



Santiago, May 29, 2007

Chile – Small Caps

MADECO

BUY

Live Wire! Initiating Coverage with a Buy

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(05/22/07)

CURRENT PRICE: US\$12.01/CH\$62.45

TARGET PRICE: US\$15.00/CH\$80.00

Initiation of Coverage	
Rating:	Initiating coverage with a Buy
Price Target:	US\$15.00/ADR for YE2007
EBITDA Estimates (US\$):	'07 136.0 million
	'08 145.1 million
	'09 160.3 million

Company Statistics

Bloomberg	MAD
52-Week Range (US\$)	13.55 – 8.00
2007E P/E Rel to the IPSA (x)	0.5
2007E P/E Rel to Small Caps (x)	NA
Index (US\$)	6.0
3-Yr CAGR (06-09E)	18.1%
Market Capitalization (US\$ Mn)	665.5
Float (%)	53.85
3-Mth Avg Daily Vol (US\$000)	1,872
Shares Outst - Mn (100:1 ADR)	5,541
Net Debt/Equity (x)	0.3
Book Value per EPADR (US\$)	9.9

Estimates and Valuation Ratios

	2006	2007E	2008E	2009E
Net Earn (Ch\$ Mn)	30,134	35,265	39,126	51,645
Current EPS	5.4	6.4	7.1	9.3
Net Earn (US\$ Mn)	56.4	65.9	71.1	93.0
Current EPADR	1.02	1.19	1.28	1.68
P/E (x)	10.8	10.1	9.4	7.2
P/Sales (x)	0.6	0.5	0.5	0.5
P/CE (x)	7.5	7.1	6.6	5.4
FV/EBITDA (x)	6.4	6.5	5.1	4.0
FV/Sales (x)	0.7	0.7	0.6	0.5
FCF Yield (%)	-2.6	-5.1	19.3	17.5
Div per ADR (US\$)	-	-	0.32	0.50
Div Yield/ADR (%)	0.0	0.0	2.6	4.2

NA not available. Sources: Bloomberg, Company reports, and Santander Investment estimates.

Investment Thesis: We are initiating coverage of Madeco with a Buy rating on the stock. We believe Madeco, a leading player in the copper and aluminum finished and semi-finished product industry in Latam, should benefit from the positive outlook for its wire and cable unit in Brazil, which is operating in the middle of a strong investment environment in the energy sector, contributing approximately half of the company's expected EBITDA growth in 2007 and 2008. This is mainly explained by the electrification program "*Luz para Todos*", which should amount to some US\$4.1 billion of additional investment to increase electricity distribution coverage in Brazil by 2008. Meanwhile, the positive outlook for the Peruvian operations, which we estimate should account for 21.3% of the company's EBITDA in 2007, should bolster the company's results going forward. These positive factors are not incorporated at current valuations, in our view, as stock in Madeco is currently trading at a FV/EBITDA 2007 multiple of 6.5x, one of the lowest in our Chilean sample. **Looking forward, several initiatives in the Chilean electricity sector could be potentially beneficial for Madeco.** While energy generation projects in the pipeline should start materializing from 2010 to 2017, investments in distribution and transmission in order to connect the new capacity to the electricity network will also be required. This could translate into a potential source of growth for Madeco, as transmission and distribution are highly dependent on wire and cable. **We expect Madeco's EBITDA to reach US\$136.0 million in 2007 and US\$145.1 million in 2008.** These figures imply growth rates of 8.9% and 6.6%, respectively, driven mainly by the positive performance of the wire and cable division across Latam, as well as by the expected solid results from its flexible packaging division. It is important to note that the weak performance of the brass mills unit in Chile is likely to prevent Madeco from posting stronger results growth in the coming years. **Valuation and Risks to Investment Thesis:** Our target price of US\$15.00 per ADR represents a total potential upside of 24.9%, compared with the 6.9% expected for the Chilean IPC. In terms of valuations, Madeco is currently trading at a FV/EBITDA multiple of 6.5x, compared with the Chilean market multiple of 10x. We valued Madeco's 15 units using a sum-of-the-parts methodology to adequately price in the various country risks where the company operates. **The main risks to our investment thesis include:** (1) a potential economic recession in Latam could impact Madeco's results; (2) hikes in commodity prices could imply a significant increase in working capital needs; (3) an increase in Madeco's product prices could lead to the substitution of some of its products.

Important disclosures/certifications are in the "Important Disclosures" section of this report.

U.S. investors' inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629/ (212) 350-3918.

