,466,115
Depreciation related to revaluation from technical appraisals		
Accumulated depreciation	4,702,101	4,858,794
Total depreciation	408,825	399,887
	5,110,926	5,258,681

NOTE 10 - INVESTMENTS IN RELATED COMPANIES

The detail of investments in related companies as of December 31, 2006, is as follows:

Company	Country	Ownership percentage %	Shareholders' equity of company ThCh$	Net income (loss) ThCh$	Participation in net income (loss) ThCh$	Participation in equity ThCh$	Book value ThCh$
Banco de Chile	Chile	20.72463	834,630,550	195,247,660	40,464,361	172,974,121	172,974,121
SM Chile Serie A	Chile	3.11000	410,673,474	32,949,821	–	11,747,874	11,747,874
SM Chile Serie B	Chile	47.87739	410,673,474	32,949,821	16,549,542	197,393,750	197,393,750
SM Chile Serie D	Chile	1.84013	410,673,474	32,949,821	636,063	7,586,671	7,586,671
SM Chile Serie E	Chile	–	410,673,474	32,949,821		–	–
Inversiones y Rentas S.A.	Chile	50.00000	218,385,402	33,964,212	16,982,106	109,192,701	109,192,701
Entel S.A.	Chile	–	–	–	1,329,375	–	–
Habitaria S.A.	Chile	50.00000	1,344,470	(382,739)	(191,369)	672,235	672,235
Casa Kennedy S.A.	Chile	–	–	–	(2,320)	–	–
Jardín de las Ursulinas S.A.	Chile	50.00000	2,398,168	(33,010)	(16,505)	1,199,084	1,199,084
Peruplast S.A.	Peru	25.00000	16,175,777	1,519,073	379,768	4,043,944	4,043,944
Tech Pak S.A.	Peru	25.60790	10,793,282	1,168,927	299,338	2,763,933	2,763,933
Colada Continua Chilena S.A.	Chile	41.00000	3,688,940	1,152	472	1,512,465	1,512,465
Cobrecón Perú S.A.	Peru	33.33333	1,992,791	26,088	8,696	664,263	664,263
Inversiones Alusa S.A.	Chile	0.01000	649,440	27,788	–	–	–
Inmobiliaria El Norte y El Rosal S.A.	Chile	50.00000	60,510	(64,066)	(32,033)	30,255	30,255
Blue Two Chile S.A.	Chile	100.00000	2,699,565	(1,785,428)	–	2,699,565	2,699,565
Banchile Seguros de Vida S.A.	Chile	99.00000	8,865,327	2,513,936	2,511,423	8,856,461	8,856,461
Transporte y Servicios Aéreos S.A.	Chile	50.00000	327,768	(429,328)	(214,664)	163,884	163,884
Inmobiliaria Barrio Verde S.A.	Chile	–	1,167,482	(41,221)	–	1	1
Calaf S.A.	Chile	50.00000	14,486,588	(600,370)	(300,185)	7,243,294	7,243,294
Indalsa Perú S.A.	Peru	100.0000	1,401,575	(12,945,789)	–	1,597,170	1,597,170
Total						530,341,671	530,341,671

The detail of investments in related companies as of December 31, 2005, is as follows:

Company	Country	Ownership percentage %	Shareholders' equity of company ThCh$	Net income (loss) ThCh$	Participation in net income (loss ThCh$	Participation in equity ThCh$	Book value ThCh$
Banco de Chile	Chile	20.29849	791,383,522	184,518,883	37,454,557	160,638,949	160,638,949
SM Chile Serie A	Chile	3.11000	394,939,574	31,428,121	–	11,305,850	11,305,850
SM Chile Serie B	Chile	47.87739	394,939,574	31,428,121	15,785,245	189,825,023	189,825,023
SM Chile Serie D	Chile	1.84013	394,939,574	31,428,121	606,688	7,295,773	7,295,773
SM Chile Serie E	Chile	–	394,939,574	31,428,121	30,287	–	–
Inversiones y Rentas S.A.	Chile	50.00000	200,217,100	29,567,234	14,783,617	100,108,550	100,108,550
Entel S.A.	Chile	5.68488	505,642,941	72,521,547	4,124,758	28,745,396	28,745,396
Habitaria S.A.	Chile	50.00000	6,562,094	(2,646,475)	(1,323,237)	3,281,047	3,281,047
Peruplast S.A.	Peru	25.00000	14,614,463	812,868	203,217	3,653,616	3,653,616
Tech Pak S.A.	Peru	25.60790	9,450,867	223,757	57,300	2,420,168	2,420,168
Colada Continua Chilena S.A.	Chile	41.00000	3,687,788	2,011	825	1,511,993	1,511,993
Cobrecón Perú S.A.	Peru	33.33333	1,932,986	76,906	25,635	644,329	644,329
Inversiones Alusa S.A.	Chile	0.01000	–	–	–	–	–
Compañía de Telecom. Llanquihue S.A.	Chile	–	–	–	16,339	–	–
Inmobiliaria El Norte y El Rosal S.A.	Chile	50.00000	124,575	(6,519)	(3,259)	62,287	62,287
Blue Two Chile S.A.	Chile	100.00000	4,484,994	(1,738,998)	–	4,484,994	4,484,994
Banchile Seguros de Vida S.A.	Chile	99.00000	6,351,390	1,991,742	1,989,749	6,345,039	6,345,039
Transporte y Servicios Aéreos S.A.	Chile	50.00000	(302,691)	(432,609)	(216,305)	–	–
Inmobiliaria Barrio Verde S.A.	Chile	–	1,191,999	(42,087)	–	1	1
Calaf S.A.	Chile	50.00000	15,086,958	(442,518)	(221,259)	7,543,478	7,543,478
Indalsa Perú S.A.	Peru	100.00000	9,938,835	(1,186,668)	–	–	–
Total						527,866,493	527,866,493

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

The direct and indirect shareholdings of Quiñenco S.A, through its subsidiary LQ Inversiones Financieras S.A., in Banco de Chile are 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.	
	2006	2005	2006	2005	2006	2005
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	5,811,598,701	5,811,598,701	47,88%	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	-	-	0,00%	0,00%
Total	12,138,504,795	12,138,504,795	6,412,491,982	6,412,491,982	52,83%	52,83%

	Issued shares		Shares held by LQ Inversiones Financieras		Ownership Percentage of Banco de Chile	
	2006	2005	2006	2005	2006	2005
Banco de Chile	69,037,564,665	68,079,783,605	14,307,782,107	13,819,171,849	20,72%	20,29%

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 or SM Chile.) until the subordinated obligation with the Central Bank of Chile is repaid.

Therefore, any surplus generated by SM Chile, 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.

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

3. Repurchase of Own Shares

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

On March 24, 2005, the Board of Directors of Banco de Chile agreed to sell the 1,701,994,590 shares of Banco de Chile that it had repurchased under the program described above. As of December 31, 2005, all of these shares had been sold in the market, the effect of which is reflected in a credit to other equity reserves of the subsidiary LQIF S.A. of ThCh$25,665,171 (historic pesos).

4. Share exchange SM - Chile E

At its ordinary meeting held on April 28, 2005, the Board of Directors of SM Chile S.A., agreed to establish a period in which SM Chile E Series shares could be exchanged for shares of Banco de Chile.

Pursuant to this plan, SM Chile S.A. offered Series E shareholders the opportunity to redeem their shares and receive in payment shares of Banco de Chile on a one-for-one basis. LQIF S.A. accepted the exchange offer for its 47,866,985 SM Chile E shares. As this transaction generated an increase in the proportionate shareholding in Banco de Chile and SM Chile, the accounting treatment reflected an amount for negative goodwill as if it was a purchase of additional rights. The effect of the transaction was shown in a credit to negative goodwill amounting to ThCh$6,257,929.

5. 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. that 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:

Shares	Number of votes in Banco de Chile (millions)	Participation of Quiñenco & LQIF in each series	Number of votes for Quiñenco & LQIF	Quiñenco & LQIF voting rights	
	2006	2006	2006	2006	2005
Owned by SM Chile S.A. and SAOS S.A.					
SM Chile S.A. (Series A)	1,921	66.50%	1,277	1.85%	1.88%
SM Chile S.A. (Series B)	37,217	52.83%	19,663	28.49%	28.88%
SM Chile S.A. (Series D)	1,453	52.02%	756	1.09%	1.11%
SM Chile S.A. (Series E)	141	0.00%	-	-	-
Other shareholders	28,306	20.72%			
Subtotal	69,038		21,696	31.43%	31.87%
Banco de Chile				20.72%	20.29%
Total voting rights in Banco de Chile				52.15%	52.16%

6. Dividend rights in Banco de Chile:

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

Series	Dividend distribution rights		% corresponding to Quiñenco & LQ 's ownership interest	
	As of December 31,			
	2006	2005	2006	2005
SM Chile S.A. (Series A)	-	-	-	-
SM Chile S.A. (Series B)	15.93%	16.16%	8.42%	8.54%
SM Chile S.A. (Series D)	0.62%	0.63%	0.32%	0.33%
SM Chile S.A. (Series E)	0.21%	0.21%	-	-
SAOS S.A.	42.24%	42.83%	N/A	N/A
Banco de Chile (includes Quiñenco S.A.)	41.00%	40.17%	20.72%	20.29%
Total	100.00%	100.00%	29.46%	29.16%

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 before the end of April each year. For the year ended December 31, 2005, the Board of Banco de Chile agreed to distribute 70% of its net income and capitalize the remaining 30% through issuing shares. This decision was ratified by the shareholders meeting held on March 23, 2006.

In March 2006, LQ Inversiones Financieras S.A. thus received the sum of ThCh$36,876,306 (historic pesos).

7. Capitalization of Banco de Chile earnings

On March 23, 2006, shareholders at an Extraordinary Shareholders' Meeting of the subsidiary Banco de Chile agreed to increase the bank's capital through the capitalization of 30% of 2005 net income by issuing "bonus" shares of no par value. On March 28, 2006, 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 2005 net income.

The amount capitalized by the subsidiary Banco de Chile amounted to ThCh$30,984,357, through the issuance and distribution of 957,781,060 shares on May 11, 2006, on the basis of 0.02461 "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 69,037,564,665 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 2005 net income in the form of shares, but in cash. This implied an increased shareholding, from 20.29% to 20.71%. The "bonus" shares were issued at Ch$32.35 per share and, due to the increase in the percentage shareholding, goodwill in the amount of ThCh$6,896,901 (historic pesos) was generated.

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

In September 2004, the federal agency Office of the Controller of the Currency (OCC) and the Federal Reserve Bank of Atlanta revised our New York and Miami branches to evaluate among other things, their compliance with the US Bank Secrecy Act and other regulations concerning the prevention of asset laundering in the United States. As a result, Banco de Chile agreed with the OCC the issue of a Consent Order and, with the Federal Reserve Bank of Atlanta, a Cease and Desist Order, effective February 1, 2005. An action plan was then prepared which included the preparation and maintenance of programs designed to strengthen compliance with these regulations. The activities contained in this action plan, approved by the regulatory authorities, contemplate specific periods of time for carrying them out.

The implementation of the activities of re-documenting customer files and certain specific activities related to the branches' internal controls have required a period of time longer than originally foreseen in the plan. Both activities progressed substantially during 2006 and are expected to be concluded during 2007.

9. 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.:

	As of December 31,	
	2006	2005
Balance Sheets	ThCh$	ThCh$
Assets		
Investments	25,861,977	19,697,968
Premiums receivable	2,072,418	1,886,854
Receivables from reinsurance	583,013	401,941
Other assets	629,510	387,523
Total assets	29,146,918	22,374,286
Liabilities and shareholders' equity		
Technical reserves	15,170,714	11,762,829
Insurance premiums payable	1,118,362	231,366
Other liabilities	3,992,515	4,028,701
Shareholders' equity	8,865,327	6,351,390
Total liabilities and shareholders' equity	29,146,918	22,374,286

	Year ended December 31,	
	2006	2005
Statements of Income	ThCh$	ThCh$
Operating revenue	19,416,780	24,455,710
Operating costs	(17,272,032)	(22,940,045)
Net operating income	2,144,748	1,515,665
Income from investments	924,087	616,412
Other income	4,093	3,640
Interest expense	(22,261)	-
Adjustment allowances and write-offs	(6,500)	-
Foreign currency translation, net	3,090	(2,182)
Price-level restatement, net	(18,988)	265,151
Net non-operating income	883,521	883,021
Income before income taxes	3,028,269	2,398,686
Income taxes	(514,333)	(406,943)
Net income	2,513,936	1,991,743

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

At an Extraordinary Shareholders' Meeting of Lucchetti Perú S.A. held on September 21, 2005, shareholders agreed to change the company's name to Indalsa Perú S.A., in keeping with its contractual obligations in relation to the sale of certain brands to Corpora Tresmontes S.A.

As a result of the division of Industria Nacional de Alimentos, on November 10, 2006, the company Inversiones Río Rimac S.A. was formed, which received, among other assets, the shares in Indalsa Perú S.A. plus its obligations and all the assets relating to its operations in Peru, excluding the litigation rights of Industria Nacional de Alimentos S.A. and Indalsa Perú S.A. in the arbitration proceedings that continue before the International Center for Settling Investment-Related Differences (ICSID) against the Republic of Peru and all the rights to claim in the future indemnities for any damage related to the investment made either directly or indirectly by Industria Nacional de Alimentos S.A. and Indalsa Perú S.A. in Peru. These rights remain with Industria Nacional de Alimentos S.A. at the time of the division and equity distribution that gave rise to Inversiones Río Rimac S.A.

As shown in Note 15, Provisions and write offs, the total amount of the allowance deducted, amounted to ThCh$24,925,572 and ThCh$30,015,777 as of December 31, 2006 and 2005 respectively.

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

Balance Sheets	As of December 31, 2006 ThCh$	As of December 31, 2005 ThCh$
Assets		
Total current assets	3,457,842	94,767
Property, plant and equipment, net	–	12,773,747
Total other assets	18,606	2,847,503
Total assets	3,476,448	15,716,017
Liabilities and shareholders' equity		
Total current liabilities	2,074,873	283,697
Total long-term liabilities	–	5,493,485
Total shareholders' equity	1,401,575	9,938,835
Total liabilities and shareholders' equity	3,476,448	15,716,017

Statements of Income	Years ended December 31, 2006 ThCh$	Years ended December 31, 2005 ThCh$
Operating revenue	–	–
Operating costs	–	–
Gross margin	–	–
Administrative and selling expenses	(295,585)	(479,145)
Net operating loss	(295,585)	(479,145)
Interest income	–	–
Other non-operating income	–	–
Interest expenses	(92,200)	(212,514)
Other non-operating expenses	(13,633,771)	(417,053)
Foreign currency translation, net	1,075,767	(77,956)
Net non-operating loss	(12,650,204)	(707,523)
Net loss	(12,945,789)	(1,186,668)

d) Executive incentive plan:

As described in Note 17 Movements in equity accounts, Quiñenco received payments in cash and in shares of Banco de Chile, CNT Telefónica del Sur S.A., Madeco S.A. and Industria Nacional de Alimentos S.A. from executives as per the agreed installments for 2006, 2005, 2004 and 2003. The payment made in May 2006 finalized the long-term incentives plan current at that time, as approved by the Board on March 8, 2000.

