


MADECO

Management's Analysis
Consolidated Financial Statements
As of December 31, 2012 and 2011

Contents

1. Summarized Statement of Results

Ordinary revenue amounted to ThUS$423,146, a decline of 3.1% compared to 2011. This is explained by reduced revenue in the Tubes unit as a result of lower volumes sold during the year and a lower average copper price. This was partially compensated by the performance of the Windows & Facades(ex Profiles) and Packaging units, the latter due to the consolidation of Envases Flexa from June 2012.

Earnings (losses) from operating activities[1] amounted to ThUS$90,127, exceeding the earnings of ThUS$32,940 reported for 2011. This improvement is mainly explained by the booking of negative goodwill of ThUS$84,149, caused by the change of accounting criteria and purchases of shares made during 2012 in relation to the investment in Nexans, and the ThUS$ 3,752 investment made in Empaques Flexa. These effects were partially compensated by:

(i) Legal expenses in Brazil of ThUS$10,045 in connection with the signing of a settlement with Nexans which ends the discrepancies originating from the indemnities stipulated in the Cables unit sale contract.

(ii) A loss of ThUS$7.393 due to the effect of change in participation in the investment in the associate Nexans.

(iii) Restructuring costs of ThUS$1,237.

Earnings attributable to the controller were ThUS$53,013, compared to ThUS$19,157 in 2011.

In accordance with applicable French regulations and IFRS, Nexans does not publish financial statements for the March and September quarters. The Chilean Superintendency of Securities and Insurance (SVS) has therefore authorized Madeco to use the financial statements of the French company at December and June respectively as the latest available reliable financial information on that company through the equity valuation method for the account closings of March and September referred to.

For further information on the investment of Madeco in Nexans, see Note 14 to the financial statements.

In the light of interpretations of the new accounting standards (IFRS), the Company's investments in Peru (Peruplast S.A.) and Colombia (Flexa), through Alusa S.A., have been booked as joint ventures. As a result, and in accordance with IAS 31, the financial statements of Madeco and its subsidiaries only consolidate the proportion of these participations (50% in the case of Alusa S.A.). This implementation has been made retroactively within the new IFRS presentation, so the financial statements of Madeco have been reformulated in 2009 and

[1] Earnings (losses) from operating activities, according to the new taxonomy proposed by the SVS, represents the gross margin, other revenues by function, distribution costs, administration expenses, other expenses by function and other earnings (losses).

2008 to accommodate this change. It should also be explained that this change in the way of consolidating the investment that the Company has in Peru and Colombia does not affect the earnings of Madeco.

On January 2, 2013, Alusa S.A and Nexus Capital Partners III S.A., sole shareholders, with a 50% participation each, of the Peruvian companies Peruplast S.A., Inmobiliaria Eliseo S.A. and Efren Soluciones Logísticas S.A., as well as Inversiones Alusa S.A. and San Isidro Global Opportunities Corp., sole shareholders, with a 50% participation each, in the Colombian company Empaques Flexa S.A.S, have signed declarations complementing the previous shareholders' agreements relating to the definition and control of important activities, these becoming the responsibility of Alusa S.A.. As from the date of that declaration therefore, Alusa S.A. (directly or through Inversiones Alusa S.A.) will proceed from 2013 to consolidate 100% of the financial statements of the companies mentioned above due to its control of those companies in accordance with IFRS 10.

2. Consolidated results

Ordinary Revenue (previously Sales)

Revenue in 2012 amounted to ThUS$423,146, 3.1% less than those reported for 2011. This is explained by reduced revenue produced by the Tubes unit, which fell by 25.8% compared to 2011 as a result of a 17.1% reduction in the volumes sold due to reduced demand for tubes in the export market and a fall in average prices, mainly reflecting a lower average copper price.

This was partly compensated by a 14.2% increase in the revenue of the Windows & Facades(ex Profiles) unit over 2011, as a consequence of a 14.8% rise in physical volumes sold due to greater activity. The revenue of the Packaging unit showed growth of 7.3% due to the proportional consolidation of Envases Flexa from June.