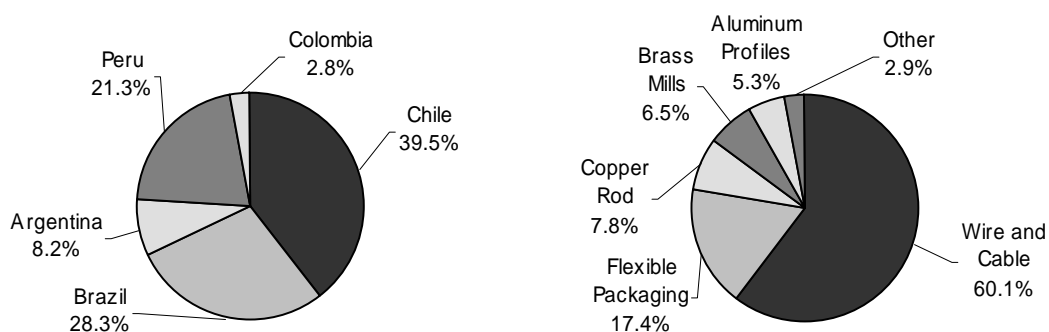
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Madeco manufactures finished and semi-finished products in copper, copper alloys and aluminum. While its headquarters are located in Santiago, Chile, the company has industrial facilities in Argentina, Brazil, Chile, Colombia and Peru, with a total production capacity of 90,250 tons per year (tpy) of wire and cable, 60,850 tpy of brass mill products, 16,550 tpy of aluminum profiles and 20,150 tpy of flexible packages. Madeco is controlled by the Quiñenco group, the holding company of the Luksic family, which has a 40.9% stake. The Luksic group also controls Antofagasta PLC, and through Quiñenco they control Banco de Chile, CCU, Telsur and Madeco.

MADECO IN A NUTSHELL

Madeco is one of the largest copper and aluminum finished and semi-finished product manufacturers in Latin America, with a wide coverage spectrum within the region. Madeco's main products consist of wires, cables, brass mill product and aluminum profiles. The company also operates in the flexible packaging industry, manufacturing products that are used in packing mass consumption products, such as food, sweets, and cosmetics. In addition, Madeco's operations are located in five different countries (Argentina, Brazil, Chile, Colombia and Peru).

Figure 1. Madeco – EBITDA Breakdown per Country and Business, 2007E



Sources: Company reports and Santander Investment estimates.

Where is Madeco's value coming from? While the company's operations could be grouped both by country and by business, our valuation method consisted of analyzing Madeco's 15 divisions distributed among the five countries it operates in. We used the latter method because we believe this is the best way to incorporate the different issues affecting each business, as these depend on the environment in which the operation is being developed. Figure 2 below provides details on Madeco's equity value breakdown based on the DCF analyses we developed for each one of the Madeco's 15 units across Latin America to show the origin of the company's estimated value. In terms of contribution to value, we note that Peru, Brazil, and Chile account for 88.5% of Madeco's equity value.

Figure 2. Madeco - Equity Value Breakdown per Country and Business (US dollars in millions), 2007E

	Argentina	Brazil	Chile	Colombia	Peru	Total
Aluminum Profile	-	-	48.6	-	-	48.6
Brass Mills	3.0	-	10.4	-	-	13.5
Coin Unit	-	-	7.8	-	-	7.8
Copper Rod	-	-	48.0	-	32.9	80.9
Flexible Packaging	14.9	-	60.5	-	69.6	145.1
Optic Fiber	1.1	-	-	-	-	1.1
Wire & Cable	34.0	224.3	86.0	46.6	179.4	570.3
Total Equity Value	53.1	224.3	261.4	46.6	281.9	867.2

Sources: Company reports and Santander Investment estimates.

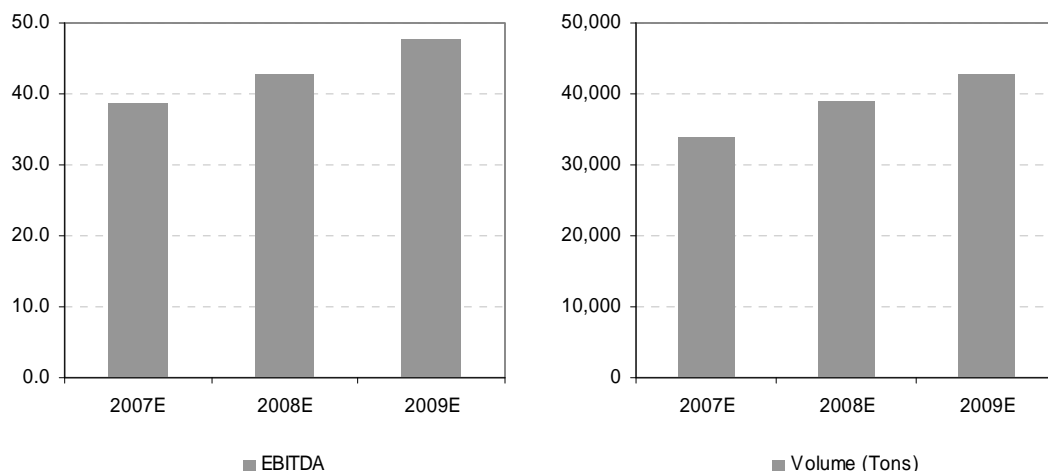


BRAZILIAN OPERATIONS SHOULD SUPPORT RESULTS

We expect Madeco's EBITDA in Brazil to increase 13.0% in 2007, and 10.7% in 2008.

We believe the significant investments being made in the electricity sector in Brazil should support the performance of Madeco's wire and cable division in this country. We expect the results of the Brazilian operations to be fueled by the strong investments being undertaken by the Brazilian government in order to increase the electricity coverage in the country, mainly in rural areas. In this sense, the main program currently being implemented is "Luz para Todos", a plan which was initiated in 2003 with the aim of providing electricity to some 10 million inhabitants living in rural areas in Brazil. According to the Brazilian Ministry of Energy, the full implementation of the program would total some R\$12.7 billion (US\$6.5 billion). As of December 2006, the program had benefited some five million Brazilians throughout the country, with a total investment of R\$4.8 billion (US\$2.5 billion), representing 37% of the budget. Therefore, considering that there are five million inhabitants who need to be interconnected to the electricity network, with an expected investment of US\$4.1 billion, we believe Madeco's wire and cable unit should face significant demand for its products in the next two years. As such, we are looking for volume growth of 14.3% in 2007 and 15.0% in 2008, leading EBITDA increases of 13.0% and 10.7%, respectively, to US\$38.6 million and US\$42.8 million in 2007 and 2008.