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

Balance Sheets	As of December 31, 2006 ThCh$	As of December 31, 2005 ThCh$
Assets		
Total current assets	1,614,295	1,105,885
Property, plant and equipment, net	10,829,797	10,094,531
Total other assets	934,663	576,218
Total assets	13,378,755	11,776,634
Liabilities and shareholders' equity		
Total current liabilities	10,673,715	3,796,250
Total long-term liabilities	5,474	3,495,389
Total shareholders' equity	2,699,566	4,484,995
Total liabilities and shareholders' equity	13,378,755	11,776,634

f) Entel S.A.

The investment in Entel S.A. was shown in 2005 at its equity value in accordance with the methodology applicable to investments in which the investor has the capacity to exercise significant influence or control over the investee, as the Company, through its subsidiary VTR S.A., had elected a director in Entel S.A and was acquired before Circular 1697 of the SVS came into effect.

As of December 31, 2006, this investment has been reclassified to Investments in other companies at its restated cost as the director was not re-elected at Entel S.A.'s Shareholders' Meeting held in April 2006. The amount so determined does not exceed the market valuation.

g) Foreign investments

1) As of December 31, 2006, there were no liabilities that have been specifically designated and booked to hedge investments abroad.

2) There were no remittable profits as of December 31, 2006.

NOTE 11 – GOODWILL AND NEGATIVE GOODWILL

a) Goodwill:

	Years ended December 31,			
	2006		2005	
Company	Amortization for the year ThCh$	Goodwill (net) ThCh$	Amortization for the year ThCh$	Goodwill (net) ThCh$
SM Chile S.A. (Series B)	11,457,300	159,306,564	11,382,428	170,763,864
Banco de Chile	8,022,142	107,735,496	7,708,933	108,688,315
Madeco S.A. and subsidiaries	2,559,112	18,603,206	3,740,802	20,862,477
SM Chile S.A. (Series D)	343,971	4,713,042	418,844	5,057,013
Inversiones Río Grande S.A. and subsidiaries	35,656	618,720	35,885	647,928
CNT Telefónica del Sur S.A	46,429	491,143	46,284	533,258
Other	–	–	30,058	–
Total	22,464,610	291,468,171	23,363,234	306,552,855

b) Negative goodwill:

	Years ended December 31,			
	2006		2005	
Company	Amortization for the year ThCh$	Negative goodwill (net) ThCh$	Amortization for the year ThCh$	Negative goodwill (net) ThCh$
SM Chile S.A. Series B	289,797	5,506,160	108,750	5,795,959
Madeco S.A. and subsidiaries	255,630	4,264,190	248,678	4,511,088
VTR S.A. and subsidiary	725,153	1,752,454	725,162	2,477,609
SM Chile S.A. Series A	47,003	745,170	33,840	792,260
Empresa El Peñón S.A. and subsidiary	45,612	372,502	509,424	418,115
SM Chile S.A. Series D	11,136	211,599	4,179	222,735
Inversiones Río Grande S.A. and subsidiaries	33,950	442,293	31,559	473,364
Entel S.A.	55,600	–	169,960	2,207,629
Other	–	–	5,712	–
Total	1,463,881	13,294,368	1,837,264	16,898,759

As a result of the capital increase made in May 2006 by the subsidiary Madeco S.A., in which the Parent Company and its subsidiary Inversiones Río Grande S.A. did not participate, the Company amortized extraordinarily ThCh$706,241 (historic pesos) of goodwill in Madeco S.A., equivalent to the dilution gain for not participating.

As a result of the capital increase made in November 2005 by the subsidiary Madeco S.A., in which the Parent Company and its subsidiary Inversiones Río Grande S.A. only participated partially, the Company amortized extraordinarily ThCh$1,701,017 (historic pesos) of goodwill in Madeco S.A., equivalent to the amount of the dilution gain for not participating.

At the Shareholders' Meeting of Entel S.A. held in April 2006, the director and alternate director representing VTR until then were not re-elected. As a result, the subsidiary ceased to exercise a significant influence over Entel S.A.'s management. It was therefore decided to discontinue its valuation under the equity investment method, effective April 2006. This change of criteria meant valuing the investment in Entel S.A. at cost, taking into account for this purpose the last equity value recorded as of March 31, 2006 plus the negative goodwill generated on the acquisition of this investment as of March 31, 2006.

NOTE 12 – CURRENT BANK OBLIGATIONS

Short-term obligations with banks are detailed as follows:

	As of December 31,	
	2006 ThCh$	2005 ThCh$
Short-term obligations payable in:		
United States dollars	11,291,101	13,307,767
Other foreign currencies	5,286,766	5,844,993
Unidades de Fomento (UF)	-	14,674
Chilean pesos (non-indexed)	1,176,565	5,788,963
Total	17,754,432	24,956,397
Short-term portion of long-term bank obligations payable in:		
United States dollars	9,959,978	34,110
Other foreign currencies	4,519,819	-
Unidades de Fomento (UF)	14,703,050	16,796,043
Chilean pesos (non-indexed)	389,496	289,298
Total	29,572,343	17,119,451

NOTE 13 – LONG-TERM BANK OBLIGATIONS:

The maturities of obligations with banks and financial institutions as of December 31, 2006 are detailed as follows:

	2006 ThCh$
Years to maturity:	
Between 1 and 2 years	49,732,649
Between 2 and 3 years	40,115,859
Between 3 and 5 years	61,207,511
Between 5 and 10 years	20,494,020
Total	171,550,039

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	Maturity date	Payment periods		Book value As of December 31,		Domestic or foreign issuance
						Interest	Amortization	2006 ThCh$	2005 ThCh$	
426	D	337,500	UF	3.50%	21-07-2013	Annual	Annual	6,865,621	6,979,142	Domestic
399	D	249,610	UF	5.00%	10-12-2011	Semi-annual	Semi-annual	4,536,996	4,343,590	Domestic
384	B	–	UF	4.75%	15-05-2025	Annual	Annual	1,646,507	1,647,934	Domestic
385	A	–	UF	3.25%	15-05-2010	Annual	Annual	1,502,076	1,503,379	Domestic
251	H	40,000	UF	6.00%	01-12-2021	Semi-annual	Semi-annual	785,856	–	Domestic
198	F	34,000	UF	4.05%	01-02-2018	Semi-annual	Semi-annual	742,423	805,870	Domestic
229	A	–	UF	4.17%	21-07-2026	Annual	Annual	682,927	693,013	Domestic
Total current portion								16,762,406	15,972,928	

Long-term bonds payable

Registration or identification number of instrument	Series	Nominal value of current liability	Measurement unit	Interest rate	Maturity date	Payment periods		Book value As of December 31,		Domestic or foreign issuance
						Interest	Amortization	2006 ThCh$	2005 ThCh$	
385	A	4,000,000	UF	3.25%	15-05-2010	Annual	Annual	73,345,520	73,409,124	Domestic
384	B	3,000,000	UF	4.75%	15-05-2025	Annual	Annual	55,009,140	55,056,843	Domestic
426	D	2,025,000	UF	3.50%	21-07-2013	Annual	Annual	37,131,170	43,357,264	Domestic
229	A	2,000,000	UF	4.17%	21-07-2026	Annual	Annual	36,672,760	36,704,562	Domestic
399	D	979,705	UF	5.00%	10-12-2011	Semi-annual	Semi-annual	20,226,108	24,716,758	Domestic
251	H	560,000	UF	6.00%	01-12-2021	Semi-annual	Semi-annual	10,268,373	11,011,369	Domestic
198	F	357,000	UF	4.05%	01-02-2018	Semi-annual	Semi-annual	6,546,088	7,175,742	Domestic
Total long-term portion								239,199,159	251,431,662	

NOTE 15 - PROVISIONS AND WRITE OFFS

The detail of provisions as of December 31, 2006 and 2005 is as follows:

	2006 ThCh$	2005 ThCh$
Current liabilities:		
Salaries, fees and consulting expenses	4,525,718	3,295,914
Vacation provision	3,007,632	2,651,352
Telephone connection and long-distance costs	1,267,635	1,560,586
General and commercial expenses	1,237,210	699,984
Staff severance indemnities	921,556	1,022,359
Restructuring expenses	858,513	878,709
Property, municipal and other taxes	644,864	860,138
Voluntary retirement plan	479,350	-
Provision for basic consumption	311,242	824,665
Distribution fees and freights	291,797	325,855
Inventory pending invoicing	286,777	562,157
Provision for installation and maintenance contractors	271,048	493,366
Lawsuits pending	228,528	272,765
Employee profit-sharing and benefits	197,898	145,210
Advertising, promotion and corporate image	179,837	284,805
Export and import expenses	72,911	138,931
Suppliers invoices	35,221	179,776
Other	438,580	678,412
Total	15,256,317	14,874,984
Long-term liabilities:		
Contingencies	6,700,750	6,341,039
Lawsuits pending	2,146,024	1,592,474
Staff severance indemnities	1,416,309	1,159,682
Property, municipal and other taxes	1,156,525	628,505
Subsidiaries with accumulated deficits	-	151,382
Other	22,272	54,473
Total	11,441,880	9,927,555

Allowances deducted from assets	2006 ThCh$	2005 ThCh$
Current assets:		
Accounts receivable	7,502,925	7,138,232
Notes receivable	1,118,563	1,006,090
Other accounts receivable	3,486,169	3,412,401
Inventory (obsolescence)	2,802,846	2,832,945
Unrealized income (inventory)	869,833	149,713
Recoverable taxes Uruguay and Argentina	521,505	304,359
Property, plant and equipment held for sale	296,461	1,147,697
Long-term assets:		
Investment in Indalsa Perú S.A.	24,925,572	30,015,777
Accounts receivable Indalsa Perú S.A.	2,061,778	5,615,134
Property, plant and equipment for sale	226,144	327,962
Inventory without movement for more than one year	92,058	68,243
Obsolescence of property, plant and equipment	2,230,161	1,951,205
Valuation of other assets - Argentina	2,956,368	2,905,683
Reduced value of recoverable taxes - Argentina	1,981,937	1,673,129
Reduced value judicial deposits (IPTU) - Brazil	303,992	-
Property, plant and equipment, not in use	1,972,377	1,674,293
Write-offs made:		
Bad debts	276,201	424,391

NOTE 16 - MINORITY INTEREST

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

	Percentage minority interest As of December 31,		Minority interest Book value As of December 31,		Minority interest Statement of income As of December 31,	
	2006 %	2005 %	2006 ThCh$	2005 ThCh$	2006 ThCh$	2005 ThCh$
Madeco S.A.	53.85	52.19	135,462,658	109,435,867	(16,157,677)	(6,049,251)
CNT Telefónica del Sur S.A.	26.33	26.33	18,465,621	18,196,127	(2,065,813)	(2,063,739)
Alusa S.A.	24.04	24.04	9,781,700	8,959,141	(1,022,098)	(522,067)
Indeco S.A. (Perú)	6.03	5.99	1,440,717	1,228,037	(505,410)	(212,604)
Industria Nacional de Alimentos S.A. (1)	0.87	0.96	126,591	189,556	47,606	47,561
Hoteles Carrera S.A.	6.50	6.50	21,277	20,433	(844)	68,981
Cía. Teléfonos de Coyhaique S.A.	11.29	11.29	905,956	900,538	(134,027)	(125,312)
Telefónica del Sur Servicios Intermedios S.A.	0.03	0.03	50	348	(7)	(60)
Wi-Net Wireless Networking Ltda.	49.00	-	22,420	-	(5,667)	-
Inversiones Vita S.A.	33.70	33.70	1,963,228	1,404,165	(559,065)	(439,646)
Inversiones Vita Bis S.A.	33.70	33.70	998,023	713,829	(284,196)	(221,939)
Empresa El Peñón S.A.	5.02	5.02	510,834	480,003	(23,546)	2,222
Inversiones O'Higgins Punta Arenas Ltda. CPA	24.44	24.44	215,148	222,740	7,593	9,260
Indalum S.A.	0.84	0.84	245,319	233,987	(11,333)	(17,506)
Distribuidora Boliviana Indalum S.A.	-	5.78	-	-	688	313
Other	-	-	(313)	(9,149)	931	37
Total			170,159,229	141,975,622	(20,712,865)	(9,523,750)

(1) Ex Empresas Lucchetti S.A.