Gross Margin

The gross margin for the year was ThUS$77,320, practically in line with the year 2011 as the reduced margin of the Tubes unit, as a result of reduced activity, was compensated by (i) a 20.0% increase in the margin of the Windows & Facades(ex Profiles) unit, reflecting a positive cycle in the construction business, and (ii) a 9.7% increase in the gross margin of the Packaging unit following the consolidation of Envases Flexa.

Earnings (Losses) from Operating Activities[2] and EBITDA[3]

Earnings from operating activities amounted to ThUS$90,127, superior to the earnings of ThUS$32,940 reported for 2011. This is explained by:

(i) The booking of ThUS$84,149[4] associated with negative goodwill arising from the application of the equity-value accounting method for the investment made in Nexans and ThUS$3,752 associated with the booking of negative goodwill arising with respect to the investment in Empaques Flexa made by the Packaging unit in June.

These effects were partially compensated by:

(ii) A loss of ThUS$7,393 due to the effect of change in the participation in the investment in the associate Nexans[5] as a result of the increase in the number of shares in Nexans associated with the conversion of bonds into shares and the employee compensation plan.

(iii) Higher fees, expenses and provisions with respect to lawsuits in Brazil for ThUS$10,045 compared to those booked in 2011 of ThUS$2,530, as a result of the signing of a settlement with Nexans which terminates the discrepancies resulting from the indemnities stipulated in the Cables unit sale contract.

(iv) A reduced gross margin due to the lower activity in the Tubes unit.

(v) Restructuring costs of ThUS$1,237.

The Company's EBITDA in 2012 was ThUS$36,440, showing a reduction of 8.6% from the EBITDA generated in 2011. This is mainly explained by the smaller EBITDA of the Tubes unit as a result of the lower volumes sold. This was partially offset by a 35.5% increase in the EBITDA of the Windows & Facades(ex Profiles) unit, as a result of the greater activity reflecting the good economic cycle in the construction industry.

Earnings (Loss) before Taxes[6]

Considering the financial effects of participation in the earnings (losses) of associates and joint ventures and adjustments for translation differences of currencies other than the Company's functional currency, earnings before tax in 2012 were ThUS$78,843, an increase

[2] Earnings (losses) from operating activities, according to the new taxonomy proposed by the SVS, represents the gross margin, other revenues by function, distribution costs, administration expenses, other expenses by function and other earnings (losses).
[3] The gross margin and administration and distribution expenses, less depreciation charges.
[4] Includes negative goodwill for change in accounting criteria concerning the investment and later purchases of shares
[5] Compensation system for employees considers the issue of 499,984 shares.
[6] The sum of financial income, financial costs, participation in earnings (losses) of associates and joint ventures, exchange differences and indexation adjustments.

over the ThUS$24,670 reported for 2011. This is mainly explained by the improved earnings from operating activities, explained above, partially compensated by:

(i) Higher financial costs due to the larger average debt related to the purchase of shares in Nexans and the financing of the acquisition of Envases Flexa.

(ii) Booking of the participation in the earnings (losses) of the associate Nexans using the participation method, showing at December 2012 a loss of ThUS$1,465. For further information, see Note 14 to the financial statements.

Charge (credit) for income tax

Income tax in 2012 resulted in a charge of ThUS$21,722, which compares negatively with a credit of ThUS$238 in 2011. This is the result of a charge of ThUS$11,868 related to the change of accounting criteria to equity value of the investment made in Nexans during 2012 and a corporate reorganization, which generated a deferred tax asset in 2011, leading to a positive impact on the result.

3. Results by Business Unit

Packaging

The revenue of the Packaging unit in 2012 was ThUS$242,369, 7.3% more than in 2011. This is the result of larger volumes sold in Peru and Argentina and the consolidation of 50% of the operation in Colombia (Flexa) from June.