Figure 3. Madeco – Wire and Cable Brazil, EBITDA and Volume, 2007E – 2009E (U.S. Dollars in Million)



Sources: Company reports and Santander Investment estimates.

What to expect thereafter? In addition to the electrification program "Luz para Todos", there are several generation projects in the pipeline, stemming from the strong demand for energy in Brazil which should translate, according to our estimates, into additional 3,500 MW installed capacity per year. We believe the latter would be positive for Madeco in a longer perspective, as the company could take advantage of the investment related to transmission and distribution energy which are required to connect the new facilities into the network. On another front, the recent increase in biofuel production should continue to drive investments in the production of ethanol in Brazil. While negotiations between Madeco and some Brazilian ethanol producers are still at the initial stages, there exists a chance that the company may become a supplier of ethanol transfer pipes for biofuel facilities. These pipes would be made from copper, considering that the pipes need to have anticorrosive properties, while still providing a good heat transfer rate. It is important to note that, in case this project materializes, it would not require any significant additional investment from Madeco, as the company is currently operating below its maximum capacity in the brass mills business that produces these pipes.

A WAY TO PLAY PERU

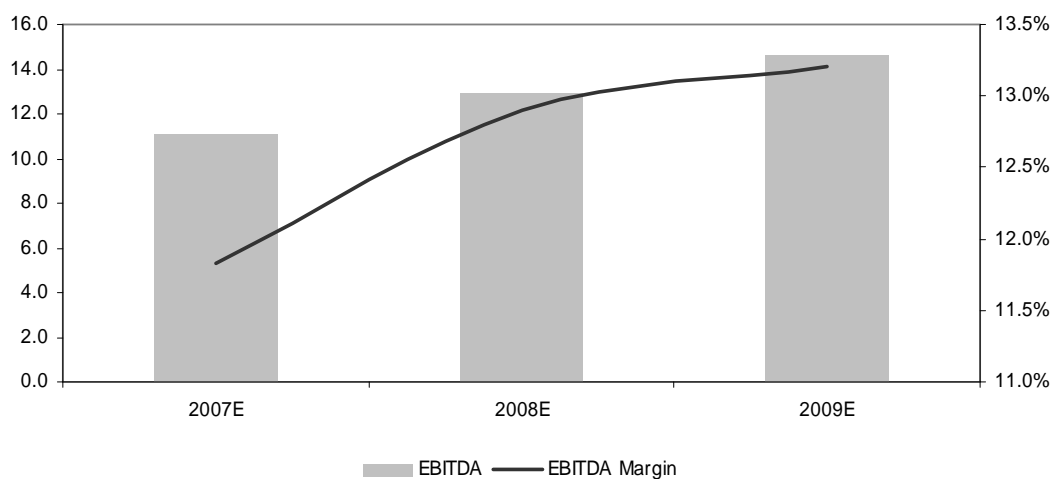
We believe Madeco is a good alternative to play the positive outlook for the Peruvian economy.

We believe Madeco could be a way to play the economic recovery in Peru, both on the investment and consumption sides. We expect Madeco's Peruvian operations to account for 21.3% of the company's EBITDA in 2007, mainly driven by its wire and cable and flexible packaging subsidiaries, which are both linked to investment and private consumption levels, which have recently been the main drivers of GDP growth in Peru.

The wire and cable business in Peru is expected to perform strongly in the upcoming years. We expect Madeco's wire and cable unit to post an EBITDA growth of 20.6% in 2007 and 7.4% in 2008, to US\$24.7 million and US\$26.5 million, respectively, mainly driven by strong volume expansions of 9.8% and 10.0%. This is largely a result of the solid GDP expansion we are forecasting for Peru in these years (7.1% in 2007 and 6.0% in 2008). In addition, considering that this division is currently operating at 20% below its maximum production capacity, we believe that this subsidiary is in a good position to face potential unexpected increases in the demand for wire and cable, both from the domestic and exports markets.

Private consumption expansion in Peru is expected to fuel Madeco's flexible packaging operations in the country, a vehicle that the company began to consolidate in 1Q07. We expect the company's Peruvian flexible packaging operations to benefit from our positive outlook for consumption. We estimate this division should post an EBITDA of US\$11.1 million in 2007, and we are looking for a 16.0% expansion in 2008 to US\$12.9 million. It is important to note that the performance of this business mainly hinges on supermarket sales, which should benefit from the expected growth rates in private consumption in 2007 and 2008 (5.7% and 5.2%, respectively, according to our estimates). We thus expect the consolidation of the flexible packaging division in Peru to enhance Madeco's consolidated packages unit, with consolidated volumes expected to increase 157.4% in 2007 and EBITDA by 77.4%. In our view, the higher weight of flexible packages in Madeco's product mix should be positive for the company, as this business unit contributes to higher margins compared with some of the more traditional goods produced.

Figure 4. Madeco – Flexible Packaging Peru, EBITDA and EBITDA Margin, 2007E – 2009E (U.S. Dollars in Million)



Sources: Company reports and Santander Investment estimates.



