


MADECO

Reasoned Analysis
Consolidated Financial Statements
As of December 31, 2011 and 2010

Index

Summary – Statement of Income

Operating income accumulated ThUS$436,825, showing an increase of 4.6% compared to the same period in 2010. This variation is explained by advances in the Packaging and Profile units, partially compensated by lower revenues recorded in the Brass Mills unit due to the commercialization of lower volumes.

Operating income as of December 2011 amounts to ThUS$25,236, showing an increase of 15.4% compared with the same period. This improved performance is the consequence of improved results observed in the Brass Mills unit, partially compensated by the Packaging unit as a result of higher expenses and a higher depreciation for the year due to the start-up of the new plant in Peru and the investments made in Chile related to the business unit growth plan.

Profit or loss attributable to the owner of the parent records earnings in the amount of ThUS$19,157, an amount higher than the loss of ThUS$11,049 recorded in 2010. This is explained by the following:

(i) An increase of 15.4% in the operating income as a result of improved performance at operational level of the Brass Mills unit.

(ii) Non-operating loss of ThUS$566, which is positively compared to the loss of ThUS$24,740 during 2010, due to:

a. The earnings for the sale of the shares of Nexans Colombia (formerly Cedsa) in the amount of US$4.8 million and the sale of land in the amount of US$2 million during 2011.

b. The negative adjustment in the selling price of the Cable unit of US$14.9 million and impairment and restructuring costs due to the lamination closure in the Tube unit of US$6.4 million, in 2010.

(iii) A credit to income taxes for ThUS$238, which is positively compared to the charge of ThUS$4,143 in 2010. This was the result of a company structure reorganization, which generated a deferred tax asset, thus generating a positive impact in profit or loss.

In light of the interpretations of the new accounting standards, the International Financial Reporting Standards (“IFRS”) the investment held by the Company in Peru (Peruplast S.A.) through Alusa S.A. has been recognized as a joint venture.According to IAS 31, the financial statements of Madeco and its subsidiaries will only consolidate the proportionality of such ownership interest (50% in the case of Alusa S.A.). This implementation is retroactive within the IFRS presentation standard; consequently, the financial statements of Madeco have been restated for the years 2009 and 2008 applying the corresponding changes. This change in the consolidation of investment held by the Company in Peru does not affect Madeco's earnings or net profits.

Consolidated Income

Consolidated Physical Sales

Consolidated physical sales as of the closing of December 2011 show a decrease of 5.8% compared to the same period in 2010. This decrease is explained by the lower volume of tons produced in the Brass Mills unit as a consequence of the lamination business closure during the last quarter of 2010.

Ordinary Income (formerly Net Sales)

Ordinary income for the year amount to ThUS$436,825 representing an increase of 4.6% compared to the same period in 2010. This advance is explained by the following:

(i) **Packaging:** An increase of 13.5% compared to 2010. This is the result of the higher income recorded in Chile, Peru and Argentina. 89% of this variation is explained by higher average prices as a result of the increase in the price of raw materials and 11% is due to higher volumes sold in Chile and Peru.

(ii) **Profiles:** Income increased by 14.2% compared to 2010; this is explained mainly by an increase in the volumes sold as a result of higher activity and the consolidation of the commercial strategy implemented during 2010.

These effects were partially compensated by:

(iii) **Tubes and Coin Blanks:** Income decreased by 9.3% compared to 2010. This variation is mainly explained by lower volumes sold as a result of the lamination business closure during the last quarter of 2010.

Gross Margin

As of December 2011, the gross margin amounts to ThUS$76,819, representing an increase of 13.4% compared to 2010. This advance is explained mainly by improved performance the Profile and Packaging units as a result of the increase in outsourcing[1]. The above is partially compensated by an average foreign exchange rate (Chilean peso/U.S. dollar) 5.2% lower and the higher costs involved in the Packaging unit due to the start-up of the new plant in Peru and the investments related to the growth plan in the Packaging Unit.

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[1] Outsourcing: Ordinary income – cost of raw materials

Operating Income[2] and EBITDA[3]

Although these line items do not exist under the new presentation format, they have been included in the analysis to assist in the historical comparison of the results of the business units of Madeco.