The gross margin in 2012 was ThUS$49,554, 9.7% higher than the year before. This is explained by the consolidation of the operation in Colombia and the greater activity in Peru, partially offset by reduced activity in the operations in Chile.

EBITDA[1] was a positive ThUS$35,002, an increase over the ThUS$ 33,558 in 2011.

Tubes

Revenue totaled ThUS$111,445 in 2012, representing a fall of 25.8% with respect to 2011. This is explained by a 17.1% fall in the volumes sold, as a consequence of reduced demand in the export market and a reduction in average prices due to the lower average copper price.

The gross margin was ThUS$7,076 in 2012, below the ThUS$ 14,361 reported for the year before. This is the result of lower volumes sold due to a more competitive export market.

[1] The gross margin and administration and distribution expenses less charges for depreciation.

EBITDA in 2012 was a negative ThUS$56, compared to a positive ThUS$ 5,980 in 2011. This is the result of the reduced gross margin partially compensated by a 15.3% fall in administration and distribution expenses.

Windows & Facades(ex Profiles)

Revenue in 2012 grew by 14.2% to ThUS$68,962 as a result of a 14.8% increase in the volumes sold, reflecting the positive economic cycle in the construction business.

The gross margin in 2012 was ThUS$20,465, a 20.0% increase over that of 2011 due to the greater activity seen in the year

EBITDA in 2012 grew by 35.5% compared to 2011, to ThUS$7,790. The sales margin was 11.3%, compared to 9.5% in 2011. This is a result of the greater activity during the year and a reduced level of administration and distribution expenses as a proportion of sales.

Corporate

This business unit was created as a function of the interpretation of IFRS, deriving from the significance of managing the Company's investments, i.e. the cash and shares of Nexans received from the sale of the Cables unit. It also groups together other assets defined as investments (e.g. leased assets).

In March 2011, Madeco and Nexans signed an agreement whereby Madeco could increase its shareholding to 20%[7] of the multinational. As from January 2012, through its 20% shareholding in Nexans and 3 members of its board of directors, Madeco passed to having a significant influence, changing the accounting criteria for this investment to the equity valuation method.

Later, in November 2012, Madeco and Nexans amended the original agreement to allow Madeco to increase its shareholding in Nexans from 22.5% (under the present agreement) to 28%, thus consolidating its position to one of majority shareholder and long-term partner.

[7] Being able to reach 22.5% should the share price of Nexans fall below € 40.

4. Summarized Cash Flows

(figures in ThUS$)	31-Dec-12	31-Dec-11
Net cash flow from (used in) operating activities	10,344	57,292
Net cash flow from (used in) investment activities	(55,321)	(243,895)
Net cash flow from (used in) financing activities	35,565	140,328
Net increase (decrease) in cash & cash equivalents	**(9,412)**	**(46,275)**
Effects of variations in exchange rates on cash & cash equivalents	(36)	(2,044)
Net Change	**(9,448)**	**(48,319)**
Initial balance of cash & cash equivalents	20,835	69,154
Closing balance of cash & cash equivalents	**11,387**	**20,835**

The reduced cash flow from operating activities in 2012 is explained by the lower activity seen during the year in the Tubes unit and a greater investment in working capital in the Packaging unit due to the greater activity in Peru, the proportional consolidation of Flexa and an adjustment in conditions and terms in the Argentine market. These effects were partially compensated by a recovery of taxes by absorption of tax losses (PPUA) of US$ 8 million booked in Madeco S.A in the first half of 2011.

The reduced use of funds for investment activities in 2012 is mainly explained by the purchase of 3.1 million shares in Nexans during 2011.

The cash flow from financing activities was ThUS$35,565, lower than the ThUS$140,328 generated in 2011. This reduced flow is mainly explained by the financing for the purchase of shares in Nexans during 2011.

Finally, as of December 31, 2012, the Company has a balance of cash and cash equivalents of ThUS$11,387, compared to ThUS$20,835 at the end of 2011.