OPPORTUNITIES IN CHILE: POTENTIAL SOURCES OF GROWTH

On a long-term perspective the significant number of energy projects in the pipeline could imply a positive impact on Madeco's results within Chile, mainly in the wire and cable unit. Although we expect the Chilean operations to post weak performances in the coming years, considering the poor results forecast for the brass mills unit, several long-term initiatives in the electricity sector could provide some room for improvement in Madeco's operations in Chile. However, given the uncertainty of the materialization of the different projects which are still subject to approval by the Chilean authorities, we are not incorporating the potential positive impact of these undertakings into our current valuation.

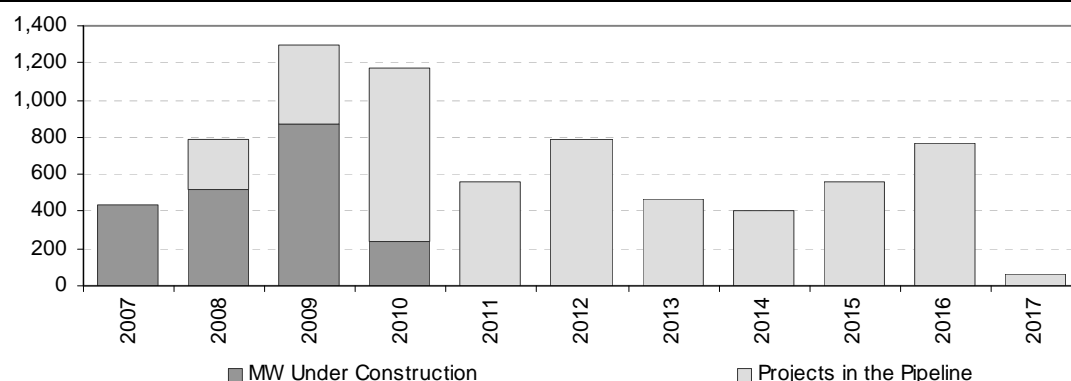
The Aysén project (a joint venture between the power generation companies Endesa Chile and Colbun) could lead Madeco to reinforce its aluminum cable production, in our view. We note that an important part of this project is related to the construction of a 2,000-km DC transmission line between the facilities at Aysén (located in the southern part of Chile) and Santiago. Based on our calculations, and as shown in Figure 3 below, the aluminum required for the transmission cable would amount to a minimum of 18,770 tons, which represents 2.2 times the total volume sold by Madeco's Chilean wire and cable division in 2006. It is important to mention that Madeco's wire and cable machines can alternate between copper and aluminum production without any significant investment being required, as only the lubricant used needs to be changed to produce the different cables.

Figure 5. The Aysén Project, Aluminum Estimates (in Tons) for the Transmission Line

Transmission Line		
Length	A	2,000 Km
N° of Poles	B	2
Cables per Pole	C	4
Overhead Power Cable	D	5%
Total Cable Length	$E = A*(1+D)*B*C$	16,800 Km
Type of Cable		Tons per Km
800 mcm	F	1.12
1100 mcm	G	1.54
Total Aluminum		Tons
800 mcm	$E*F$	18,770
1100 mcm	$E*G$	25,820

Source: Santander Investment estimates.

In addition to the Aysén project, there are significant power generation projects in Chile scheduled for the next 10 years, which should loosen the current tight scenario prevailing in Chile in terms of generation, while representing a potential source of growth for Madeco's wire and cable business. According to the National Commission of Energy's 10-year planning schedule, generation projects in the pipeline for the period 2007-2017 amount to 7,310 MW (excluding the Aysén Project) of additional capacity in the Chilean Central Grid (which accounts for some 70% of the country's total installed capacity). While 28% of the pipeline is currently under construction, with facilities that should enter the system between 2007 and 2010, the rest of the projects are still at the preliminary stages of development. We expect the latter to benefit the wire and cable industry, as these products are necessary for the construction and operation of the generation facilities, and also involve investment in transmission lines. However, it is difficult to forecast the potential impact that these projects could have on wire and cable volume growth, as there is no specific information regarding either the location of the projects or the distance between the generation plants and the electricity network nodes.

Figure 6. Expected Annual MW Additions to the Chilean Central Grid

Source: CNE.

What is the likelihood of these initiatives materializing? In our view, most of the projects in the pipeline will be approved prior to their construction. We base our belief on: (1) the tight situation affecting the Chilean electricity sector, which hinges on the increasing natural gas supply shortages from Argentina (which has led to significant diesel generation as an alternative); and (2) the fact that the energy supply is not meeting demand with much room to spare, as no significant additional capacity is scheduled to be added to the system until 2010. Therefore, despite the uncertainty regarding the final decision about the different initiatives, we believe the approval of these projects is more likely than not, particularly considering that energy supply expansion is a key factor in ensuring sound and sustainable economic growth.