NOTE 17 - SHAREHOLDERS' EQUITY

a) The following movements have occurred in shareholders' equity during 2006 and 2005:

	Paid-in capital ThCh$	Other reserves ThCh$	Retained earnings ThCh$	Deficit during the development stage ThCh$	Net income (loss) for the year ThCh$	ThCh$
Balance as of January 1, 2005	470,774,003	(16,417,969)	158,117,094	(780,742)	23,352,714	635,045,100
Distribution of prior year's result	-	-	22,571,972	780,742	(23,352,714)	-
Final dividend	-	-	(14,011,625)			(14,011,625)
Deficit of companies in development stage	-	-	-	(1,497,336)	-	(1,497,336)
Proportional share of equity changes (1)	-	11,307,277	-	-	-	11,307,277
Price-level restatement of equity	16,947,864	(591,047)	5,972,365	-	-	22,329,182
Net income	-	-	-	-	51,079,526	51,079,526
Balance as of December 31, 2005	487,721,867	(5,701,739)	172,649,806	(1,497,336)	51,079,526	704,252,124
Balance restated for comparative purposes	497,964,027	(5,821,475)	176,275,451	(1,528,780)	52,152,196	719,041,419
Balances as of January 1, 2006	487,721,867	(5,701,739)	172,649,806	(1,497,336)	51,079,526	704,252,124
Distribution of prior year's income	-	-	49,582,190	1,497,336	(51,079,526)	-
Final dividend	-	-	(15,600,009)	-	-	(15,600,009)
Deficit of companies in development stage	-	-	-	(1,529,842)	-	(1,529,842)
Proportional share of equity changes (1)	-	11,247,920	-	-	-	11,247,920
Price-level restatement of equity	10,242,160	(98,547)	4,370,471	-	-	14,514,084
Net income	-	-	-	-	57,042,964	57,042,964
Balance as of December 31, 2006	497,964,027	5,447,634	211,002,458	(1,529,842)	57,042,964	769,927,241

(1) In March 2000, a long-term incentives plan was established for executives of the Company. A loan was granted amounting to ThCh$4,729,878 (historic pesos) as of December 31, 2002 to acquire shares of the Parent Company and its subsidiaries at market value. The loan denominated in UF was repayable in annual installments over the period 2003 - 2006 and the shares acquired are pledged in guarantee and some were used in payment. The plan was made in accordance with instructions approved by the Board of Directors on March 8, 2000. Payments of the corresponding installments for each year were made in May 2006, April 2005, April 2004 and June 2003, in accordance with the conditions of the long-term incentive plan. With the payment made in May 2006, the long-term incentives plan was terminated.

b) Number of shares as of December 31, 2006:

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

c) Capital as of December 31, 2006:

Series	Subscribed capital ThCh$	Paid-in capital ThCh$
Common	497,964,027	497,964,027

d) Accumulated deficit of companies in development stage as of December 31, 2006:

	Amount of deficit	
Company	For the year ThCh$	Accumulated ThCh$
VTR S.A.	1,313,399	1,313,399
Inversiones y Rentas S.A.	214,114	214,114
CNT Telefónica del Sur S.A.	2,329	2,329
Total	1,529,842	1,529,842

NOTE 18 - NON-OPERATING INCOME AND EXPENSES

Non-operating income and expenses for the years ended December 31, 2006 and 2005 are detailed as follows:

	2006 ThCh$	2005 ThCh$
Other non-operating income		
Dividends received	3,929,058	226,697
Gain related to non-participation in capital increase	706,468	1,744,435
Gain on sale of property, plant and equipment	144,535	663,655
ADR depositary contracts	134,394	51,191
Gain on sale of stock investments	128,724	24,426,612
Reversal of provisions	-	1,603,309
Other	363,312	966,727
Total	5,406,491	29,682,626
Other non-operating expenses		
Legal defense expenses Indalsa Perú S.A.	2,908,036	1,633,055
Write-offs and obsolescence	1,226,297	493,458
Contingencies and fines	1,224,334	1,216,341
Allowance for account receivable Indalsa Perú S.A.	1,117,094	1,124,544
Depreciation of idle assets (1)	940,462	1,363,461
Fees, profit sharing, remuneration and consultancies	859,548	2,116,944
Voluntary retirement plan	563,425	-
Loss on sales of investments in shares	503,409	-
Bank fees and other charges	45,235	282,736
Lawsuits pending and arrangements	17,327	100,461
Loss from sale of property, plant and equipment	8,440	2,375,942
Severance payments, settlements and others	-	278,347
Other	290,845	1,339,742
Total	9,704,452	12,325,031

(1) Relates to depreciation of unused property, plant and equipment (ThCh$906,568) and unused assets ThCh$33,894).

NOTE 19 – PRICE-LEVEL RESTATEMENT

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

	Indexation unit	2006 ThCh$	2005 ThCh$
Inventory, net	CPI and replacement cost	203,988	558,744
Property, plant and equipment	CPI	4,001,170	7,124,676
Investments in related companies	CPI	10,737,599	18,243,788
Goodwill and negative goodwill	CPI	5,517,865	9,989,686
Financial investments	CPI	2,280,691	1,422,872
Related company current accounts, net	UF	232,220	640,435
Other assets	UF	890,839	244,095
Other non-monetary assets	CPI	797,177	2,816,789
Expense and cost accounts	CPI	3,092,499	6,371,274
Total credits		27,754,048	47,412,359
Shareholders' equity	CPI	(14,514,084)	(22,798,095)
Bank obligations	CPI	-	(58,736)
Bank obligations	UF	(3,422,711)	(7,572,434)
Bonds payable	UF	(4,984,446)	(9,823,063)
Other liabilities	UF	(128,924)	(537,765)
Foreign suppliers	US$	(4,027)	342
Non-monetary liabilities	CPI	(2,682,677)	(4,545,312)
Revenue accounts	CPI	(3,347,283)	(6,513,253)
Total charges		(29,084,152)	(51,848,316)
Net loss due to price-level restatement		(1,330,104)	(4,435,957)

NOTE 20 – FOREIGN CURRENCY TRANSLATION

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

	Currency	2006 ThCh$	2005 ThCh$
Assets (charges)/ credits			
Cash and financial investments	US dollar	445,406	(310,425)
Accounts and notes receivable	US dollar	550,532	(1,002,962)
Other assets	US dollar	91,614	(135,135)
Other assets	Other	183,730	(160,753)
Derivative instruments	US dollar	(142,114)	217,394
Translation adjustments	US dollar	(170,274)	(245,218)
Related company current accounts	US dollar	(28,022)	(27,062)
Total (charges) credits		930,872	(1,664,161)
Liabilities (charges)/ credits			
Bank obligations	US dollar	(525,682)	469,939
Accounts and notes receivable	US dollar	(328,634)	625,802
Other liabilities	US dollar	(13,450)	399
Translation adjustment in Peru	Peruvian sol	915,711	(335,143)
Other liabilities	Other	(52,992)	249,417
Translation adjustment in Brazil	Brazilian real	1,623,569	1,643,732
Hedging costs Brazil	Brazilian real	(2,195,321)	(1,866,875)
Translation adjustment in Argentina	Argentine peso	(211,846)	(202,660)
Foreign suppliers	US dollar	(1,002)	23,376
Total credits (charges)		(789,647)	607,987
Net foreign currency translation		141,225	(1,056,174)

NOTE 21 – STATEMENT OF CASH FLOWS

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

	As of December 31,	
	2006 ThCh$	2005 ThCh$
Cash	5,334,859	5,908,617
Mutual funds	311,713	1,147,083
Time deposits	10,901,754	24,629,772
Transactions under repurchase agreements	24,004,382	65,740,080
Total	40,552,708	97,425,552

Other income includes the following:

	Year ended December 31,	
	2006 ThCh$	2005 ThCh$
Tax refund	11,939,991	1,556,898
Rentals	1,325,488	221,722
Insurance	–	145,467
Futures contracts and other	–	345,682
ILP payment quota	1,041,243	1,068,875
Other	247,050	204,545
Total	14,553,772	3,543,189

The following is the detail of other investment income:

	Year ended December 31,	
	2006 ThCh$	2005 ThCh$
Sale of assets of subsidiary	1,428,536	966,297
Rentals	–	74,243
Other	–	213,611
Total	1,428,536	1,254,151

The following is the detail of other investment disbursements:

	Year ended December 31,	
	2006 ThCh$	2005 ThCh$
Investment fund in Brazil	–	2,667,069
Brand rights	–	6,092
Share sale commission	–	178,053
Other	–	61,988
Total	–	2,913,202

NOTE 22 – DERIVATIVE CONTRACTS

As of and for the year ended December 31, 2006												
		Description of contract							Derivative instruments effect			
						Hedged item			Asset / Liability		Effect on income	
Type of derivative	Type of contract	Nominal amount	Maturity date	Specific item	Purchase/ Sale	Description	Initial amount	Closing amoun	Name	Amount ThCh$	Realized ThCh$	Deferred ThCh$
S	CCPE	11,008,777	2nd qtr. 2007	Interest	C	Dollar loan	11,008,777	11,367,046	OCA	928	(14,314)	–
S	CCPE	8,607,806	2nd qtr. 2008	Interest	C	Dollar loan	8,607,806	8,715,690	OCA	126	160	–
FR	CCPE	2,530,992	1st qtr. 2007	Dollar exchange rate	C	Dollar assets	2,555,472	2,530,320	OCL	25,913	–	18,711
S	CCPE	1,704,380	3rd qtr. 2007	Inventory (copper)	C	Inventory (copper)	1,692,635	1,674,367	OCA	10,713	10,713	–
FR	CCTE	1,663,053	3rd qtr. 2007	London Metal Exc	C	Cash Flow	1,663,053	1,663,053	A/L	–	–	158,731
S	CCPE	1,569,545	4th qtr. 2007	Interest	C	Loan	1,569,545	1,569,545	OCL	20,613	(20,613)	–
S	CCPE	1,398,875	3rd qtr. 2007	Dollar exchange rate	C	Supplier financing	1,398,875	1,398,875	OCL	86,030	(86,030)	–
FR	CCPE	1,395,927	2nd qtr. 2007	Dollar exchange rate	C	Loan	1,395,927	1,395,927	OCL	247,976	(247,976)	–
S	CCPE	1,278,588	2nd qtr. 2007	Dollar exchange rate	C	Loan	1,278,588	1,278,588	OCL	71,469	(71,469)	–
S	CCPE	1,186,825	2nd qtr. 2008	Dollar exchange rate	C	Loan	1,186,825	1,186,825	OCL	120,294	(120,294)	–
FR	CCPE	1,163,805	2nd qtr. 2007	Dollar exchange rate	C	Loan	1,163,805	1,163,805	OCL	180,667	(180,667)	–
S	CCPE	1,132,394	1st qtr. 2007	Dollar exchange rate	C	Supplier financing	1,132,394	1,132,394	OCL	21,398	(21,398)	–
FR	CCTE	1,108,702	2nd qtr. 2007	London Metal Exc	C	Cash Flow	1,108,702	1,108,702	A/P	–	–	140,253
FR	CCTE	1,074,895	2nd qtr. 2007	London Metal Exc	C	Cash Flow	1,074,895	1,074,895	A/P	–	–	27,783
S	CCPE	1,052,576	1st qtr. 2007	Dollar exchange rate	C	Loan	1,052,576	1,052,576	OCL	295,947	(295,947)	–
Asian Option	CCPE	959,866	1st qtr. 2007	Inventory (copper)	C	Inventory (copper)	959,866	837,183	OCA	124,794	124,794	–
Asian Option	CCPE	957,594	1st qtr. 2007	Inventory (copper)	C	Inventory (copper)	957,594	837,183	OCA	129,769	129,769	–
Asian Option	CCPE	955,209	1st qtr. 2007	Inventory (copper)	C	Inventory (copper)	955,209	837,183	OCA	120,968	120,968	–
S	CCPE	951,775	1st qtr. 2007	Inventory (copper)	C	Inventory (copper)	955,456	837,183	OCA	119,584	119,584	–
S	CCPE	950,408	1st qtr. 2007	Inventory (copper)	C	Inventory (copper)	948,569	837,183	OCA	118,796	118,796	–
Asian Option	CCPE	937,566	1st qtr. 2007	Inventory (copper)	C	Inventory (copper)	937,566	837,183	OCA	113,627	113,627	–
S	CCPE	928,786	1st qtr. 2007	Inventory (copper)	C	Inventory (copper)	1,056,817	837,183	OCA	89,923	89,923	–
Asian Option	CCPE	918,313	1st qtr. 2007	Inventory (copper)	C	Inventory (copper)	918,313	837,183	OCA	96,870	96,870	–
S	CCPE	898,475	2nd qtr. 2007	Inventory (copper)	C	Inventory (copper)	895,062	837,183	OCA	64,815	64,815	–
S	CCPE	867,491	2nd qtr. 2007	Inventory (copper)	C	Inventory (copper)	848,390	837,183	OCA	31,143	31,143	–
S	CCPE	850,960	2nd qtr. 2007	Inventory (copper)	C	Inventory (copper)	847,140	837,183	OCA	14,955	14,955	–
S	CCPE	849,641	3rd qtr. 2007	Inventory (copper)	C	Inventory (copper)	852,970	837,183	OCA	4,709	4,709	–
S	CCPE	613,846	1st qtr. 2007	Dollar exchange rate	C	Supplier financing	613,846	613,846	OCL	3,759	(3,759)	–
S	CCPE	601,601	1st qtr. 2007	Dollar exchange rate	C	Supplier financing	601,601	601,601	OCL	4,420	(4,420)	–
FR	CCTE	554,351	4th qtr. 2007	London Metal Exc.	C	Cash Flow	554,351	554,351	A/L	–	–	37,171
S	CCPE	532,390	2nd qtr. 2007	Dollar exchange rate	C	Loan	532,390	532,390	OCL	125,625	(125,625)	–
S	CCPE	523,339	1st qtr. 2007	Dollar exchange rate	C	Supplier financing	523,339	523,339	OCL	2,911	(2,911)	–
S	CCPE	496,953	2nd qtr. 2007	Yen	C	Loan	496,953	496,953	OCL	44,895	(44,895)	–
S	CCPE	411,005	1st qtr. 2007	Dollar exchange rate	C	Supplier financing	411,005	411,005	OCL	8,122	(8,122)	–
FR	CCTE	358,298	3rd qtr. 2007	London Metal Exc	C	Cash Flow	358,298	358,298	A/L	–	–	3,053
S	CCPE	309,319	1st qtr. 2007	Dollar exchange rate	C	Supplier financing	309,319	309,319	OCL	4,760	(4,760)	–
S	CCPE	306,160	4th qtr. 2007	Dollar exchange rate	C	Supplier financing	306,160	306,160	OCL	22,587	(22,587)	–
S	CCPE	303,462	1st qtr. 2007	Dollar exchange rate	C	Supplier financing	303,462	303,462	OCL	5,607	(5,607)	–
S	CCPE	302,398	1st qtr. 2007	Dollar exchange rate	C	Supplier financing	302,398	302,398	OCL	1,793	(1,793)	–
S	CCPE	298,138	1st qtr. 2007	Dollar exchange rate	C	Supplier financing	298,138	298,138	OCL	6,512	(6,512)	–
FR	CCTE	253,950	2nd qtr. 2007	London Metal Exc	C	Cash Flow	253,950	253,950	OCL	–	–	(866)
FR	CCTE	253,950	3rd qtr. 2007	London Metal Exc	C	Cash Flow	253,950	253,950	OCL	2	(2)	(754)
FR	CCTE	253,950	4th qtr. 2007	London Metal Exc	C	Cash Flow	253,950	253,950	A/L	–	–	(2,037)
S	CCPE	205,503	1st qtr. 2007	Dollar exchange rate	C	Supplier financing	205,503	205,503	OCL	3,153	(3,153)	–
S	CCPE	204,438	1st qtr. 2007	Dollar exchange rate	C	Supplier financing	204,438	204,438	OCL	2,821	(2,821)	–
FR	CCTE	197,091	1st qtr. 2007	Dollar exchange rate	C	Cash Flow	197,091	197,091	OCL	–	–	(18,898)
FR	CCTE	197,091	3rd qtr. 2007	London Metal Exc	C	Cash Flow	197,091	197,091	A/L	–	–	(28,722)
FR	CCTE	186,603	1st qtr. 2007	London Metal Exc	C	Cash Flow	186,603	186,603	OCL	–	–	168,773
FR	CCTE	169,300	1st qtr. 2007	London Metal Exc	C	Cash Flow	169,300	169,300	OCL	–	–	(964)
FR	CCTE	98,545	1st qtr. 2007	Dollar exchange rate	C	Cash Flow	98,545	98,545	OCL	–	–	(10,083)
FR	CCTE	98,545	1st qtr. 2007	Dollar exchange rate	C	Cash Flow	98,545	98,545	OCL	–	–	(10,019)
FR	CCPE	67,330	2nd qtr. 2007	Dollar exchange rate	C	Loan	67,330	67,330	OCL	4,967	(4,967)	–
S	CCPE	6,728	1st qtr. 2007	Dollar exchange rate	C	Loan	6,728	6,728	OCL	496	(496)	–
S	CCPE	2,738	1st qtr. 2007	Dollar exchange rate	C	Supplier financing	2,738	2,738	OCL	202	(202)	–