5. Financial Indicators

Liquidity Ratios	**Unit**	**30-Dec-12**	**31-Dec-11**	**% var.**
Current Ratio[8] (Current assets in operation / Current liabilities in operation)	times	1.34	1.63	(18.0%)
Acid Test ((Current assets in operation - Inventories) / Current liabilities in operation)	times	0.81	1.05	(22.6%)

The liquidity ratios have declined as a result of an increase in current liabilities due to an increase in short-term provisions, higher short-term debt in the Packaging unit resulting from the acquisition of the operation in Colombia (Flexa) and a higher debt in the Corporate unit of US$ 30 million associated with the financing of share purchases in Nexans during 2012.

Debt Indicators	**Unit**	**30-Dec-12**	**31-Dec-11**	**% var.**
Debt Ratio ((Current liabilities in operation + Non-current liabilities) / Equity)	times	0.48	0.51	(4.6%)
Portion of Short-Term Debt (Current liabilities in operation / (Current liabilities in operation + Non-current liabilities))	%	48.9%	45.9%	
Portion of Long-Term Debt (Non-current liabilities / (Current liabilities in operation + Non-current liabilities))	%	51.1%	54.1%	
Financial Expense Coverage (Ebitda / Financial expenses)	times	3.34	6.74	(50.5%)

The debt ratio shows a fall of 4.6%, mainly explained by an increase in equity due to a negative balance of reserves of ThUS$25,564, less than the negative balance in December 2011 of ThUS$120,126, as a result of accounting criteria concerning the investment in Nexans, from other financial assets, non-current, to investments booked using the equity method. In addition, there were larger accumulated earnings of ThUS$78,443 at December 2012 compared to a figure of ThUS$29,709 in December 2011.

[8] Does not include assets available for sale

The financial expense coverage declined by 50.5% as a result of larger financial expenses caused by higher debt and a reduced EBITDA[9] for the year.

Profitability Indicators and Earnings per Share	**Unit**	**30-Dec-12**	**31-Dec-11**	**% var.**
Return on Assets (Earnings of controller / Average assets)	%	6.23	2.65	135.3%
Return in Equity (Earnings of controller / Average equity)	%	9.78	3.94	148.0%
Return on Operating Assets (Operating result[10] / Average assets)	%	2.68	3.04	(11.9)%
Earnings per Share (Earnings of controller / each 1,000 subscribed & paid shares)	US$	7.27	2.64	175.4%
Dividend Yield (Dividends paid last 12 months / Market share price at end of period)	%	2.14%	N/A	N/A

Activity Indicators	**Unit**	**30-Dec-12**	**31-Dec-11**	**% var.**
Total Assets	ThUS$	955,050	741,369	28.8%
Inventory Turnover (Cost of sales / Average inventory)	times	4.72	5.04	(6.3)%
Inventory Permanence (Average inventory / Cost of sales) * 360	days	76	71	7.5%

As of December 2012, stocks of copper and aluminum amount to 1,924 and 2,483 tons respectively. As of December 2011, stocks of copper and aluminum amounted to 1,710 and 2,002 tons respectively

[9] Gross margin and administration and distribution expenses, less charges for depreciation.

[10] Gross margin and administration and distribution expenses

6. Analysis of Assets and Liabilities

Assets

The Company's total assets as of December 31, 2012 amount to ThUS$955,050, an increase of 28.8% over December 2011 explained by:

- Current assets

  Amount to ThUS$214,187, 12.3% higher than the balance as of December 31, 2011, explained by higher trade debtors and inventories which rose by 17.6% and 20.1% respectively. This was the result of the proportional consolidation of Flexa and the greater activity of the Windows & Facadesunit.

- Non-current assets

  Show a balance of ThUS$740,863, which represents an increase of 34.6% with respect to the figure as of December 31, 2011. This is explained by the change of accounting criteria concerning the investment in Nexans, from other financial assets, non-current, to investments booked using the participation method (for more detail see Note 14 of the financial statements)

Liabilities

Total liabilities as of December 31, 2012 are ThUS$311,216, greater than the ThUS$249,220 as of December 2011. This is explained by an increase of 24.9% in short-term financial debt due to the financing of the purchase of Envases Flexa and an increase of 17.9% in long-term liabilities due to the financing of the share purchases in Nexans during 2012.