OPERATING ASSUMPTIONS

Figure 7. Madeco – Main Operating Figures per Business, 2006 – 2009E (CH\$ Mn)

	2006	2007E	2008E	2009E
Wire and Cable				
Tons	54,283	65,283	74,873	83,222
Revenues	272,990	349,068	366,783	371,689
EBITDA	37,640	46,261	50,907	55,660
EBITDA Margin	13.8%	13.3%	13.9%	15.0%
Flexible Packaging				
Tons	15,649	40,274	45,173	49,339
Revenues	46,325	99,869	103,882	108,938
EBITDA	7,556	13,405	14,857	16,387
EBITDA Margin	16.3%	13.4%	14.3%	15.0%
Copper Rod				
Tons	35,885	34,839	37,266	38,923
Revenues	134,693	141,375	132,585	120,477
EBITDA	6,675	6,008	6,262	6,690
EBITDA Margin	5.0%	4.2%	4.7%	5.6%
Brass Mills				
Tons	26,400	24,357	24,357	24,357
Revenues	119,665	115,470	101,365	89,383
EBITDA	10,173	4,972	3,796	3,840
EBITDA Margin	8.5%	4.3%	3.7%	4.3%
Aluminum Profiles				
Tons	12,262	12,963	14,259	15,614
Revenues	33,415	36,902	38,625	40,437
EBITDA	3,941	4,045	4,937	5,210
EBITDA Margin	11.8%	11.0%	12.8%	12.9%

Source: Company reports and Santander Investment estimates.



EARNINGS OUTLOOK

We expect Madeco's results to be bolstered by the wire and cable business, mainly by the Brazilian division.

On a consolidated basis, we are looking for EBITDA growth rates of 8.9% in 2007 and 6.6% in 2008, respectively. We expect Madeco to post an EBITDA of US\$136.0 million and US\$145.1 million in 2007 and 2008, respectively, while we are forecasting an EBITDA of US\$160.3 million in 2009. Meanwhile, EBITDA margins for 2007, 2008 and 2009 should reach 10.7%, 11.5% and 12.8%, respectively. We believe these results should mainly be driven by the company's Brazilian operations (wire and cable), which should contribute roughly 50% to the increase in EBITDA in 2007 and 2008, mainly on the back of the significant expected increases in volumes and better prices. It is also important to note the higher inter-annual comparison base affecting EBITDA growth in 2007, as Madeco posted a strong 66.7% increase in EBITDA in 2006.

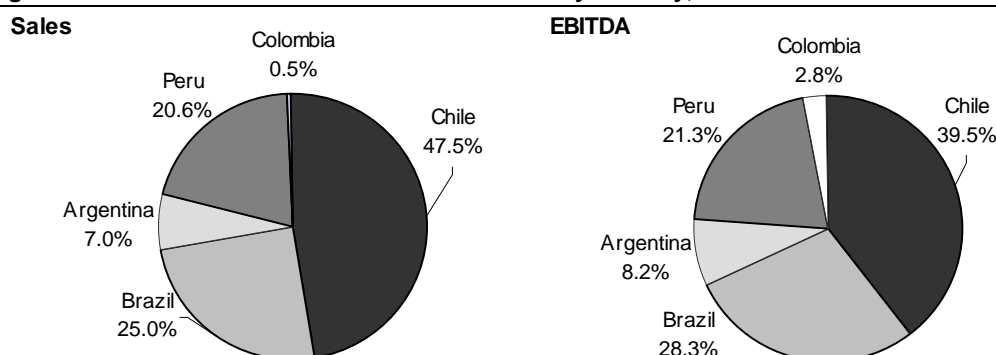
Figure 8. Madeco – Earnings Estimates, 2007E-2009E (U.S. Dollars in Millions*)

	2007E Current	2008E Current	2009E Current
Revenue	1,266.3	1,258.9	1,250.2
Op. Profit	108.2	115.8	130.1
Op. Margin	8.5%	9.2%	10.4%
EBITDA	136.0	145.1	160.3
Net Income	65.9	71.1	93.0
EPADR	1.19	1.28	1.68

*Except per share data. Sources: Company reports and Santander Investment estimates.

What to look for in different countries? In Brazil, we are estimating an EBITDA growth of 13.0% in 2007 and 10.7% in 2008, to US\$38.6 million and US\$42.8 million respectively, as a result of the strong demand for cables stemming from the electricity and telecommunication sectors, as well as producers of durable goods. In the case of Peru, we expect EBITDA growth rates of 13.9% and 7.4% for 2007 and 2008, respectively, to US\$29.1 million and US\$31.3 million. The Peruvian operations should benefit significantly from the positive economic outlook in this country, which should bolster both the wire and cable, and the flexible packaging operations (which have been consolidated by Madeco since 1Q07). Meanwhile, the Chilean operations are expected to post a consolidated decline in EBITDA of 13.0% in 2007, while growing 1.0% in 2008, significantly affected by the 52.8% and 26.0% declines in the brass mills unit's EBITDA in 2007 and 2008, respectively. This could largely be explained by the fact that the brass unit's products are facing stiffer competition from substitutes, while the company has stopped producing some items that were not profitable. Finally, we are forecasting EBITDA of US\$11.2 million and US\$11.7 million in Argentina for 2007 and 2008, respectively, while the new Colombian acquisition should reach an EBITDA of US\$3.8 million in 2007 and US\$5.5 million in 2008, according to our estimates.

Figure 9. Madeco – Sales and EBITDA Breakdown by Country, 2007E



Sources: Company reports and Santander Investment estimates.

Positives	Concerns
<ul style="list-style-type: none"> • Favorable economic outlooks for the different countries in which the company operates. • Leading market position in most of the companies' businesses units. • No significant investments are required to increase production, as the company is currently operating below maximum capacity. 	<ul style="list-style-type: none"> • Exposure to exchange rate fluctuations. • Exposure to political and economic risks. • Commodity prices fluctuations could affect margins, while intensifying working capital needs.