FR Forward contracts
S Swap
OCA Other current assets
OCL Other current liabilities

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

NOTE 23 – CONTINGENCIES AND RESTRICTIONS

a) Pledge over shares

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

b) Investment in Peru

At the Extraordinary Shareholders' Meeting of the subsidiary Industria Nacional de Alimentos S.A. held on November 10, 2006, the shareholders agreed to the division and capital reduction of Industria Nacional de Alimentos S.A. and the formation of the company Inversiones Río Rimac S.A. received, among other assets, the shares that Industria Nacional de Alimentos S.A. held in the indirect subsidiary Indalsa Perú S.A. and the assets and liabilities relating to its operations in Peru. This includes the obligations, but excludes the litigation rights of the subsidiary Industria Nacional de Alimentos S.A. and the indirect subsidiary Indalsa Perú S.A. in the arbitration proceedings that continue before the International Center for Settling Investment-Related Differences (ICSID) against the Republic of Peru and all the rights for claiming in the future indemnities for any damage related to the investment made either directly or indirectly by Industria Nacional de Alimentos S.A. and Indalsa Perú S.A. in Peru. These rights remain with Industria Nacional de Alimentos S.A. at the time of the division and equity distribution that gave rise to Inversiones Río Rimac S.A.

On August 22, 2001, the Lima Municipality Metropolitan Council published in the Diario El Peruano two council resolutions (Nos. 258 and 259) by which it declared the public need to preserve the ecological zone alongside the production plant of the subsidiary Industria Nacional de Alimentos S.A., authorized the mayor to prepare a draft law for expropriating the land where the plant was built, revoked the operating license granted by the Municipality of Chorillos to the indirect subsidiary Indalsa Perú S.A. (ex-Lucchetti Perú S.A.) for the industrial plant, and ordered the final closure of the plant and its total eradication within twelve months.

The municipal resolutions lack justification because the Lima Municipal Council does not have the legal powers to revoke operating licenses granted by another municipality, in this case Chorillos, and also because the revocation process did not give the company the opportunity to express its point of view or defense, thus depriving it of its basic rights.

Consequently, the subsidiary Industria Nacional de Alimentos S.A., on October 3, 2001, began proceedings to protect its rights and interests as a foreign investor under the Treaty for the Mutual Promotion and Protection of Investments signed between Chile and Peru ("the Treaty").

On January 6, 2003, the indirect subsidiary Indalsa Perú S.A. was notified of the closure order by an official of the Municipality of Chorillos ordering compliance of the closure, warning of resort to the court or national police force. The board of the subsidiary Industria Nacional de Alimentos S.A therefore agreed to comply with the order as soon as possible in order to protect the employees of the subsidiary and its facilities, and to begin the orderly liquidation of the assets of the Peruvian subsidiary.

On January 16, 2003, the official and mayor of the Municipality of Chorillos personally visited the plant closure.

As a result of the above, the subsidiary Industria Nacional de Alimentos S.A. decided to make an allowance for its whole investment and to partially cover the accounts receivable of its subsidiary Indalsa Perú S.A. amounting to ThCh$30,674,486 (historic pesos). In order to make this allowance, special attention was given to the absolute need to apply the provisions of Technical Bulletins Nos. 33 and 64 of the Chilean Association of Accountants and also to apply Circular 150 of January 21, 2003 of the SVS which instruct publicly-held corporations to make allowances for the estimated loss of their assets, particularly investments in other Latin American countries.

In the opinion of management of the subsidiary Industria Nacional de Alimentos S.A, the allowance made only reflects the accounting effect of the recovery of the investment but not of the intangible assets related to that subsidiary such as distribution networks, customer portfolios, brand image, know-how, market share, sale of distribution services to third parties, etc. and in general the business project designed by the subsidiary Industria Nacional de Alimentos S.A. These intangible assets are not reflected in the accounts or balance sheet so this allowance, which should be made to comply with the official regulations, does not reflect in any way what the assets and rights of the subsidiary Industria Nacional de Alimentos S.A. effectively invested in Peru amount to, nor the quantification therefore of the damages that the subsidiary Industria Nacional de Alimentos S.A. will demand from the Peruvian state, the amount of which the allowance forms just a part of the total claimed.

Industria Nacional de Alimentos S.A's management argued in the legal analyses and reports that it considered that the acts and agreements carried out by the Peruvian authorities were an indirect expropriation without payment for the investment made in the subsidiary Industria Nacional de Alimentos S.A. in Peru, and therefore it was believed that there was a reasonable basis in international legislation for achieving a favorable resolution of an indemnity for the damages caused. The legal advisers of the subsidiary Industria Nacional de Alimentos S.A, i.e. the firm Herbeth & Smith, Francisco Orrego and the firm Eluchans y Cía., believed that the arbitration demand to the ICSID was a case with high expectations of success that should permit obtaining a just indemnity, taking into account, among other things, but very especially, the amounts invested by the company in Peru. Despite these opinions, and in compliance with current regulations, particularly the provisions of Technical Bulletin No.6 of the Chilean Association of Accountants, the subsidiary Industria Nacional de Alimentos S.A. decided not to record the eventual contingency of a gain that might arise from this international arbitration.

On March 25, 2003, the General Secretary of the ICSID registered the arbitration request presented by the subsidiary Industria Nacional de Alimentos S.A. on December 23, 2002. On August 1, 2003, the ICSID arbitration tribunal was constituted to assess and resolve the lawsuit brought against the Republic of Peru at which time it began formal procedures. The arbitration tribunal consisted of the following arbitrators: Thomas Buergenthal (chairman of the tribunal, appointed by the ICSID General Secretary), Bernardo M. Cremades, named by the Republic of Peru and Jan Paulsson, appointed by the subsidiary Industria Nacional de Alimentos S.A.

The first meeting of the arbitration tribunal was held on September 15, 2003, when the tribunal formally rejected the request of the Republic of Peru to suspend the arbitration proceedings. The tribunal also set forth the procedures to be followed for the lawsuit brought by Industria Nacional de Alimentos S.A. against the Republic of Peru.

The arbitration procedure established that the tribunal consider the presentation of a request by Peru to rule that the tribunal had no jurisdiction over the case, the response by Industria Nacional de Alimentos S.A., the replication by the Republic of Peru, and finally a rejoinder by Industria Nacional de Alimentos S.A.. Oral arguments were heard on September 2 and 3, 2004.

Despite the sound legal arguments made by Industria Nacional de Alimentos S.A., the tribunal issued its findings on February 7, 2005, accepting the request made by the Republic of Peru without entering into the merits of the case. The international tribunal ruled that it had no jurisdiction over arbitration proceedings between Industria Nacional de Alimentos S.A. and the Republic of Peru.

On June 6, 2005, the subsidiary Industria Nacional de Alimentos S.A. presented a petition to the General Secretary of the ICSID for the annulment of the ruling which, after being duly registered, was initiated. In order to hear the annulment petition, ICSID appointed an ad hoc committee consisting of three arbitrators, Hans Danelius, Franklin Berman and Andrea Giordina. On February 16, 2006, procedures were established for the presentation of the annulment petition, another for replication and rejoinder, and finally the oral hearings.

On May 18, 2006, the law firms representing the subsidiary Industria Nacional de Alimentos S.A. presented to the tribunal a brief which set out the position of the subsidiary Industria Nacional de Alimentos S.A., requesting the nullity of the sentence made by the previous tribunal. The Peruvian state presented a response brief on August 17th to which the subsidiary Industria Nacional de Alimentos S.A. replied on October 16th. The Peruvian state presented its rejoinder on December 15th. On February 20th and 21th lawyers of the subsidiary Industria Nacional de Alimentos S.A. presented their legal arguments to the arbitration panel in Washington in support of their petition of nullity of the previous sentence. The company is currently awaiting the arbitrators' resolution. If this were favorable to the interests of the subsidiary Industria Nacional de Alimentos S.A., it would open up a new instance to demand from the Peruvian state an indemnity for the damages caused by the indirect expropriation without payment of the investment made by the subsidiary Industria Nacional de Alimentos S.A. in Peru.

c) Civil liability

Indalsa Perú S.A. , subsidiary of Industria Nacional de Alimentos S.A., is involved in criminal proceedings brought in Peru against the chief executive officer, a former manager, and a director of Industria Nacional de Alimentos S.A. (hereinafter the "Executives") for alleged crimes relating to the trafficking of influence, which could result in legal contingencies for Indalsa Perú S.A..

On August 31, 2005, the First Special Criminal Court of the Supreme Court of Justice of Lima, by its Resolution 89, ordered the start of oral hearings for September 29, 2005. The Executives did not attend because of the discriminatory and partial treatment the court has given them. The court then declared the Executives in contempt of court and issued an order for their international arrest, which was later annulled by a ruling of the Peruvian Supreme Court of Justice under constitutional proceedings.

In addition, the Peruvian Supreme Court of Justice, in a ruling on January 27, 2006, applied the statute of limitations with respect to the criminal action against a director of Industria Nacional de Alimentos S.A. Later, the First Special Court of the Supreme Court applied the statute of limitations with respect to the criminal actions against the chief executive officer and former chief executive officer, and the case was closed. As a result, the potential liability of the Peruvian subsidiary was also eliminated. Lawyers representing the Peruvian state have appealed against this last resolution and the appeal remains pending. In the opinion of the legal advisers, the ruling is not likely to be overturned.

Finally, in May 2006, the Peruvian prosecutors' office requested that criminal proceedings be brought against three former Directors of the indirect subsidiary Indalsa Perú S.A. for alleged tax fraud with respect to donations made in 2001. The petition was rejected by the criminal court and the prosecutors' office has appealed. The case remains pending.

d) 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 the taxability of (Clause 21 of the Tax Law) a loss on a foreign currency futures contract signed on January 2, 1995 between VTR S.A. and Citibank N.A..

Inapplicability proceedings were brought in this case, which entered the Supreme Court (Case No. 3150-05), which was accepted on August 3, 2006 for consideration by that court in full session.

The records proceedings are currently suspended in this case as a result of a measure ordered by the Santiago Appeals Court, so the case will re-enter that court for consideration.

The subsidiary VTR S.A. has a case before the Santiago Appeals Court (Case No. 6692-04) and is awaiting its consideration. This appeal was made against the sentence in the first instance by the Santiago East Metropolitan Regional Authority of the Chilean Internal Revenue Service, Resolution 1025, ordered by the Regional Director of the Internal Revenue Service concerning a tax claim dated December 16, 1999.

As of December 31, 2006, Madeco S.A. has lawsuits pending against it with respect to its ordinary course of business which, according to the company's legal advisers, does not represent a risk of significant losses.

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

The subsidiary Madeco S.A. and its subsidiary Madeco Brasil Ltda., filed an arbitration claim in New York City before the American Arbitration Association, against Corning International Corporation ("Corning Inc.") based on the allegation that Corning Inc. had unjustifiably tried to terminate its agreements with Madeco S.A. relating to Optel Ltda. (Optel), a Brazilian company in which Corning Inc. and Madeco Brasil Ltda. were joint owners. Corning Inc., in turn, made a counter-claim against Madeco S.A. seeking, among other things, that Corning Inc. be allowed to terminate its agreements with Madeco S.A.

In 2003, the subsidiary Madeco S.A. was notified of the arbitration panel's judgment which, amongst other issues, ruled that the investment agreement signed between the parties on June 12, 1999, and its amendments, be terminated. As a consequence, Madeco S.A. lost its management rights in Optel and a put option to sell its shares in Optel to Corning Inc. for US$18 million.

As of December 31, 2003, Madeco S.A., through its indirect subsidiary Metal Overseas S.A., made an allowance against income for its 50% holding in Optel, held through Madeco Brasil Ltda., and it also made provisions for other expenses.

On March 31, 2005, the subsidiary Madeco S.A., through its indirect subsidiary Metal Overseas S.A., signed an agreement with Corning International Corporation whereby it acquired, for the nominal price of one Brazilian real, Corning Inc.'s 50% interest in Optel, thus settling the effects of the arbitration sentence.

On the same date, an agreement was reached with Optel's two principal bank creditors, whereby Optel's financial debt, equivalent to US$7.3 million, was settled upon the payment of US$2 million.

As of December 31, 2006, 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, 2006, CNT Telefónica del Sur S.A. and its subsidiaries have no significant lawsuits pending against them.

f) 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, 2006.

1. Quiñenco S.A. is subject to certain financial covenants, which as of December 31, 2006, are as follows:

- Maintain a ratio of unencumbered assets at book value to unsecured debt of at least 1.3:1.
- Unconsolidated financial debt to total capitalization ratio no greater than 0.45:1.
- Consolidated financial debt to total capitalization ratio no greater than 0.6:1.
- Minimum shareholders' equity of UF 33 million.
- Luksic Group to maintain control of Quiñenco.
- Quiñenco S.A. to maintain control of Banco de Chile (through its investment in LQ Inversiones Financieras S.A.).

In a document dated July 8, 2005, with respect to the sale of Lucchetti Chile S.A., Quiñenco S.A. agreed with the buyer to modify the following obligations assumed in the sales contract signed on March 31, 2004, to remain in force for three years from the date of sale:

a) Quiñenco S.A., either directly or indirectly, must maintain i) ownership of shares issued by Industria Nacional de Alimentos S.A. which represent at least 51% of the capital of the company, and ii) control of Industria Nacional de Alimentos S.A. by a majority of votes at shareholder meetings and the ability to elect a majority of the Directors of the company.

b) Industria Nacional de Alimentos S.A.'s shareholders equity, determined without considering trademarks, intellectual and industrial property rights and goodwill (except that of Calaf at that date), must be at least ThCh$10,000,000. However, Quiñenco S.A. shall not be responsible under this obligation should the equity of Industria Nacional de Alimentos S.A. be reduced to below that figure after June 30, 2005 due to i) operational and non-operational losses incurred in the business of Industria Nacional de Alimentos S.A. and its subsidiaries and affiliates; ii) acquisitions or disposals of assets carried out under fair market conditions similar to those normally prevailing in the market; or iii) provisions ordered by an authority or in compliance with applicable regulations.