Administrative and distribution expenses show an increase of 12.4% as a result of an average foreign exchange rate which is 5.2% lower than in 2010 and higher distribution and administrative expenses as a result of: (i) higher activity; (ii) higher freight costs related to products exported in Packaging and tubes; (iii) reclassification of storing-related costs from costs of sale to administrative and distribution expenses in the Packaging unit and (iv) the start-up of the new plant in Peru. These effects are partially compensated by lower expenses in the Tubes unit as a result of the lower structure resulting from the sale of the Coin Blank business during the second quarter of 2011.

The Company's EBITDA as of December 2011 showed an increase of 10.2% compared to the same period in 2010, at ThUS$39,847. This result is due to improved performance of the Profile and Tube units which showed an increase of 27.2% and 47.9%, respectively.

The consolidated operating income amounts to ThUS$25,236, which represents an increase of 15.4% compared to the same period in 2010. This increase is explained by the improved performance of the Profiles and Tubes units. The Profiles unit records operating income of ThUS$2,314, 125.8% above the income recorded during 2010. This is due to higher activity recorded during the year and the consolidation of the commercial strategy implemented during 2010. The advances of the Tubes unit are the result of the increase in commercial outsourcing and lower administrative and distribution expenses due to a lower structure due to the sale of the Coin Blank business.

[2] Considers the adding of the following line items: gross margin, distribution costs, marketing costs, administrative expenses and R&D expenses.
[3] Considers the operating income (explained above) to which depreciation costs are deducted.

Other Income (Expenses) of the Company[4]

Considering the financial effects, the adjustments for currencies fluctuations other than the Company's functional currency and other effects outside the operation of the business, as of December 2011, Madeco recorded losses in the amount of ThUS$566, which positively compare with the loss recorded as of December 2010 of ThUS$24,740. This difference is explained by:

(1) An increase of 105.7% in **other revenues by function** as a result of the sale of investment properties in the amount of ThUS$1,982, higher dividends received from Nexans in the amount of ThUS$683 and the recovery of taxes for the absorption of tax earnings in the amount of ThUS$2,216.

(2) Earnings in the amount of ThUS$3,338 in **other earnings (losses)** compared with the loss of ThUS$18,754 recorded in 2010. This variation is explained by earnings obtained from the sale of the shares of Nexans Colombia (formerly Cedsa) for ThUS$4,750 performed during this year. During 2010 there were charges for ThUS$14,885 related to the adjustment of the selling price of the cable unit for the arbitration with Nexans and charges in the amount of ThUS$4,489 related to the impairment of the sheets business in the Tubes unit.

(3) Lower levels of **other expenses by function** originated by charges of ThUS$1,949 during 2010 as a result of the restructuring of the Tubes unit.

These effects were partially compensated by the following:

(4) An increase of 39.2% in **finance costs** as a result of a higher average debt due to the financing of the increase of ownership interest in Nexans.

(5) Losses for **foreign currency translation differences and indexation** in the amount of ThUS$1,898, which negatively compare with the loss of ThUS$102 recorded during the same period in 2010 due to the loss originated by exposure in Brazilian reales and the depreciation of this currency compared with the U.S. dollar.

[4] Considers the adding of the following line items: other revenues and expenses by function, finance income and costs, foreign currency translation differences and indexation and other earnings (losses).

Income tax expense (income)

As of December 2011, income taxes recorded a credit of ThUS$238 which is positively compared to the charge of ThUS$4,143 recorded during 2010. This is due to the merger of companies of the group framed in the company's ownership reorganization structure conducted during 2011 which generated a deferred tax asset in the Packaging unit, an effect on profit or loss of US$8.6 million. During 2010 tax results were determined over a result based on a tax accounting in Chilean pesos so that as a result of the strengthening of the Chilean peso occurred during 2010, a tax loss was originated. During 2011 the Chilean Internal Revenue Service ("SII") gave authorization to keep the accounting in U.S. dollars.

1. Results per Business Units

Packaging

The income of the Packaging unit amounted to ThUS$225,944, with an increase of 13.5% compared to 2010. This increase in income is explained by an advance in revenues in Chile, Peru and Argentina. 89% of these higher incomes are explained by higher prices due to the rise in the prices of raw materials and the remaining 11% is explained by the higher volumes sold.