VALUATION

We are setting a 2007 year-end target price of US\$15.00 per ADR, or Ch\$80.00 per share.

We are initiating coverage of Madeco with a year-end 2007 target price of US\$15.00 per ADR, equivalent to Ch\$80.0 per share. Our price target implies a potential upside of 24.9% from current levels. It is important to note that, according to our estimates, the company is unable to pay dividends until 2008, considering that it has retained losses until 2Q08. The potential upside return is higher than our forecast for a 6.9% return from the IPSA in the same period. **We are thus initiating coverage of Madeco with a Buy rating on the stock.**

Our 2007 year-end target price is based on a sum-of-the-parts analysis. We divided Madeco's businesses into 15 units, including all the operations (wire and cable, copper rod, brass mills, flexible packaging and aluminum profiles) distributed among the five different countries in which Madeco operates (Argentina, Brazil, Chile, Colombia and Peru). Using a DCF analysis, we discounted Madeco's free cash flows for its different businesses from 2008 (year one) until 2017, using a weighted average cost of capital (WACC) depending on which country the operation is located in. We estimated each operation's debt and cash and equivalents, while we valued Madeco's equity income using our estimates for 2007 and a 19.9 times estimated 2007 P/E multiple for our Chilean sample. Our perpetuity value figure assumes a 1.0% terminal growth rate per year.

**Figure 10. Madeco – Sum-of-the Parts Analysis (U.S. Dollars in Millions)**

Operation	NPV of CF	Madeco Stake	Total Debt	Cash & Equiv.	Fin. Debt	Equity Value	Stake
Argentina							
Wire & Cable	35.3	100%	3.1	1.8	1.3	34.0	34.0
Brass Mills	3.1	100%	0.3	0.2	0.0	3.0	3.0
Flexible Packaging	15.1	76%	1.3	1.1	0.2	14.9	11.3
Optic Fiber	1.1	100%	0.1	0.1	0.0	1.1	1.1
Brazil							
Wire & Cable	260.5	100%	49.9	13.7	36.2	224.3	224.3
Chile							
Copper Rod	68.5	100%	22.7	2.3	20.4	48.0	48.0
Wire & Cable	120.9	100%	40.2	5.2	35.0	86.0	86.0
Brass Mills	11.6	100%	3.9	2.7	1.2	10.4	10.4
Coin Unit	9.9	100%	3.3	1.2	2.1	7.8	7.8
Flexible Packaging	85.2	76%	28.3	3.6	24.7	60.5	46.0
Aluminum Profile	69.0	100%	22.9	2.5	20.4	48.6	48.6
Colombia							
Wire & Cable	54.6	80%	9.1	1.1	8.0	46.6	37.3
Peru							
Copper Rod	33.8	100%	2.3	1.3	1.0	32.9	32.9
Wire & Cable	183.0	100%	12.3	8.6	3.6	179.4	179.4
Flexible Packaging	70.6	50%	4.7	3.7	1.0	69.6	34.8
Sum Of the Part	1,022.3						805.0
Equity Income							21.4
Inter-Company Debt							3.5
Target Equity Value							829.9
Curr Market Cap							665.5
DCF Target Price							15.00
Current Price							12.01
Upside potential							24.9%
Div Yield							0.0%
Total Return							24.9%

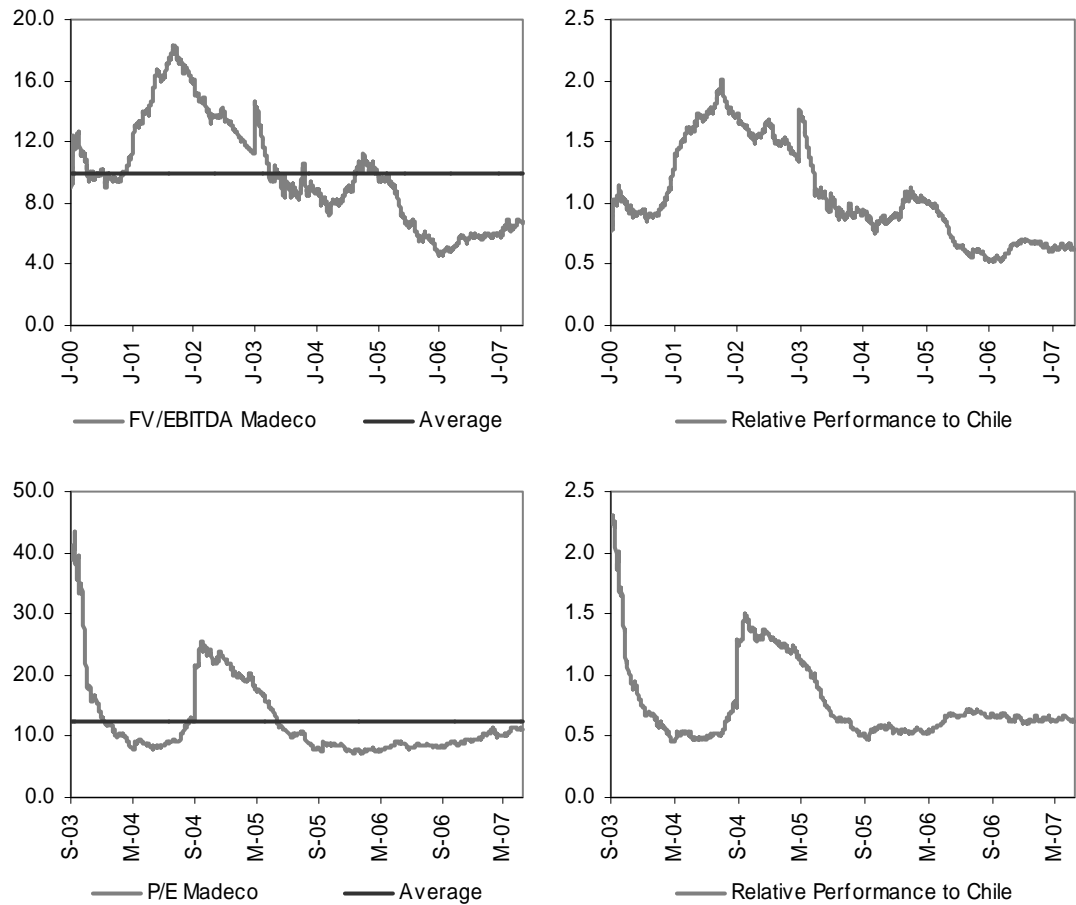
Target price and current ADR price in U.S. dollars. Note: Debt per business assumes the effective debt breakdown per country, distributed among the different country operations according to the weight of each net value over the company's total net asset value. Cash per country is distributed according to EBITDA breakdown. Source: Santander Investment estimates.