2. Shareholders at the Extraordinary Shareholders' Meeting of the subsidiary Industria Nacional de Alimentos S.A. held on November 10, 2006, agreed to contribute to Inversiones Río Rimac S.A., together with assets, an obligation of UF102,000 that the subsidiary Industria Nacional de Alimentos S.A. has with Quiñenco S.A.

   Shareholders at the same meeting agreed to give the guarantee of the subsidiary Industria Nacional de Alimentos S.A. in favor of the creditor, guaranteeing the subsidiary Inversiones Río Rimac S.A. in the partial novation of the credit. They also consented to pledge shares in the affiliate Calaf S.A. in order to cover the obligations assumed by the new debtor. On January 10, 2007, the subsidiary Industria Nacional de Alimentos S.A., together with the indirect subsidiary Inversiones Río Rimac S.A. and Calaf S.A., signed a new novation contract, guarantee and share pledge, accepting the obligations referred herein.

3. 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.

4. 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, 2006 are:

   Effective September 30, 2005, 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 than or equal to the amount to be paid to bondholders on the next installment date.

   Quiñenco S.A. should maintain control of Banco de Chile through its investment in LQ Inversiones Financieras S.A

5. The subsidiary Madeco S.A. is subject to certain financial covenants and restrictions as of December 31, 2006, the main ones being:

   Bonds Series D:

   - Maintain a current ratio of at least 1.0:1.
   - Minimum shareholders' equity equivalent to UF 7million.
   - Debt to equity ratio (Third-party liabilities/Shareholder's equity plus minority interest) may not exceed 1.8:1.
   - Unencumbered assets to be at least 1.2 times the total amount of bonds outstanding.
   - Quiñenco S.A. to remain as the controller of Madeco S.A., with a direct or indirect shareholding of at least 40%, in accordance with clause 97 of the Capital Markets Law, notwithstanding that Quiñenco S.A. must at all times directly hold at least 35% of the shares.

Bank loans:

As of December 31, 2006, 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 Marlet 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 3.2:1.
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., Indalum S.A., Ficap S.A. and Indeco 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 main subsidiaries.
3. Use the loan proceeds exclusively for the financing of exports and investments in assets directly related to the export of its products and the refinancing of 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, 2006, the indirect subsidiary Alusa S.A. has the following covenants and restrictions:

Syndicated loan with Banco de Chile and Banco Estado UF 300,000:

- Maintain the following financial indicators based on its consolidated and unconsolidated financial statements: Leverage (debt to equity) not to exceed 0.75:1 (equity for these purposes being net of intangible assets and technical appraisals of assets).
- Minimum shareholders' equity of UF1,765,000.
- Alusa S.A. may not encumber its assets or give guarantees to creditors other than to the participant banks, without their prior written consent, unless such security is also granted in favor of the participant banks on the same terms and conditions and with equal degree of preference as to other creditors.

Excluded from this prohibition is the collateral given by Alusa S.A. over assets it acquires in the future in order to cover the financing obtained for their acquisition.

- Alusa S.A. may not maintain accounts receivable with its Argentine subsidiary, Aluflex S.A. relating to non-business operations, except with the prior written consent of the participant banks. Business-related accounts receivable with its subsidiary Aluflex S.A. may not exceed US$600,000, except with the prior written consent of the participant banks.

Export advances made by Banco Security of UF 163,000 and a loan from Banco Estado of UF 52,000:

- 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 the loans.

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 matures in January 2010.

Alusa S.A. was in compliance with all of these covenants as of December 31, 2006.

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 the ownership of its property, plant and equipment necessary for the normal development of its operations and business and maintain its ownership of the subsidiary Alumco S.A.
- May not pledge, mortgage or grant any charge or right over any property, plant and equipment of Indalum S.A. or its subsidiaries except for those over assets it acquires in the future and which are granted for financing their acquisition.
- May not grant 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 Vitacura Avenue 2726, Office 301, Vitacura, and Santa Marta Street 1313, Maipú, the sales proceeds should be used to prepay the rescheduled obligations on a pro rata basis. For this calculation, the principal amount of outstanding financial loans due to Madeco S.A. shall be added to the rescheduled obligations. In August 2006, the property at Santa Maria 1313, Maipú was disposed of, for which the banks gave a waiver.
- Indalum may repay the financial loan currently owed to its Parent Company Madeco S.A. only if it is current in the payment of all of the loans due to the banks and has fully complied with all the covenants and negative covenants assumed under the agreement, or that the proceeds come from the sale of the properties mentioned above.
- Madeco S.A. must directly and indirectly control Indalum S.A. during the term of the agreement or have a shareholding of at least 50.1% in the company.

As of December 31, 2006, Indalum S.A. has fully complied with these restrictions.

g) Other contingencies

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

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 for in 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 300,877 as of December 31, 2006).

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

a) That 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) That the respective authority, whether it be the Superintendency of Banks and Financial Institutions and/or the Superintendency of Securities and Insurance authorize 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) That the respective authority, whether it be the Superintendency of Banks and Financial Institutions and/or the Superintendency of Securities and Insurance authorize 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) That the Company complies with the law and that the shares are sold free of any type of prohibition, encumbrances 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 financial statements.

As of December 31, 2006, the subsidiary Madeco S.A. has received notification of tax differences for the tax years 2001, 2002 and 2003 relating to the first category income tax, tax refunds and additional tax for a total of ThCh3,331,253 (value of the tax). Madeco's management has, through its legal advisers, begun proceedings to counter the claims made by the Chilean tax authorities.

In addition, for the 2004 tax year, Madeco S.A. is requesting a refund of ThCh$1,647,482, which corresponds to taxes withheld by the Chilean Internal Revenue Service of ThCh$3,038,789, an amount originally requested by Madeco S.A. as part of a tax loss absorption.

As of December 31, 2006, Alusa S.A. has received tax liquidations with respect to the tax years 2001, 2002 and 2003 corresponding to first category tax differences and income tax refunds for a total of ThCh$281,263 (value of the tax).

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

As of December 31, 2006, the subsidiary Inversiones Río Grande S.A. has received tax notification, No.62, (historic value of tax ThCh$484,329 corresponding to the 1999 tax year) from the Chilean Internal Revenue Service. The company has filed a complaint with the tax tribunal, objecting to the notification of taxes due, claiming that they are inappropriate.

On August 26, 2005, the subsidiary VTR S.A. received demand No 156 from the Internal Revenue Service for special taxes for the tax year 2003, amounting to ThCh$484,269 (historic tax amount). The company appealed against this demand on November 4, 2005. On February 16, 2006, Resolution 32/2006 was issued stating that there was case for revising the inspector's actions so the claim itself is still pending.

On September 1, 2004, the Chilean Internal Revenue Service 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 Resolution 78 of April 29, 2005 and 88 of April 28, 2006, the internal revenue service 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 the aggregation with the above proceedings.

As of December 31, 2006, following a sentence in the first instance, Ingewall S.A., a subsidiary of Madeco S.A., has a tax claim and is appealing with respect to certain VAT refunds for the periods July to December 1999 and February and August 2001, for an amount of ThCh$261,288.

As of December 31, 2006, Ingewall S.A., a subsidiary of Madeco S.A., has received an Internal Revenue Service resolution for the tax years 2001 and 2002 regarding a modification of tax loss carry forwards. Ingewall's management has, through its legal advisers, begun proceedings to counter the claims made by the Chilean tax authorities.

As of December 31, 2006, Indalum S.A., a subsidiary of Madeco S.A., has received notification from the Internal Revenue Service for the tax years 1999 to 2003 relating to differences in income tax and tax refunds of ThCh$ 327,810 (value of tax). 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.

On July 19, 2006, Ficap S.A., a subsidiary of Madeco S.A., received notification from the Rio Janeiro State Treasury Authority for the tax years 2001, 2002, 2003, 2004 and 2005, corresponding to income tax differences totaling ThR$18,550 (ThUS$8,571 approx.) which, according to the company's legal advisers, do not present risks of significant losses.

Metacab S.A., a subsidiary of Decker Indelqui 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.

As of December 31, 2006, Indeco S.A., a subsidiary of Madeco S.A., has various judicial proceedings (labor, tax, municipal and civil) related to its business of approximately ThCh$41,526 (ThCh$84,650 as of December 31, 2005). Indeco S.A. is also appealing to the Superintendencia Nacional de Administración Tributaria- SUNAT (tax authority) for an alleged wrong calculation of the balance in favor of the general tax refund benefit related to exports made in August 2004. The amount objected to and collected by SUNAT amounted to approximately ThCh$147,472 which is included in Accounts receivable and others, (net) in the balance sheet as of December 31, 2006. In the opinion of the company's management and its legal advisers, there are arguments of fact and law to permit concluding that the final outcome of these proceedings will not imply significant expenses for the company. Therefore no provision has been made as of December 31, 2006 and 2005.

i) Indirect guarantees:

	Debtor			Assets committed		Balance outstanding as of December 31,		Release of collateral					
Creditor	Name	Relationship	Type of guarantee	Type	Book value	2006 ThCh$	2005 ThCh$	2007 ThCh$	Assets	2008 ThCh$	Assets	2009 ThCh$	Assets
Banco del Estado de Chile	Empresa El Peñón S.A.	Subsidiary	Guarantee	General	–	18,683,659	18,665,432	–	–	–	–	–	–
Banco del Estado de Chile	VTR S.A.	Subsidiary	Guarantee	General	–	4,755,841	4,751,201	–	–	–	–	–	–
Banco del Estado de Chile	Inv. Punta Brava S.A.	Subsidiary	Guarantee	General	–	16,849,264	16,832,826	–	–	–	–	–	–
Banco del Estado de Chile	Inv. Ranquil S.A.	Subsidiary	Guarantee	General	–	17,172,225	17,155,471	–	–	–	–	–	–
Banco del Estado de Chile	Inm. e Inv. Hidroindustriales S.A.	Subsidiary	Guarantee	General	–	16,489,870	16,473,783	–	–	–	–	–	–
Banco del Estado de Chile	Inv. y Bosques S.A.	Subsidiary	Guarantee	General	–	16,395,412	16,379,417	–	–	–	–	–	–
Banco del Estado de Chile	Empresa El Peñón S.A.	Subsidiary	Pledge	Shares	27,800,656	18,683,659	18,665,432	–	–	5,560,131	–	5,560,131	–
Banco del Estado de Chile	VTR S.A.	Subsidiary	Pledge	Shares	18,954,987	4,755,841	4,751,201	–	–	3,790,997	–	3,790,997	–
Banco del Estado de Chile	Inv. Punta Brava S.A.	Subsidiary	Pledge	Shares	25,281,244	16,849,264	16,832,826	–	–	5,056,249	–	5,056,249	–
Banco del Estado de Chile	Inv. Ranquil S.A.	Subsidiary	Pledge	Shares	25,520,473	17,172,225	17,155,471	–	–	5,104,095	–	5,104,095	–
Banco del Estado de Chile	Inm. e Inv. Hidroindustriales S.A.	Subsidiary	Pledge	Shares	24,695,485	16,489,870	16,473,783	–	–	4,939,097	–	4,939,097	–
Banco del Estado de Chile	Inv. y Bosques S.A.	Subsidiary	Pledge	Shares	24,568,904	16,395,412	16,379,417	–	–	4,913,781	–	4,913,781	–
Aguas Andinas S.A.	Madeco S.A.	Subsidiary	Compliance or sale	–	–	–	19,525	–	–	–	–	–	–
Casa Moneda de Chile	Madeco S.A.	Subsidiary	Compliance or sale	–	–	3,739	3,982	3,739	–	–	–	–	–
Cía. Americana de Multiservicios	Madeco S.A.	Subsidiary	Compliance or sale	–	–	208,538	723,545	208,538	–	–	–	–	–
Cía. Americana de Multiservicios	Madeco S.A.	Subsidiary	Compliance or sale	–	–	7,721	23,129	7,721	–	–	–	–	–
Cía. de Telecom. de Chile S.A.	Madeco S.A.	Subsidiary	Compliance or sale	–	–	–	276,639	–	–	–	–	–	–
Cía. Minera Ríochilex S.A.	Madeco S.A.	Subsidiary	Compliance or sale	–	–	11,246	11,053	11,246	–	–	–	–	–
CMPC Celulosa S.A.	Madeco S.A.	Subsidiary	Compliance or sale	–	–	–	51,435	–	–	–	–	–	–
Corporación Nacional del Cobre	Madeco S.A.	Subsidiary	Compliance or sale	–	–	500	7,969	500	–	–	–	–	–
Corporación Nacional del Cobre	Madeco S.A.	Subsidiary	Compliance or sale	–	–	234,060	222,198	234,060	–	–	–	–	–
FAM América Latina	Madeco S.A.	Subsidiary	Compliance or sale	–	–	67,292	65,001	67,292	–	–	–	–	–
HQI Translec Chile	Madeco S.A.	Subsidiary	Compliance or sale	–	–	–	2,612	–	–	–	–	–	–
Metso Paper	Madeco S.A.	Subsidiary	Compliance or sale	–	–	28,587	–	28,587	–	–	–	–	–
Minera Escondida	Madeco S.A.	Subsidiary	Compliance or sale	–	–	–	4,929	–	–	–	–	–	–
Minera Spencer S.A.	Madeco S.A.	Subsidiary	Compliance or sale	–	–	3,262	3,206	3,262	–	–	–	–	–
Minera Los Pelambres	Madeco S.A.	Subsidiary	Compliance or sale	–	–	67,301	–	–	–	67,301	–	–	–
Minera San Cristóbal	Madeco S.A.	Subsidiary	Compliance or sale	–	–	170,238	–	–	–	170,238	–	–	–
Mitsubishi Corp. Sucursal Chile Const. y Proyectos	Madeco S.A.	Subsidiary	Compliance or sale	–	–	68,838	–	68,838	–	–	–	–	–
Outokumpu	Madeco S.A.	Subsidiary	Compliance or sale	–	–	–	8,773	–	–	–	–	–	–
S.Q.M. Industrial S.A.	Madeco S.A.	Subsidiary	Compliance or sale	–	–	3,530	–	3,530	–	–	–	–	–
SQM Salar S.A.	Madeco S.A.	Subsidiary	Compliance or sale	–	–	2,693	–	1,396	–	1,297	–	–	–
Techint Chile S.A.	Madeco S.A.	Subsidiary	Compliance or sale	–	–	23,299	–	23,299	–	–	–	–	–
Banco Central de Costa Rica	Armat S.A.	Subsidiary Indirect	Compliance or sale	–	–	–	21,192	–	–	–	–	–	–
Banco Central de Chile	Armat S.A.	Subsidiary Indirect	Compliance or sale	–	–	212,956	–	212,956	–	–	–	–	–
Banco Central Guatemala	Armat S.A.	Subsidiary Indirect	Compliance or sale	–	–	319,434	–	319,434	–	–	–	–	–
Casa de Moneda de Chile	Armat S.A.	Subsidiary Indirect	Compliance or sale	–	–	675,477	1,989	675,477	–	–	–	–	–
Casa de Moneda República Argentina	Armat S.A.	Subsidiary Indirect	Compliance or sale	–	–	–	446,997	–	–	–	–	–	–
Codelco	Armat S.A.	Subsidiary Indirect	Compliance or sale	–	–	997	2,157	–	–	997	–	–	–