Gross margin shows an increase of 10.2% compared to 2010. This increase is explained by higher levels of outsourcing, partially compensated by a higher depreciation for the period due to the starting of operations of the new plant in Peru and the increase of capacity in Argentina and Chile.

Administrative and distribution expenses showed an increase of 38.5% compared to in 2010. This increase is explained by: (i) the reclassification of storing-related costs from costs of sale to distribution expenses; (ii) higher distribution expenses as a result of the increase of the volumes exported; (iii) higher expenses related to the start-up of the plant in Peru and the lower foreign exchange rates in Chile and Argentina (5.1% and 5.3% respectively).

EBITDA amounts to ThUS$33,558, in line with the EBITDA recorded during the same period in 2010.

In consideration of the above, operating income amounts to ThUS$24,721 equivalent to a decrease of 5.7% compared to December 2010. This is mainly due to higher depreciation for the period and higher administrative and distribution expenses as a result of the start-up of operations of the new plant of Peru.

Tubes

Revenues amount to ThUS$150,167 as of December 2011, equivalent to a decrease of 9.3% compared to 2010. This is explained by a decrease in the volumes traded in Chile as a result of the closing of the laminating unit in late 2010 and by the sale of the Coin Blank unit during the second quarter of 2011.

The gross margin shows an increase of 10.6% compared to 2010. This increase is explained by the improved performance of the Brass Mills unit in Chile, as a result of higher unit outsourcing[5]. This effect is partially compensated by the lower volumes sold as a result of the lamination business closure in late 2010.

Administrative and distribution expenses present a decrease of 12.6% resulting from the decrease of 67.7% in the expenses of the Coin Blanks unit as a result of the sale of this subsidiary during the second quarter of 2011.

The unit's EBITDA amounts to ThUS$5,980, with an advance compared to December 2010 of 47.9% as the sales percentage is 4% higher than the one recorded during the same period in 2010 (2.4%).

As of December 2011, operating income amounts to ThUS$3,981, representing an increase when compared to the same period in 2010 with ThUS$1,099. This is explained by improved margins recorded in Chile and the lower administrative and distribution expenses resulting from the sale of the Coin Blank unit.

Profiles

Income shows an increase of 14.2% equivalent to ThUS$60,378. This increase is mainly explained by the rise of 11.2% in the volumes sold as a result of activity increase and the consolidation of the change in the commercial strategy begun in 2010.

Gross margin shows an increase of 23.6% compared to 2010. This growth is explained by the increase in outsourcing[6] and higher volumes sold.

Administrative and distribution expenses show an increase of 15.4% compared to December 2010. This is due to the higher activity observed and to an exchange rate 5.2% lower than the one recorded in 2010.

EBITDA presents an increase of 27.2% compared to 2010 with an EBITDA margin 9.5% higher than the one recorded in 2010 with 8.6%.

[5] Outsourcing: Ordinary income-Cost of raw material
[6] Outsourcing: Ordinary income-Cost of raw material

Operating income records earnings in the amount of ThUS$2,314 positively compared to earnings of ThUS$1,025 recorded during 2010. This is the result of improvements in margins, higher activity recorded during the period and the consolidation of a commercial strategy.

Corporate

This business unit was created on the basis of the interpretation of the international accounting standards, derived from the importance of the management of the investments held by the Company, which is composed of the cash and shares of Nexans received after the sale of the Company's Wire & Cable unit. Along with this, it groups other assets defined as investments (e.g. leased assets).

As of December 2011, the operating income records a loss of ThUS$5,780 positively compared to the loss recorded during 2010 in the amount of ThUS$6,472.