Equity

The equity as of December 31, 2012 is ThUS$614,767, which represents an increase of 32.1% over December 2011.

- Issued capital

  As of December 2012, the paid capital amounts to ThUS$475,525, which represents a 1.3% increase over December 2011. This was the result of the auction of the remaining 156 million shares of the capital increase of 2011.

- Other reserves

  These show a negative balance of ThUS$25,763, lower than the negative balance as of December 2011 of ThUS$120,126. This is explained by the adjustment made as a result of the change in accounting criteria with respect to the investment in Nexans, from other financial assets, non-current, to investments booked using the participation method (for more detail, see Note 25 of the financial statements).

- Accumulated earnings (losses)

  These reached a positive ThUS$78,581 as of December 2012, ThUS$29,709 higher than at December 2011. This is explained by the earnings of the present year.

- Minority participations

  These total an amount of ThUS$29,067 as of December 2012, an increase over the balance of ThUS$ 26,681 at the end of 2011, deriving from the variations noted in Madeco's companies that have minority shareholders. This is mainly explained by the greater earnings of the companies forming part of the Packaging unit.

7. Analysis of Markets, Competition and Relative Shares

Every year the Company makes market-share estimates in the different countries and segments in which it participates. These estimates are mainly based on the analysis of available information, which includes:

(i) internal data on production and sales.

(ii) import and export reports provided by the customs authorities.

(iii) copper sales reports published by the Chilean Copper Corporation.

(iv) import and export reports published by Banco Central de Chile.

(v) sales information reported publicly by some competitors of Madeco and its subsidiaries.

(vi) information obtained informally from market players and the Company's suppliers.

No third party or other independent company has provided estimates or confirmed the calculations and estimates of the Company's market share. The results may differ in cases where sources use different methods to those used by the Company. The following table shows, as of December 2012, the market shares and principal competitors in each of the markets in which the Company participates.

Business Unit	Market Share	Principal Competitors
Tubes and Sheets		
Chile	56%	Conmetal, Nacobre & EPC
Argentina	7%	Sembras, Sotyl, Vaspia, Quimetal
Packaging		
Chile	26%	Edelpa & BO Packaging
Argentina	6%	Converflex, Celomat, Alvher & Bolsapel
Peru	51%	Emusa & Resinplast
Colombia	7%	Flexo Spring S.A, Plastilene S.A
Profiles		
Chile (Aluminum)	45%	Alcoa S.A. & imports from China
Chile (PVC)	15%	Veka, Kommerling & Themco

Market Risk Analysis[11]

The principal risk factors of the businesses of Madeco and its subsidiaries and associates depend to a large degree on economic growth in Chile, Peru, Colombia and Argentina, as well as in the Company's principal export markets.

Madeco is also affected by a series of exposures such as fluctuations in the prices of its principal raw materials, variations in interest rate and in the exchange rates applicable to the translation of the different currencies to the Company's functional currency (US$). During its normal course of business, the Company applies established policies and procedures to manage its exposure to these effects, contracting different financial derivatives (swaps, forwards, options, etc.). The Company does not carry out these transactions for speculative purposes.

The Company's exchange-risk exposure arises from Madeco's positions in cash and cash equivalents, bank debt, bonds and other assets and liabilities indexed to currencies other than its functional currency, the US dollar.

As of December 31, 2012 Madeco has the following accounting exposure at the consolidated level:

[11] It is recommended to read Note 29 to the financial statements of Madeco S.A. to complement the Company's market risk analysis.