Creditor	Debtor Name	Relationship	Type of guarantee	Assets committed Type	Book value	Balance outstanding as of December 31, 2006 ThCh$	2005 ThCh$	Release of collateral 2007 ThCh$	Assets	2008 ThCh$	Assets	2009 ThCh$	Assets
Alunorte Alumina Do Brasil	Ficap S.A.	Subsidiary Indirect	Guarantee	–	–	292,864	–	292,864	–	–	–	–	–
ANDE	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	32,949	–	32,949	–	–	–	–	–
Alstom Brasil Ltda.	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	71,484	–	–	–	71,484	–	–	–
ATE II Trans. de Energía S/A	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	61,711	–	–	–	61,711	–	–	–
Aurea Seg/Bco Santos / Inter-Atlántico / Itau	Ficap S.A.	Subsidiary Indirect	Guarantee	–	–	–	1,067,714	–	–	–	–	–	–
Conséorcio Pra 1	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	6,905	–	–	–	6,905	–	–	–
Consórcio Lummus	Ficap S.A.	Subsidiary Indirect	Guarantee	–	–	106,287	–	106,287	–	–	–	–	–
CPFL Comercializacao Brasil	Ficap S.A.	Subsidiary Indirect	Guarantee	–	–	66,029	–	66,029	–	–	–	–	–
Elecnor S/A	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	185,081	–	185,081	–	–	–	–	–
Elecnor S/A	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	185,081	–	185,081	–	–	–	–	–
Elecnor S/A	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	100,606	–	100,606	–	–	–	–	–
Eletronorte	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	21,166	–	21,166	–	–	–	–	–
Enerbrasil Energ. Ren. Do Brasil	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	39,845	–	39,845	–	–	–	–	–
Enerbrasil Energ. Ren. Do Brasil	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	50,799	–	50,799	–	–	–	–	–
Energ. Power Ltda.	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	14,754	–	–	–	14,754	–	–	–
Energ. Power Ltda.	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	1,803	–	–	–	1,803	–	–	–
Ficap S.A. (Matriz)	Ficap S.A.	Subsidiary Indirect	Guarantee	–	–	498,026	–	498,026	–	–	–	–	–
Kvaerner Do Brasil Ltda.	Ficap S.A.	Subsidiary Indirect	Guarantee	–	–	203,000	–	203,000	–	–	–	–	–
Michelin Partic. Ind. Comercio	Ficap S.A.	Subsidiary Indirect	Guarantee	–	–	482,274	–	482,274	–	–	–	–	–
Michelin Partic. Ind. Comercio	Ficap S.A.	Subsidiary Indirect	Guarantee	–	–	53,586	–	53,586	–	–	–	–	–
Obras y Desarrollo S/A	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	12,634	–	12,634	–	–	–	–	–
Obras y Desarrollo S/A	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	13,592	–	–	–	13,592	–	–	–
Porto Primavera Transm. Energía	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	11,529	–	–	–	11,529	–	–	–
Promon. Eng. Ltda.	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	14,322	–	–	–	14,322	–	–	–
Safra	Ficap S.A.	Subsidiary Indirect	Court guarantee	–	–	1,044,507	563,452	–	–	–	–	1,044,507	–
Serra Da Mesa Transm. Energía	Ficap S.A.	Subsidiary Indirect	Guarantee	–	–	249,159	–	249,159	–	249,159	–	–	–
Serra Da Mesa Transm. Energía	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	498,317	–	498,317	–	498,317	–	–	–
Sudameris / Santander	Ficap S.A.	Subsidiary Indirect	Performance bond	–	–	–	58,135	–	–	–	–	–	–
Vila Do Conde Transm. Energ.	Ficap S.A.	Subsidiary Indirect	Compliance or sale	–	–	5,237	–	5,237	–	5,237	–	–	–
Dirección de Vialidad	Indalum S.A.	Subsidiary Indirect	Performance bond	–	–	803	–	–	–	–	–	–	–
CAM Perú S.R.L.	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	107,850	–	107,850	–	–	–	–	–
Edelnor S.A.A.	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	621,828	–	621,828	–	–	–	–	–
Electro Oriente S.A.	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	2,050	–	2,050	–	–	–	–	–
Electro Puno S.A.	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	2,097	–	2,097	–	–	–	–	–
Electro Sur Este S.A.A.	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	3,964	,	3,964	–	–	–	–	–
Electrocentro S.A.	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	5,691	–	5,691	–	–	–	–	–
Electronoroeste S.A.	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	8,684	–	8,684	–	–	–	–	–
Electronorte S.A.	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	7,917	–	7,917	–	–	–	–	–
Gas Natural de Lima y Callao	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	2,981	–	2,981	–	–	–	–	–
Hidrandina S.A.	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	14,510	–	14,510	–	–	–	–	–
Lima Airport Partners S.R.L.	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	16,125	–	16,125	–	–	–	–	–
Luz del Sur S.A.A.	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	1,840	–	1,840	–	–	–	–	–
Red de Energía del Perú S.A.	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	4,609	–	4,609	–	–	–	–	–
Sociedad Eléctrica del Sur Oeste S.A.	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	586	–	586	–	–	–	–	–
Sunat	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	1,793,698	–	1,793,698	–	–	–	–	–
Turbogeneradores del Perú SAC	Indeco S.A.	Subsidiary Indirect	Guarantee	–	–	27,618	–	27,618	–	–	–	–	–

NOTE 24 – GUARANTEES OBTAINED FROM THIRD PARTIES

The Company has received a pledge over 7,279,400 shares of Calaf S.A. to cover the obligation of the subsidiary Industria Nacional de Alimentos S.A. with the Parent Company Quiñenco S.A.

The Company had received pledges over shares in Quiñenco S.A. and its subsidiaries Banco de Chile, Madeco S.A., CNT, Telefónica del Sur S.A. and the affiliate Compañía Cervecerías Unidas S.A., granted by its executives, which guaranteed the balance of credits under the long-term incentive plan for executives established in March 2000. These pledges were partially released in the years 2003, 2004 and 2005, and the repayment was completed in 2006, in accordance with the plan.

NOTE 25 - SANCTIONS

During 2006 and 2005, neither the Parent Company nor its directors or managers received any sanctions from the SVS or any other regulatory authority.

NOTE 26 – SUBSEQUENT EVENTS

On January 11, 2007, the Parent Company, Quiñenco S.A., reported to the SVS the following information:

Regarding the conversations being held between Quiñenco S.A. and Citigroup aimed at reaching a strategic alliance of the financial businesses of both parties, and as we reported to the SVS as significant information as of December 22, 2006, we can inform you that, not having reached an agreement that might result in the formalization of such association, we have terminated the conversations which were held to seek common commercial and business interests, as no progress was made.

The above information is reported under the authority of the Board of Quiñenco S.A. which believed it should be reported as significant information.

There have been no other events of a financial or other nature occurring between December 31, 2006 and the date of the issuance of these consolidated financial statements which 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 Banking Subsidiaries Summarized Consolidated Balance Sheets	As of December 31, 2006 ThCh$	 2005 ThCh$
Cash	1,219,078,130	673,165,699
Loans		
Commercial loans	3,970,908,787	3,584,630,683
Foreign trade loans	677,295,958	562,336,008
Consumer loans	1,072,323,920	882,291,136
Mortgage loans	581,218,224	684,423,956
Leasing contracts	539,176,017	464,355,913
Contingent loans	987,313,939	738,769,679
Other current loans	1,762,224,439	1,363,056,318
Overdue loans	61,685,119	72,847,054
Total loans	9,652,146,403	8,352,710,747
Less : Allowances for loan losses	(144,978,611)	(144,272,230)
Total loans, net	9,507,167,792	8,208,438,517
Other credit operations		
Inter-bank loans	43,019,363	25,537,264
Investments purchased under resale agreements	54,390,634	61,506,647
Total other credit operations	97,409,997	87,043,911
Investments for trading	1,197,372,098	1,367,455,370
Investment securities		
Available for sale	40,066,186	25,162,481
Held to maturity	40,550,622	15,738,506
Total investment instruments	80,616,808	40,900,987
Financial derivative contracts	50,500,863	-
Other assets	479,714,276	408,919,413
Premises and equipment		
Premises and equipment	151,676,891	145,441,038
Investments in other companies	7,692,700	7,310,635
Negative goodwill	(6,462,929)	(6,810,954)
Goodwill	271,524,863	284,265,205
Total premises and equipment	424,431,525	430,205,924
Total assets	13,056,291,489	11,216,129,821

LQIF and Banking Subsidiaries Summarized Consolidated Balance Sheets	As of December 31, 2006 ThCh$	 2005 ThCh$
Liabilities and shareholders' equity		
Deposits and other obligations		
Checking accounts	1,738,945,996	1,548,012,343
Savings and time deposits	5,924,521,570	4,870,433,281
Bankers' drafts and other deposits	514,397,388	427,009,299
Investments sold under repurchase agreements	306,855,269	276,435,332
Mortgage finance bonds	477,637,009	568,190,912
Contingent liabilities	988,359,011	739,108,939
Total deposits and other obligations	9,950,716,243	8,429,190,106
Bonds payable		
Bonds	685,775,022	463,139,636
Subordinated bonds	405,942,383	311,695,453
Total bonds payable	1,091,717,405	774,835,089
Borrowings from financial institutions		
Central Bank of Chile credit lines for loan rescheduling	824,472	1,436,255
Other Central Bank of Chile borrowings	121,600,303	125,344,537
Foreign borrowings	591,573,000	675,384,124
Other borrowings	26,431,970	34,451,794
Total borrowings from financial institutions	740,429,745	836,616,710
Financial derivative contracts	69,954,762	61,277,008
Other liabilities		
Provision for payment of subordinated obligation with Central Bank of Chile	82,472,463	79,037,144
Other liabilities	228,373,519	194,970,376
Total other liabilities	310,845,982	274,007,520
Total liabilities	12,163,664,137	10,375,926,433
Minority interest	363,282,824	343,878,120
Shareholders' equity		
Capital and reserves	477,481,131	469,385,685
Other equity accounts	18,917,481	(99,606)
Net income	32,945,916	27,039,189
Total shareholders' equity	529,344,528	496,325,268
Total liabilities and shareholders' equity	13,056,291,489	11,216,129,821

LQIF and Banking Subsidiaries Summarized Consolidated Statements of Income	For the years ended December 31, 2006 ThCh$	 2005 ThCh$
Interest revenue and expenses		
Interest and indexation revenue	778,472,394	694,543,625
Gain from price difference	40,740,513	-
Gains from trading and brokerage activities	-	14,511,237
Income from fees and other services	183,592,660	176,980,989
Foreign exchange income, net	-	7,723,041
Other operating income	8,853,893	14,565,971
Total operating income	1,011,659,460	908,324,863
Less :		
Interest and indexation expense	(379,093,507)	(324,066,605)
Loss from price difference	(8,160,104)	-
Losses from trading and brokerage activities	-	(11,153,670)
Expenses in fees	(41,348,806)	(33,426,931)
Foreign exchange loss, net	(10,802,377)	-
Other operating expenses	(17,556,916)	(17,436,599)
Gross margin	554,697,750	522,241,058
Personnel salaries and expenses	(158,076,442)	(153,891,673)
Administrative and other expenses	(122,831,085)	(111,230,636)
Depreciation and amortization	(21,126,686)	(18,587,430)
Net margin	252,663,537	238,531,319
Allowances for loan losses	(34,252,603)	(24,160,636)
Net operating income	218,410,934	214,370,683
Non-operating income and expenses		
Non-operating income	16,716,766	10,045,566
Non-operating expenses	(14,574,118)	(12,538,436)
Equity participation in income of related companies, net	1,031,091	695,559
Amortization of negative goodwill	347,937	28,471
Amortization of goodwill	(19,809,667)	(21,388,292)
Price-level restatement, net	(8,581,261)	(12,515,042)
Income before income taxes	193,541,682	178,698,509
Provision for income taxes	(22,745,165)	(20,925,126)
Income after income taxes	170,796,517	157,773,383
Minority interest	(55,378,138)	(51,697,050)
Provision for payment of subordinated debt obligation with the Central Bank of Chile	(82,472,463)	(79,037,144)
Net income	32,945,916	27,039,189