2. Summarized Cash Flows

(Amounts in ThUS$)	**12.31.11**	**12.31.10**
Cash Flows Net Provided by (Used in) Operating Activities	57,292	(1,669)
Net Cash Flows Used in Investing Activities	(243,895)	(23,827)
Net Cash Flows Provided by (Used in) Financing Activities	140,328	(21,582)
Net Decrease in Cash and Cash Equivalents	**(46,275)**	**(47,078)**
Effects of Exchange Rate Variations on Cash and Cash Equivalents	(2,044)	1,898
Net Variation	**(48,319)**	**(45,180)**
Cash and Cash Equivalents, Statement of Cash Flows, Initial Balance	69,154	114,334
Cash and Cash Equivalents, Statement of Cash Flows, Final Balance	**20,835**	**69,154**

Cash flows from operating activities for 2011 are explained by an increase of the operating cash flows of the Packaging unit and by the improvements in the management of working capital in the Tubes unit (lower terms of collection and lower inventory volumes resulting from the lamination business closure). These effects have been partially compensated by the increase in the price of raw materials.

Cash flows from investing activities for the year are explained by the purchase of shares of Nexans included in the agreement signed with the company as to the option of purchasing up to 20% of its ownership interest.

Cash flows from financing activities for the year are explained by the financing of the purchase of part of the shares of Nexans.

Finally, as of December 31, 2011, the Company held a cash and cash equivalent balance of ThUS$20,835, compared to ThUS$69,154 presented for 2010. This decrease is explained mainly by the financing and use of cash for the purchase of shares acquired from Nexans.

3. Financial Indicators

Liquidity Ratios	**Unit**	**12.31.11**	**12.31.10**	**% var.**
Current Ratio[7] (Current Operating Assets / Current Operating Liabilities)	Times	1.63	2.27	(28.4%)
Acid Test ((Current Operating Assets - Inventory) / Current Operating Liabilities	Times	1.05	1.64	(36.2%)

Liquidity ratios have shown a decrease as a result of the partial use of cash and the financing of the increase of the ownership interest in Nexans.

Debt Ratios	**Unit**	**12.31.11**	**12.31.10**	**% var.**
Debt Ratio ((Current Operating Liabilities + Non-current liabilities) / Total Equity)	Times	0.51	0.34	50.7%
Current Debt Portion (Current Operating Liabilities / (Current Operating Liabilities + Non-current Liabilities))	%	45.9%	69.9%	N/A
Non-current Debt Portion (Non-current liabilities / (Current Operating Liabilities + Non-current Liabilities))	%	54.1%	30.1%	N/A
Finance Cost Coverage ((Operating Income + Depreciation) / Finance costs)	Times	5.33	6.74	(20.9%)

Debt ratio showed an increase of 50.7% due to higher debts as a result of the financing of the purchase of the shares of Nexans.

The coverage of finance costs decreased 20.9% as a result of higher finance costs originated by higher debts. This effect is partially compensated by the increase of the EBITDA at consolidated level.

[7] It does not consider assets-available-for-sale

Profitability Indicators and Earnings per Share	**Unit**	**12.31.11**	**12.31.10**	**% var.**
Return on Assets (Controller's Earnings / Average Assets)	%	2.65	(1.53)	N/A
Return on Equity (Controller's earnings / Average Equity)	%	3.94	(2.11)	N/A
Return on Operating Assets (Operating income / Average Assets)	%	3.49	3.04	N/A
Earnings per Share (Controller's earnings / every 1,000 Subscribed and Paid Shares)	US$	2.64	(1.95)	N/A
Dividend Yield (Dividends Paid over the Last 12 Months / Market Price of the Share at each year-end)	%	-	8.6	N/A

Increases in profitability indicators are explained globally due to improved operational performance and to non-recurring earnings obtained at non-operational level.

Activity Indicators	**Unit**	**12.31.11**	**12.31.10**	**% var.**
Total Assets	ThUS$	741,369	706,548	4.9%
Inventory Turnover (Cost of Sales / Average Inventory)	times	4.96	5.04	(1.5%)
Inventory Permanence (Average Inventory/ Cost of Sales) * 360	days	73	71	2.2%

During this year there have been increases in cost of sales and inventory levels. The latter has been affected by the volatility of the prices of metals this year and the higher activity recorded. However, as a result of the lamination business closure in the Tubes unit and management improvement, it has been possible to considerably reduce this margin to levels similar to the ones recorded at the close of 2010. This reduction can be noted when analyzing inventory permanence: at the middle of the year this exceeded 75 days and at the close of 2011 reached an average of 73 days.