Exposición (MUS$)	Activos	Pasivos
Dólares		
Pesos Chilenos (1)	51.169	44.214
U. Fomento	14	6.531
Euros (2)	517.290	160
Soles	3.546	5.474
Pesos Argentinos	15.470	22.873
Reales	17.590	4.436
Otras Mon.	30.985	6.431
Total	**636.064**	**90.119**
	545.945	
Posiciones Cubiertas *	(516.422)	
Exposición Neta	**29.523**	

The total foreign-currency exposure is an asset equivalent to ThUS$545,945. Despite this, as part of these assets relate to the investment in Nexans(*) or are hedged, exchange-rate variations relating to these investments are booked in the equity reserve account, thus not directly affecting results, so Madeco's net exposure equates to an asset equivalent to ThUS$29,523.

The financing policy seeks to maintain a balanced structure between short and long-term sources of financing (financial debt, balances of accounts payable and receivable, etc.), a low risk exposure and funds in line with the cash flows generated by each of the Company's businesses. Both the risks related to customer credits and the risks of financial assets and liabilities are managed by the Company's management under established controls and policies.

Regarding the management of the risk related to interest-rate variations and the effects that variable rates could have on the financial statements, the Company covers these by revising the net exposure, by arranging debts at fixed rates or using financial derivatives (e.g. rate swaps which change variable rates to fixed ones).

As of December 31, 2012, the Company has around 30.4 % of its total financial debt at fixed rates.

Petroleum derivatives (polyethylene, polypropylene, PVC resins, etc.), copper and aluminum are the Company's principal raw materials. The financial result is linked to the ability to acquire adequate supplies, the timely transfer to sales prices, an efficient stock management and the mitigation of risks in the face of variations in prices through hedges.

The risk related to petroleum derivatives is managed according to the use of the polynomials (adjustment methods) the Company uses with its principal customers. These polynomials group the principal variations of their components and adjust them to market prices. The polynomials are adjusted between both parties periodically in order to limit risks linked to variations in the prices of the raw materials.

Regarding the management of the risk related to copper and aluminum, the Company uses financial derivatives assigned case by case to hedge cash flows and existing items (fair value). These instruments are contracted according to the policies defined by the management of Madeco S.A. which set the levels of hedge according to the market price of copper (a higher value of copper requires greater hedges). The financial derivatives comply with the necessary documentation (definition of the relationship between derivative and item hedged, objectives of risk management, efficiency test, etc.). As of December 31, 2011 the Company had 1,100 and 160 tons hedged under derivative contracts for stocks of copper and aluminum respectively. As of December 31, 2012 the Company has 1,600 and 250 tons respectively similarly hedged.

For the sale of the Cables unit at the end of September 2008, the Company received in payment cash and shares in the French company Nexans. Later, in March 2011, Madeco S.A. and Nexans signed an agreement whereby Madeco S.A. would have the option to increase its shareholding to 20%, which shareholding could be increased further to 22.5% provided the Nexans share price is below €40. The term for exercising this option is 18 months to reach 15% and three years to reach 20%. Later, on November 27, 2012 Madeco and Nexans amended the original agreement to allow Madeco to increase its shareholding and voting rights from 22.5% to 28%, thus consolidating its position as majority shareholder and long-term partner. At December 2012, Madeco S.A. holds 22.41% of the share capital of Nexans. With this shareholding in the multinational, three Madeco representatives on the board of directors, one of whom attends the compensations and appointments committee, Madeco has a significant influence. From January 2012 therefore, this investment is booked at its equity value (for more details, see Note 14 to the financial statements). This investment will be subject to the typical risks of the cables business. The possible impacts on the financial statements of Nexans would affect the statement of results of Madeco through the equity value, while the variation in the exchange rate between the functional currency of Madeco S.A. and the euro, the currency of the financial statements of Nexans, has an impact on the Reserves account in the equity of the Company[12].

8. Workforce[13]

No. of persons	31.12.12	31.12.11	% var.
Executives	59	44	34.1%
Professionals & technicians	702	588	19.4%
Employees	2,169	1,681	29.0%
Total	**2,930**	**2,313**	26.7%

[12] For further detail, see Notes 14 and 25 of the financial statements of Madeco S.A.
[13] The consolidated workforce figures include all the personnel of Peruplast and Flexa.

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