VALUATION MULTIPLES: TRADING AT A DISCOUNT

Madeco is currently trading at a discount compared to its historical multiples, as well as to the Chilean market.

Madeco is currently trading at a discount both to its historical multiple and to the Chilean market. According to our estimates, Madeco is currently trading at a 12-month forward FV/EBITDA multiple of 6.4 times, which represent a 35.3% discount to its historical average (since 2000) of 10.0 times, and a 35.5% discount to the market multiple of 10.0 times. If we consider a shorter period (since 2003), when Madeco started to modify its debt structure through capital increases, we note that the company is currently trading at a discount of 10.5% to its historical multiple of 7.2 times. In terms of 12-month projected P/E multiple, Madeco is currently trading at a discount of 14.0% compared with the average P/E multiple of 12.3 times since September 2003 (when the multiple incorporates the inflection point in Madeco's negative results during year 2004). In addition, Madeco is also trading at a 32.4% discount to the Chilean market.

Figure11. Madeco - Historical 12-month Forward FV/EBITDA (2000-2007E) and P/E (2003-2007E)



Sources: Company reports and Santander Investment estimates.

We also believe that Madeco could be an alternative to play the Latam construction and infrastructure industry, at what we consider a discount. The FV/EBITDA 2007 for our Latam infrastructure and construction companies is currently trading at 9.9 times, which represents a 34.2% premium versus Madeco. However, it is important to note that EBITDA growth perspectives are lower compared to the sample average, which could justify Madeco's discount. In addition, when comparing Madeco with industrial companies such as Randon and Grupo Carso (which controls ConduMex), we note that it is currently trading at discounts of 26.0% and 20.9%, respectively, in terms of FV/EBITDA.



Figure 12. Latin America Infrastructure and Construction Valuation Multiples, 2006-2008E

Com pany	Inv Code	Price 22-May	Target Price	Upside/ Down	Mkt Cap	Avg Daily Vol	P/BV	Div Yield	P/E			FV/EBITDA		
									06E	07E	08E	06E	07E	08E
Irsa	B	21.3	19.0	-11%	928	3.4	1.8	--	23.2	22.1	17.6	11.9	12.6	10.9
Juan Minetti	B	0.8	1.1	43%	279	0.0	0.8	--	14.8	9.3	9.3	5.2	3.5	3.1
Argentina					1,208	3.4	1.4	--	19.7	16.7	14.6	8.6	8.2	7.3
Aby ara	B	11.2	12.5	11%	571	1.0	6.3	1%	NM	39.0	19.1	35.9	35.6	15.8
Cyrela	B	12.3	13.7	12%	4,343	12.8	3.8	1%	30.5	29.7	15.7	27.2	22.4	11.9
Duratex	UPerf	25.4	18.0	-29%	3,175	11.0	4.2	--	17.6	20.1	18.6	9.3	12.4	11.1
Gafisa	H	17.0	17.5	3%	2,237	9.1	5.4	1%	76.0	30.1	21.3	40.0	24.5	17.0
Randon	B	7.5	8.6	14%	1,177	2.3	3.6	2%	11.3	15.9	13.3	7.3	9.7	7.7
Brazil					11,503	33.9	4.3	1%	30.1	26.3	17.7	19.2	18.7	12.7
Madeco	B	12.0	15.0	25%	830	1.9	1.2	--	10.8	10.1	9.4	6.4	6.5	5.1
Masisa	B	12.9	14.0	8%	1,464	0.7	1.2	2%	30.9	20.2	16.9	10.8	12.3	10.1
Chile					2,294	2.6	1.2	2%	23.6	16.5	14.2	9.2	10.2	8.3
C. Argos	B	4.2	4.1	-3%	4,787	2.2	1.8	1%	49.1	32.1	26.8	14.4	10.4	9.2
Colombia					4,787	2.2	1.8	1%	49.1	32.1	26.8	14.4	10.4	9.2
Ara	B	1.7	1.9	13%	2,213	6.4	3.0	2%	18.0	15.2	12.8	11.6	10.4	9.0
Cemex	B	35.6	36.0	1%	27,202	126.3	2.0	5%	10.4	12.2	12.0	8.0	7.5	6.9
Geo	B	5.8	6.0	4%	3,086	14.2	5.1	--	19.3	21.4	16.3	10.8	10.7	9.0
Grupo Carso	H	3.9	3.3	-16%	9,214	3.3	1.8	1%	13.3	18.4	18.2	7.7	8.4	8.2
Homex	H	62.4	64.0	2%	3,496	27.3	3.9	--	28.9	18.2	15.2	13.5	11.1	9.4
ICA	H	50.8	49.0	-4%	1,705	0.9	1.6	--	33.1	33.6	31.7	11.5	11.8	10.3
Sare	B	1.9	1.9	1%	718	1.3	2.4	--	14.9	15.7	12.4	9.8	10.5	8.6
Urbi	H	4.2	4.4	5%	3,769	7.2	5.0	--	23.1	21.1	17.8	13.2	13.1	11.1
Mexico					51,403	186.8	2.4	4%	12.8	14.2	13.3	9.0	8.6	7.7
Sample					71,195	229.0	2.4	3%	15.2	16.3	14.6	10.2	9.9	8.7