LQIF and banking subsidiaries Summarized Consolidated Statements of Cash Flows	For the years ended December 31, 2006 ThCh$	2005 ThCh$
Cash flows from operating activities		
Net income	32,945,916	27,039,189
Charges (credits) to income which do not represent cash flows:		
Depreciation and amortization	21,126,686	18,587,430
Allowances for loan losses	62,352,817	57,839,323
Reasonable value of trading instruments	(4,123,227)	-
Net change in market value of investments	-	3,319,197
Gain on investments in other companies	(1,031,091)	(695,559)
Net gain on sale of assets received in lieu of payment	(3,739,528)	(5,178,330)
Gain on sale or premises and equipment	(53,954)	(100,478)
Minority interest	55,378,138	51,697,050
Write-off of assets received in lieu of payment	11,822,968	-
Write-offs and allowances related to premises and equipment	-	10,467,730
Price-level restatement, net	8,581,261	12,515,042
Other charges to results that do not represent cash flows	34,632,736	17,313,548
Changes in assets affecting cash flows	2,804,497	986,729
Changes in liabilities affecting cash flows	(311,529)	2,437,280
Net variation in accrued interest, indexation adjustments and fees	25,241,035	(63,042,308)
Provision for subordinated debt obligation	82,472,463	79,037,144
Net cash flows provided by operating activities	328,099,188	212,222,987
Cash flows from investing activities		
Increase in loans, net	(1,039,032,387)	(933,596,178)
Increase in other credit operations, net	(24,595,374)	(30,845,527)
Decrease in investments, net	94,134,463	7,400,688
Additions to premises and equipment	(22,140,429)	(18,655,252)
Sales of premises and equipment	116,288	297,639
Investments in other companies	6,723	(1,700,169)
Dividends received from investments in other companies	628,583	571,746
Sale of investments in other companies	-	20,249
Sale of assets received in lieu of payment	9,206,382	15,175,268
Net changes in other assets and liabilities	(344,708,726)	(22,716,034)
Net cash flows used in investing activities	(1,326,384,477)	(984,047,570)
Cash flows from financing activities		
Increase in deposits and borrowings	1,147,058,399	887,463,843
Increase in bond obligations, net	-	158,308,071
Increase in checking accounts	222,761,094	93,575,808
Decrease in other sight or term obligations	101,241,001	(223,050,065)
Decrease in investments sold under repurchase agreements	36,158,484	(80,045,379)
Short-term borrowings from abroad	258,214,264	(332,415,747)
Dividends paid	(42,485,749)	(43,550,565)
Redemption of mortgage-funding notes	(118,445,764)	(731,684,255)
Issuance of mortgage-funding notes	50,704,165	521,719,832
Increase (decrease) in other short-term liabilities	(11,290,699)	(46,352,639)
Loans drawn from Central Bank of Chile (long-term)	448,276	566,117
Repayment of loans from Central Bank of Chile (long-term)	(1,018,323)	(1,124,054)
Loans received from abroad - long-term	508,138,862	721,459,363
Repayment of loans from abroad - long-term	(834,415,907)	(323,516,616)
Sale of repurchased shares	-	58,847,252
Other long-term loans drawn	1,507,928	1,509,094
Repayment of other long-term loans	(5,502,967)	(41,825,499)
Payment of the subordinated obligation	(77,411,483)	(68,458,909)
Bond issue	329,499,981	-
Bond repayments	(11,948,819)	-
Net cash flows provided by financing activities	1,553,212,743	551,425,652
Net cash flows	554,927,454	(220,398,931)
Effect of inflation on cash and cash equivalents	(20,042,607)	(39,626,932)
Net increase (decrease) in cash and cash equivalents	534,884,847	(260,025,863)
Cash and cash equivalents, beginning of year	686,996,329	947,022,193
Cash and cash equivalents, end of year	1,221,881,176	686,996,330

NOTE 27.1 – SIGNIFICANT ACCOUNTING PRINCIPLES

a) Basis of preparation

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. 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 International Financial Reporting Standards ("IFRS"). For the convenience of the reader, the consolidated financial statements and their accompanying notes have been translated from Spanish to English.

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 2.1%.

b) Basis of consolidation

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

	Direct and indirect shareholding	
	2006	2005
	%	%
SM Chile S.A. and subsidiaries	52.83	52.83
Inversiones LQ SM S.A.	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., Banco de Chile New York Branch, Banco de Chile Miami Branch, Banchile Administradora General de Fondos S.A., Banchile Securitizadora S.A., Promarket S.A. and Socofin S.A.

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

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

c) Interest and adjustments

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

d) Price-level restatement

Shareholders' equity, fixed assets 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$18,581,261 (ThCh$12,515,042 in 2005). The income statement accounts are restated except in the subsidiaries regulated by the SBIF.

e) Basis of conversion

Assets and liabilities denominated in Unidades de Fomento (UF) have been valued at Ch$18,336.38 (Ch$17,974.81 per UF in 2005).

f) Foreign currency translation

Assets and liabilities denominated in United States dollars of subsidiaries regulated by the SBIF are shown at their equivalent value in Chilean pesos, calculated using the current exchange rate of Ch$534.43 per US$1.00 as of December 31, 2006 (Ch$514.21 per US$1.00 as of December 31, 2005), which does not differ significantly from the exchange rate applied by subsidiaries supervised by the SVS.

The balance of ThCh$10,802,377 (gain of ThCh$7,723,041 in 2005) corresponding to the net gain 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.

g) 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 at the end of the year. Gains or losses from adjustments in their valuation at fair value, and the results of trading activities, are shown in Gains (losses) from price differences 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.

Until December 31, 2005, financial instruments were classified as permanent and non-permanent investments. Investments in financial instruments with a secondary market which had a non-permanent nature were shown adjusted to their market value, as instructed by the SBIF. These instructions required the adjustments to be recorded in income for the year.

h) 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 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 Gain for price difference or Loss for price difference, as appropriate.

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 investment to maturity and investment 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.

Until December 31, 2005, financial instruments were classified as permanent and non-permanent investments. Investments in financial instruments which had a permanent nature were shown adjusted to their market value, as instructed by the SBIF. These instructions required the adjustments to be made to the equity account Fluctuation in values of financial investments.

i) Transactions under repurchase agreements

The bank and its subsidiaries carry out repurchase transactions as a form of financing. The investments sold subject to a repurchase agreement and which serve as collateral for the loan are shown as “Traded documents”. The obligation repurchase the investment is shown as “Investments sold under repurchase agreements”, valued according to the agreed interest rate.

The Parent Company 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.

j) Assets received in lieu of payment

Assets received in lieu of payment are shown at their restated cost 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.

k) Leasing contracts

Receivables under leasing contracts, included in loans, 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.

l) Factoring transactions

The bank 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 Other current loans includes ThCh$410,854,593 as of December 31, 2006 (ThCh$316,998,794 in 2005) relating to the amount advanced to the assignor plus accrued interest, net of payments received.

m) Premises and equipments

Premises and equipment are shown at restated cost (except for New York and Miami branches) and net of depreciation calculated using the straight-line method over the useful lives of the respective assets. Properties held for sale amounted to ThCh$295,450 as of December 31, 2006 (ThCh$360,675 in 2005). In order to reflect the realizable value of these assets, an allowance has been made against income of ThCh$219,120 as of December 31, 2006 (ThCh$281,202 in 2005).

n) Investments in other companies

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

o) 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 bank and financial subsidiaries, are initially shown in the balance sheet at cost (included 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 Gain from price difference or Loss from price difference as appropriate 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 the 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 the results for the year.

If the item covered in a hedge of fair value 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 the 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 the 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 the 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.

Until December 31, 2005, forward contracts were valued at the exchange rate as of the end of each month and, in accordance with rules issued by the SBIF, the initial differences arising from this type of operation, were shown as deferred assets or liabilities and amortized over the term of the contract. Other derivative instruments were shown adjusted to their market value.

o) Allowance for doubtful assets

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

p) Current and deferred income taxes

The Parent Company and its direct and indirect subsidiaries have determined their liability for first category tax in accordance with current legislation. 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 Internal Revenue Service.

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.

q) Staff vacations

The annual cost of staff vacation and benefits is presented on an accrual basis.

r) Severance indemnities

The 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, 2006, a provision has been made for this obligation on the basis of its present value discounted at a real annual rate of 6% (6% in 2005).

s) Cash and cash equivalents

LQIF S.A. defines cash and cash equivalents as all its short-term investments made as part of its cash management strategy and whose maturities do not exceed 90 days from the date of investment, including repurchase agreements and mutual funds. The banking subsidiaries, in accordance with the specific provisions applicable to financial institutions, define cash and cash equivalents as the cash shown in the Consolidated Balance Sheets. The Consolidated Statements of Cash Flows have been prepared using the indirect method.

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 19396 concerning modifications of the payment conditions of the Subordinated Obligation with the Central Bank of Chile. By this, the company changes its name to Sociedad Matriz del Banco de Chile S.A., or SM Chile S.A., and changing its bylaws to being just the holder of shares in Banco de Chile and carrying out the activities permitted under Law 19396. 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, and to form a privately-held corporation called Sociedad Administradora de la Obligación Subordinada SAOS S.A., to which was transferred the commitment with the Chilean Central Bank, and part of the shares in the new bank.

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 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. The company 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

The subsidiary Banco de Chile, in accordance with Circular 3345 of the SVS, started to apply new accounting criteria for the valuation, classification and booking of financial instruments for trading and investment, derivative instruments, accounting hedges and declines in the balance of financial assets, effective June 30, 2006.

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

The provision for payment of the eleventh 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, 2006 was ThCh$82,472,463 (ThCh$79,037,144 in 2005), equivalent to UF 4,497,750.52 (UF 4,306,665.96 in 2005), which corresponds to the amount that, according to the contract covering the obligation, must be paid to the Central Bank by April 30, 2007 as its annual installment provided that Banco de Chile distributes all its 2006 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 2006 net income at the shareholders meeting.

On January 27, 2006, the subsidiary Banco de Chile reported the following significant information:

"In accordance with clauses 9 and 10 of Law 18,045 and Chapter 18 - 10 of the Compendium of Regulations of the SBIF, you are informed that on January 25, 2007, the Board of Directors of Banco de Chile agreed to call the Ordinary Shareholders Meeting for March 22, 2007, in order to propose, among other matters, the distribution of dividend No. 195 for Ch$1.9796 per share, corresponding to 70% of the net income for year ended December 31, 2006. The Board also agreed to call an Extraordinary Shareholders Meeting for the same day to approve the capitalization of 30% of the bank's net income for the year 2006 through the issuance of shares with no par value and free of payment, determined at a value of Ch$38.34 per share and distributed to shareholders in a proportion of 0.02213 per share."

NOTE 26.5 – SUBSEQUENT EVENTS

There are no other facts of a financial or other nature occurring between December 31, 2006, and the date of issuance of these consolidated financial statements that might significantly affect their interpretation.

SIGNIFICANT INFORMATION REPORTED TO THE CHILEAN SVS

On March 3, 2006, the SVS was informed that:

"In accordance with clauses 9 and 10 of Law 18,045 and Circular 660 of the SVS, you are informed that on March 2, 2006, the Board agreed to propose to shareholders at the next Ordinary Shareholders Meeting the distribution of a final dividend of Ch$15,600,009,080, equivalent to 32.65% of 2005 net income, comprised of a) the minimum obligatory dividend of Ch$14,334,823,642 equivalent to 30% of 2005 net income, less the accumulated development period deficit and amortization of negative goodwill, and b) an additional dividend of Ch$1,265,185,438, equivalent to 2.65% of the net income for the year.

This final dividend amounts to Ch$14.44793 per share and would be payable starting May 10, 2006."

On April 28, 2006, the SVS was informed that:

"In accordance with clauses 9 and 10 of Law 18,045 and Circular 660 of the SVS, you are informed that shareholders at the Ordinary Shareholders Meeting held on April 27, 2006 approved the distribution of a final dividend of Ch$15,600,009,080, equivalent to 32.65% of 2005 net income, comprised of a) the minimum obligatory dividend of Ch$14,334,823,642 equivalent to 30% of 2005 net income, less the accumulated development period deficit and amortization of negative goodwill, and b) an additional dividend of Ch$1,265,185,438, equivalent to 2.65% of the net income for the year.

This final dividend amounts to Ch$14.44793 per share and will be payable starting May 10, 2006.

Shareholders registered in the shareholders' register five days prior to the payment date, (i.e. May 4, 2006), shall be entitled to this dividend".

On November 16, 2006, the SVS was informed that:

"In accordance with clauses 9 and 10.2 of the Securities Market Law 18,045 and General Rule No.30 and Circular 1737 of the SVS, you are informed that in accordance with the amended and restructured deposit contract dated August 19, 2003 between Quiñenco S.A., as issuer, and Bank of New York, as depositary bank, the Board of Quiñenco S.A. agreed on November 16, 2006 to terminate its ADR placement program in the United States of America, cancel the listing of the ADRs and ADSs with the New York Stock Exchange (NYSE) and eventually also deregister its ADRs and ADSs and common shares with the Securities and Exchange Commission (SEC) of the United States of America. It is believed that the termination of the ADR program will occur on or about January 6, 2007, immediately following which time the NYSE will suspend the trading of the ADSs.

The board's decision to terminate the ADR program and de-list from the NYSE is based on various factors, the most important being:

- Currently, less than 5% of the shares issued by Quiñenco S.A. are held by ADR holders.

- Quiñenco S.A. is seeking to optimize it operating expenses.

Although Quiñenco will terminate its ADR program and de-list all its shares from the NYSE, it will continue to have reporting obligations with the SEC. Quiñenco S.A. will therefore continue to comply with all its obligations to present information to the SEC under the United States Securities and Exchange Act of 1934 (Exchange Act) and the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), until which time the company deregisters its securities.

On December 1, 2006, Quiñenco S.A. will formally notify The Bank of New York that its ADR program will be terminated. Once The Bank of New York has received this formal notification, a date will be set for the termination of the deposit contract (termination date) which will not be before 30 days from the date of such notification and is estimated to occur on or about January 6, 2007. The Bank of New York will notify the holders of ADRs of the termination on December 7, 2006, or close to that date. Once the termination is effective, the ADR holders will have 90 days (holding period) to decide whether to exchange their ADRs for common shares of Quiñenco S.A.

ADR holders who exchange their certificates for common shares of Quiñenco S.A. within the holding period shall become direct shareholders of the issuer. The Bank of New York thereafter will be authorized to sell the shares of those holders who have not exchanged their ADRs within the holding period of 90 days and pay holders the proceeds from such sales.

In order to terminate the ADR program within the periods stated, Quiñenco S.A. and The Bank of New York have agreed to amend the deposit contract to reduce the required holding period from 1 year to 90 days. The deposit contract will be also be amended to allow, after the withholding period has expired, the sale of any remaining shares by The Bank of New York on a best efforts basis."

On December 22, 2006, the SVS was informed that:

"In view of speculation in the press and at the request of the SVS, and in accordance with clauses 9 and 10 of the Securities Market Law and General Rule No.30 of the SVS, you are informed that Quiñenco S.A., in pursuit of its policy of seeking new business opportunities, has been in discussions with Citigroup regarding the possibility of jointly using their respective capabilities in the financial business sector. This would be through an eventual strategic association that would include the banking and financial businesses that Quiñenco S.A. manages through various companies that it controls, including Banco de Chile.

As these discussions are at a preliminary stage, it is not possible to anticipate whether such a strategic association will eventually occur. To date, no document has been signed between the parties with respect to this matter nor has any agreement been reached that commits or obliges either party".

There have been no other events occurring between January 1 and December 31, 2006, which by their nature or importance are considered essential or material, as defined in General Rule No. 30 of the SVS.