As of December 2011, physical inventory of copper and aluminum reached 1,710 and 2,002 tons, respectively. As of December 2010, copper and aluminum physical inventory reached 3,430 and 1,932, respectively.

4. Asset and Liability Analysis

Assets

Total assets of the Company as of December 31, 2011 amount to ThUS$741,369, showing an increase of 4.9% compared to December 2010. This variation is explained as follows:

- Current Operating Assets

  Current Operating Assets amount to ThUS$186,540, with a decrease of 34% compared to the balance as of December 31, 2010. This balance is explained mainly by a lower balance of cash and cash equivalents as a result of the financing of the purchase of shares of Nexans aimed to increase ownership interest in this company. Additionally, the lower levels of Trade Receivables and Inventory as a result of an improvement in collection management and the lower capital used as a result of the lamination closure in the Tubes unit.

- Non-current Assets

  Non-current assets present a balance of ThUS$550,621 presenting an increase of 31.2% compared to the balance as of December 2010. This variation is explained by the increase of the ownership interest of Nexans, with 19.9% compared to the ownership interest of 8.9% recorded in December 2010. On the other hand, Deferred Tax Assets showed an increase of 272.4% as a result of the ownership restructuring carried out during 2011.

Liabilities

As of December 31, 2011 liabilities amount to ThUS$ 249,220, compared to ThUS$177,715 as of December 2010; this difference is explained by the increase in the financial debt of Madeco S.A. derived from the financing of the purchase of the shares of Nexans.

- Financial Debt

  The Company's bank debt groups its liabilities with banks and financial institutions (interest-bearing obligations) and the liabilities related to lease agreements which amounted to ThUS$163,130 as of December 2011, representing an increase of 73.8% compared to the end of the prior year. This is explained by the higher debt of the Corporate unit aimed to finance part of the purchase of shares Nexans.

Equity

The total as of December 31, 2011 amounted to ThUS$ 492,149, representing a decrease of 6.9% compared to December 2010.

- Paid-in Capital

  As of December 2011, paid-in capital amounted to ThUS$ 469,497, with an increase of 19.9% compared to the balance as of December 2010. This was the result of the issuance of 1,760,975 new shares, from which there are 156,179 remaining shares to be subscribed and paid.

- Other reserves
  Other reserves presented a negative balance of ThUS$120,126 as of December 2011, which is higher than the positive balance of ThUS$12,071 reached at the end of 2010. This is mainly explained by the variation of the fair value of the shares and the foreign currency exchange difference of the investment in Nexans.

- Retained Earnings (accumulated losses)
  Retained earnings showed earnings in the amount of ThUS$ 29,709 as of December 2011, higher compared to ThUS$16,298 recorded as of December 2010. This increase is explained by the earnings recorded during this year as a result of a satisfactory performance at operational level, in addition to extraordinary non-operating earnings recorded in the period.

- Non-controlling Interest
  Non-controlling interest totaled ThUS$26,681 as of December 2011, compared to ThUS$22,372 at the end of 2010, due to variations in Madeco's companies having minority shareholders. These variations are mainly explained by the higher earnings generated by companies in the Packaging unit.

5. Analysis of Markets, Competition and Relative Shares

The Company makes annual estimates of its market share in the different countries and segments it participates in. These estimates are mainly based on an analysis of available information which includes:

(i) internal data on production and sales.
(ii) import and export reports provided by customs authorities.
(iii) copper sales reports published by the Chilean Copper Corporation.
(iv) import and export reports published by Central Bank of Chile.
(v) sales information published by some competitors of Madeco and its subsidiaries.
(vi) information obtained informally from market participants 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 shares. In the case of sources that use methods other than those of the Company, the results may differ. The following table shows, as of December 2011, the market share and the main competitors in each of the markets in which the Company participates:

Business Unit	Market Share	Main Competitors
Brass Mills		
Chile	58%	Conmetal and EPC
Argentina	8%	Pajarbol S.A., Sotyl S.A., Vaspia and Quimetal
Packaging		
Chile	31%	Edelpa and BO Packaging
Argentina	5%	Converflex (filial de Arcor), Celomat and Bolsapel
Peru	55%	Emusa and Resinplast
Profiles		
Chile (Aluminum)	42%	Alcoa S.A. and Imports from China
Chile (PVC)	20%	Veka, Kommerling and Themco

Market Risk Analysis[8]

The main risk factors of the businesses of Madeco and its subsidiaries and associates largely depend on economic growth rates in Chile, Peru and Argentina, as well as growth rates in the Company's main export markets.