Quiñenco reported net income of Ch$57,043 million in 2006, an increase of 9.4% compared to 2005. The variation in net results between the two years is mainly explained by an increase in operating results, the effect of which was partially offset by a reduction in non-operating income and other items. Worth noting is that in 2005 non-operating results included gains on the sale of shares of Almacenes Paris, Cencosud and others, which amounted to Ch$24,154 million.

Table No. 1: Composition of net income

	In millions of Ch$ as of December 31, 2006	
	2006	2005
Operating income	53,760	31,289
Non-operating income	26,727	35,475
Other (1)	(23,443)	(14,612)
Net non-operating results	3,283	20,863
Net income for the year	57,043	52,152

(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, 2006	
	2006	2005
Madeco	51,766	28,425
Telefónica del Sur	12,147	13,255
Quiñenco and others (1)	(10,153)	(10,391)
Total operating income	53,760	31,289

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

In 2006, Quiñenco reported operating income of Ch$53,760 million, up by 71.8% compared to 2005, primarily due to an increase in Madeco's operating income.

Madeco's operating income increased by 82.1% to Ch$51,766 million, attributable to higher gross income (+51.2%), the effect of which was partially offset by an increase in SG&A expenses (+15.4%). The main increases were associated with the cables and brass mills business units.

NET SALES

During 2006, consolidated sales amounted to Ch$616,102 million, an increase of 43.0% compared to 2005. This increase is explained by higher sales at Madeco. 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, 2006	
	2006	2005
Madeco	559,141	373,163
Telefónica del Sur	56,042	55,873
Quiñenco and others (1)	918	1,793
Total sales	616,102	430,829

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

Madeco's sales grew by 49.8% in 2006, mostly due to the higher sales associated with the cables business unit in Chile, Peru and Brazil as a consequence of higher sales volumes and higher average prices, mostly copper.

Telefónica del Sur's revenues varied by +0.3% compared to 2005, although the product mix highly favored non regulated services, especially Internet which grew by 12.0%.

COST OF SALES

Consolidated cost of goods sold increased by 45.1% compared to 2005. This variation is mainly explained by an increase of 49.6% in the cost of goods sold at Madeco, attributable to higher raw material costs, particularly copper and aluminum, as well as an increase in volumes sold during the year. 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, 2006	
	2006	2005
Madeco	(478,969)	(320,132)
Telefónica del Sur	(28,432)	(27,779)
Quiñenco and others (1)	(3,646)	(4,258)
Total cost of goods sold	(511,048)	(352,169)

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

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated SG&A expenses amounted to Ch$51,294 million, an increase of 8.3% compared to the previous year, mainly attributable to Madeco's operations which experienced a 15.4% increase, mainly as a result of increases in SG&A expenses of the cables business unit. The increase in SG&A expenses was partially offset by a 6.3% decrease in SG&A expenses at the holding level. The composition of consolidated cost of goods sold is presented in Table No. 5:

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

	In millions of Ch$ as of December 31, 2006	
	2006	2005
Madeco	(28.406)	(24.606)
Telefónica del Sur	(15.463)	(14.839)
Quiñenco and others (1)	(7.425)	(7.926)
Total selling, general and administrative expense	(51.294)	(47.371)

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

NON OPERATING RESULTS AND OTHER ITEMS

Quiñenco reported non-operating income and other items of Ch$3,283 million, compared to Ch$20,863 million in 2005. The variation between the two years is largely explained by a sharp rise in other non-operating income in 2005, which included a gain of Ch$24,154 million on the sale and exchange of shares of Almacenes Paris, Cencosud and others. In addition, charges to minority interest were higher in 2006 due to a greater third party participation in Madeco's net income. The reduction in other non-operating income was partially offset by an increase in equity investment income, lower interest expense (net) and price-level restatement losses, a lighter tax burden and a decrease in other non-operating expenses.

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, 2006	
	2006	2005
Interest Income	4,881	3,110
(Net) Income from equity method investments	78,404	73,314
Goodwill amortization	(22,465)	(23,363)
Other non-operating income	5,406	29,683
Other non-operating expenses	(9,704)	(12,325)
Interest expense	(28,607)	(29,452)
Price-level restatement	(1,330)	(4,436)
Foreign exchange differences	141	(1,056)
Non-operating income (loss)	26,727	35,475
Income Taxes	(4,195)	(6,925)
Extraordinary items	-	-
Minority Interest	(20,713)	(9,524)
Negative goodwill amortization	1,464	1,837
Total non-operating income (loss) and other items	3,283	20,863

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, 2006					
Sector/Company		Net Income		Quiñenco's Ownership		Quiñenco's Proportionate Share	
		2006	2005	2006	2005	2006	2005
Financial Services							
Banco de Chile	(1)	195.248	184.519	52,2%	52,2%	57.650	53.877
Food & Beverages							
CCU	(2)	55.833	49.189	33,1%	32,1%	18.456	15.776
Telecommunications							
Telsur	(3)	7.855	7.839	73,7%	73,7%	5.790	5.775
Manufacturing							
Madeco	(4)	30.204	12.267	46,2%	47,8%	14.046	6.217
Other Operating Companies	(5)					(5.634)	(7.328)
Total Operating Companies						90.308	74.317
Others (Corporate level)						(33.265)	(22.165)
Net Income (Loss) for the year						57.043	52.152

(1) Indirect ownership through LQ Inversiones Financieras S.A. The economic rights associated with the ownership of Banco de Chile are 29.5%.
(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) Other operating companies include the results of Habitaria S.A., Hoteles Carrera S.A., Industria Nacional de Alimentos S.A and others.

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 21.5% or Ch$15,991 million in comparison with 2005, mostly explained by the increase in the contribution from Banco de Chile, Madeco and CCU.

Banco de Chile experienced an increase of 5.8% in its net earnings, reaching Ch$195,248 million for the year. The increase in net income was primarily attributable to a higher level of operating revenues related with deposits as a result of the higher nominal interest rates, a significant expansion of the bank's loan portfolio, and an increase in other non-operating results, the effects of which more than offset an increase in operating expenses and provisions for loan losses (net).

CCU's net profit amounted to Ch$55,833 million, an increase of 13.5% compared to 2005. The variation in net earnings is explained by an increase in operating results in 2006, the effect of which was partially offset by higher non-operating losses and a heavier tax burden. Operating income rose by 17.4% in 2006, mainly due to an increase in the volume sold (+8.9%) and higher average prices, the effect of which was partially offset by an increase in product costs and SG&A expenses.

Telefónica del Sur reported net income of Ch$7,855 million, an increase of 0.2%, attributable to an improvement in its non-operating results, mainly lower interest expense (net) associated with a reduction in indebtedness, and better price-level restatement results. Telefónica del Sur's revenues reflected the growth of revenues from internet, tele-security data services, and most recently, PHS services, which more than offset the decline in revenue associated with long distance services, public phones, access charges and other traditional services. Revenues from fixed-line telephony remained flat in 2006, reverting industry trends, thanks to the introduction of PHS technology during the year.

Madeco reported net income of Ch$30,204 million, an increase of 146.2% compared to the previous year, mainly attributable to an improvement in operating performance. Operating profits rose by 82.1% as a result of higher cable sales in spite of the increase in raw material costs the company faced in 2006. The increase in profits was partially offset by higher non-operating losses and a heavier tax burden.

Quiñenco and Others

As shown in the line Quiñenco and Others in Table No. 7, losses at the corporate level amounted to Ch$33,265 million in 2006, compared to Ch$22,165 million in 2005. The variation between 2006 and 2005 is mainly explained by gains on the sales of investments, namely Almacenes Paris, Cencosud and others in 2005, the effect of which was partially offset by a lighter tax burden, lower interest expense and lower price-level restatement losses.

BALANCE SHEET

Assets

As of December 31, 2006, Quiñenco had consolidated assets of Ch$1,491,083 million, an increase of 7.1% compared to 2005.

Current assets were Ch$368,097 million, which represented an increase of 34.0%. The increase was primarily attributable to higher accounts receivable, a higher level of short-term investments and inventory at Madeco as a consequence of higher sales volumes and commodity price increases.

Fixed assets reached Ch$257,821 million, a decrease of 1.9%, mainly explained by Telefónica del Sur, partially offset by fixed asset purchases at Madeco.

Other long-term assets were Ch$865,165 million, an increase of 1.3% compared to last year, principally due to an increase in the equity investment of Banco de Chile related to the capitalization of a portion of its net profits, as well as higher earnings from the bank and CCU.

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, 2006	
	2006	2005
Madeco	416,782	351,569
Telefónica del Sur	130,514	131,307
Quiñenco and others (1)	943,787	908,916
Total consolidated assets	1,491,083	1,391,792

(1) Includes Quiñenco, Hoteles Carrera, Indalsa, 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, 2006	
	2006	2005
Current Liabilities	122,476	102,505
Long-term Liabilities	428,521	428,270
Total Liabilities	550,997	530,775
Minority Interest	170,159	141,976
Shareholders' Equity	769,927	719,041
Total liabilities and shareholders' equity	1,491,083	1,391,792

As of December 31, 2006, consolidated liabilities amounted to Ch$550,997 million, a 3.8% increase compared to year end 2005. The increase was attributable to higher indebtedness at Madeco, related to greater working capital needs.

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, 2006	
	2006	2005
Madeco	153,759	131,455
Telefónica del Sur	59,340	61,292
Quiñenco and others (1)	337,898	338,029
Total liabilities	550,997	530,775

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

Consolidated leverage decreased from 0.74:1 at the close of 2005 to 0.72:1 in 2006 mainly explained by the 7.1% increase in net worth. Current liabilities represented 22.2% of total liabilities, compared to 19.3% as of December 31, 2005.

Minority interest at the end of 2006 was Ch$170,159 million, 19.9% higher than the year before, principally related to a greater third party shareholder participation in Madeco.

Shareholders equity

At the close of 2006, shareholders' equity amounted to Ch$769,927 million, an increase of 7.1% compared to 2005. The increase in shareholders' equity mainly corresponded to the net earnings for the period, partially offset by dividend distributions.

The book value of Quiñenco's shares as of December 31, 2006 was Ch$713.07 per share and the earnings per share for the year amounted to Ch$52.83.

Financial Indicators

Financial Indicators		12.31.06	9.30.06	12.31.05
LIQUIDITY				
Current ratio		3.0	3.1	2.7
Acid test ratio		1.0	1.0	1.0
INDEBTEDNESS				
Debt/equity ratio		0.72	0.74	0.74
Short-term debt/Total debt		22.23%	21.43%	19.21%
Long-term debt/Total debt		77.77%	78.57%	80.79%
Interest coverage ratio	Times	3.14	3.23	3.01
BALANCE SHEET				
Total assets	MCh$	1,491,083	1,481,559	1,391,135
Inventory rotation	Times	6	4	5
Inventory turnover/days		62	88	78
INCOME STATEMENT				
Sales	MCh$	616,102	468,907	430,829
Cost of goods sold	MCh$	(511,048)	(383,713)	(352,169)
Operating income	MCh$	53,760	47,587	31,289
Interest expense	MCh$	(28,607)	(21,804)	(29,452)
Non-operating income (loss)	MCh$	26,727	18,103	35,475
Net income (loss) for the year	MCh$	57,043	43,004	52,152
PROFITABILITY				
ROE		7.7%	5.8%	7.5%
ROA		4.0%	3.0%	3.7%
Return on operating assets (*)		9.2%	7.9%	6.0%
Earnings (loss) per share	Ch$	52.83	39.83	48.30
Dividend yield		1.7%	2.1%	2.4%

(*) 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, 2006, 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, 2006	
	2006	2005
Net cash flow provided by operating activities	55,646	86,004
Net cash flow (used) provided by financing activities	(4,563)	(82,772)
Net cash flow provided (used) by investing activities	(108,531)	52,979
Total net cash flow for the year	(57,448)	56,211
Price-level restatement on cash and cash equivalents	575	(3,665)
Net increase (decrease) in cash and cash equivalents	(56,873)	52,546
Cash and cash equivalents at the beginning of the year	97,426	44,880
Cash and cash equivalents at the end of the year	40,553	97,426

As of December 31, 2006, Quiñenco generated negative consolidated net cash flow of Ch$57,448 million, due to the cash flow used in investing activities of Ch$108,531 million and to a lesser extent, in financing activities of Ch$4,563 million, partially offset by cash flow provided by operating activities of Ch$55,646 million.

The cash flow used in investing activities was mostly composed of investments of Quiñenco and intermediate holding companies in financial instruments of Ch$79,068 million and fixed asset incorporation of Ch$26,749 million at Madeco and Telefónica del Sur. Cash flow provided by operating activities is mostly made up of dividends received from Banco de Chile, and to a lesser extent, CCU and Entel, which amounted to Ch$49,294 million as well as collection of accounts receivable (net of payments to suppliers) of Ch$37,524 million, partially offset by interest payments of Ch$25,313 million.

EXCHANGE RATE RISK AND INTEREST RATE RISK

As of December 31, 2006 and 2005, 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, 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, 2006					
2006	US dollar	Euro	Argentine peso	Peruvian sole	Brazilian real	Other currencies
Assets	151,566	1,171	16,440	16,201	61,154	62
Liabilities	(58,776)	(181)	(7,254)	(4,202)	(26,302)	(992)
FX forwards	(2,555)	–	–	–	(26,914)	–
Net exposure in assets (liabilities)	90,235	989	9,186	11,999	7,937	(930)
2005	US dollar	Euro	Argentine peso	Peruvian sole	Brazilian real	Other currencies
Assets	126,078	1,256	7,637	13,773	46,337	275
Liabilities	(28,070)	(875)	(3,305)	(5,989)	(19,008)	(596)
FX forwards	2,407	–	–	–	(11,624)	–
Net exposure in assets (liabilities)	100,415	381	4,332	7,785	15,706	(321)

With respect to interest rate risk, 65.5% (62.0% in 2005) of Quiñenco's interest bearing debt has been contracted at fixed rates and amounts to Ch$315,239 million (Ch$295,089 million in 2005). The remaining 34.5% (38.0% in 2005) corresponds to variable rates, equivalent to Ch$166,024 million (Ch$180,949 million in 2005). The exposure in terms of interest rate risk was equivalent to 11.1% of consolidated assets at the end of 2006 (13.0% in 2005). Management has not utilized hedging mechanisms to cover this risk.

With regard to fluctuations in the prices of raw materials, Madeco's operations have been affected by copper price increases, one of its principal raw materials. The increase in copper prices has resulted in average costs that are significantly lower than average sales prices, which has substantially increased operating profits, a situation that can reverse itself if copper prices fall.

Francisco Pérez Mackenna

Chief Executive Officer