Madeco is therefore subject to a series of exposures such as price fluctuations of its main raw materials, and variations in interest rates and the exchange rates of the various currencies other than the Company's functional currency (U.S. dollars). During the normal course of its business, the Company applies set policies and procedures to manage its exposure to these risks, contracting different financial derivatives (swaps, forwards, etc.), as applicable. The Company does not carry out transactions for speculative purposes.

The Company's exposure to exchange risk arises from its positions in cash and cash equivalents, bank debt, bonds and other assets and liabilities indexed to currencies other than the functional one, i.e. the U.S. dollar.

As of December 31, 2011, Madeco has the following accounting exposure at the consolidated level:

[8] In order to complement the analysis of the Company's market risks, it is recommended to read note 29 to the financial statements of Madeco S.A.

Accounting Exposure (ThUS$)	Assets	Liabilities
Chilean pesos	44,930	(40,026)
Unidad de Fomento	416	(7,209)
Euros	297,285	(357)
Argentine pesos	11,684	(18,649)
Peruvian soles	3,087	(4,574)
Brazilian reales	18,685	(7,548)
Other currencies		(15)
Total	376,087	(78,378)
Total exposure	297,709	
Exposure covered by investments or hedges	(296,476)	
Net Exposure	1,233	

The foreign currency exposure is an asset equivalent to ThUS$297,709. However, as part of these assets relate to the investment in Nexans or are hedged, the exchange variations related to these investments are shown in the reserve account in equity, so Madeco's net exposure is an asset equivalent to US$1,233.

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

Regarding the management of the risk related to interest-rate variations and the effects that variable rates might have on the Company's financial statements, Madeco covers these variations through the review of the Company's net exposure, whether converting debt to fixed rates or with financial derivatives (e.g. rate swaps) that exchange variable rates for fixed rates.

As of December 31, 2011, the Company had around 28.2% of its total financial debt at fixed rates.

Oil derivatives (resins of polyethylene, polypropylene, PVC, etc.) and copper are the Company's main raw materials. The Company's financial results are linked to the ability to acquire an adequate supply, timely transfer pricing, an efficient stock management and the mitigation of the risks of price variations through hedges.

The risk associated with oil derivatives is managed by the use of polynomials (adjustment methods) used by the Company with its main customers. These polynomials gather the main variations of their components, adjusting them to market prices, and are adjusted between both parties periodically in order to mitigate risks in the event of variations in the prices of the raw materials.

The management of the risk related to copper is managed by the Company through the use of financial derivatives which seek, as appropriate, to hedge cash flows or existing items (fair value). These financial instruments are engaged in accordance with the policies defined by the management of Madeco, which set hedging levels according to the market price of copper (the higher the value of copper, the more hedges are adopted)The financial derivatives comply with the necessary documentation (definition of the relationship between the derivative and the hedged item, risk management objectives, efficiency tests, etc.) As of December 31, 2010 the Company had 1,950 tons of copper hedged by derivative contracts and as of September 30, 2011, the Company had 1,175 tons hedged under derivative contracts. As of December 31, 2011, the Company had 1,100 tons hedged with derivative contracts. The company has different derivative instruments aimed to hedge the aluminum inventory and the sales margin of the aluminum "scrap[9]". As of December 2011, the company had 320 tons hedged with derivative contracts. As of December 2010, the company had 2,870 tons of aluminum hedged with derivative contracts.

[9] Aluminum residuals derived from the process

Personnel Structure[10]

No. of people	12.31.11	12.31.10	% var.
Executives	44	47	(6.4%)
Professionals and technicians	588	610	(3.6%)
Employees	1,681	1,759	(4.4%)
Total	**2,313**	**2,416**	(4.3%)

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[10] The consolidated personnel structure figures consider 100% of the employees of Peruplast.