Prices/Targets in US\$. Sources: Company reports and Santander Investment estimates

In addition, when looking at companies focused on businesses similar to Madeco's, mainly copper and aluminum products producers, we note that the company is also trading at a discount. Madeco is currently trading at a 27.0% discount to the average FV/EBITDA of our sample of companies, which are currently trading at 8.9 times.

Figure 13. International Comparative Valuation Multiples, 2006-2008E

Company	FV/EBITDA			P/E		
	2006	2007E	2008E	2006	2007E	2008E
Belden CDT	14.9	10.2	8.5	32.3	21.5	17.0
General Cable Corp	14.7	9.4	8.1	29.5	15.4	13.7
Nexans	10.7	8.0	7.3	26.2	17.2	15.3
Geberit	15.7	13.8	12.9	23.9	20.5	18.8
Bemis Company	7.9	7.6	7.2	17.6	16.7	15.3
Sealed Air Corp	9.6	8.8	8.2	22.2	19.3	17.1
Alcoa	7.6	7.0	6.6	13.4	12.0	12.1
Madeco	6.4	6.5	5.1	10.8	10.1	9.4
Average	10.9	8.9	8.0	22.0	16.6	14.8

Sources: Bloomberg, Company reports and Santander Investment estimates.

Figure 14. Madeco – Sum-of-the Parts Analysis (U.S. Dollars in Millions)

	Argentina	Brazil	Chile	Colombia	Peru
Risk-Free Rate	5.2%	5.2%	5.2%	5.2%	5.2%
Unlevered Beta	0.84	0.84	0.84	0.84	0.84
Capital Estructure (D/E)	0.0%	25.0%	25.0%	25.0%	25.0%
Beta Leveraged	1.02	1.02	1.02	1.02	1.02
Equity Risk Premium	5.5%	5.5%	5.5%	5.5%	5.5%
Country Risk	2.9%	1.6%	0.8%	1.4%	1.2%
Cost of Equity	13.7%	12.3%	11.6%	12.2%	12.0%
Equity/(Debt + Equity)	100%	80%	80%	80%	80%
Cost of Debt	9.1%	7.8%	7.0%	7.6%	7.4%
Tax Rate	33%	34%	17%	36%	30%
After Tax Cost of Debt	6.1%	5.1%	5.8%	4.9%	5.2%
Debt/(Debt + Equity)	0%	20%	20%	20%	20%
WACC	13.7%	10.9%	10.4%	10.7%	10.6%
Perpetuity Growth Rate	1.0%	1.0%	1.0%	1.0%	1.0%

Source: Bloomberg and Santander Investment estimates.

Figure 15. Argentina – Select Economic Projections, 2005-2008E

	2005	2006	2007E	2008E
Real GDP (%)	9.2	8.5	8.0	6.3
CPI Inflation (%)	12.3	9.8	10.0	11.0
US\$ Exchange Rate (Year-End)	2.99	3.06	3.14	3.19
Interest Rate (Average)	5.0	9.0	8.5	10.0
Fiscal Balance (% of GDP)	1.8	1.8	1.1	0.9
Current Account Balance (% of GDP)	3.1	3.8	2.6	1.6
International Reserves (US\$ Bn)	28.0	32.0	45.1	51.2
Total External Debt (US\$ Bn)	118.1	100.3	105.1	110.9

Source: Santander Investment historicals and forecasts.

Figure 16. Brazil – Select Economic Projections, 2005-2008E

	2005	2006	2007E	2008E
Real GDP (%)	2.9	3.7	4.3	4.3
CPI Inflation (%)	5.7	3.1	3.4	3.5
US\$ Exchange Rate (Year-End)	2.34	2.14	1.90	1.90
Interest Rate (Average)	19.0	15.1	12.2	10.3
Fiscal Balance (% of GDP)	-3.0	-3.0	-2.0	-1.4
Current Account Balance (% of GDP)	1.6	1.3	0.3	-0.8
International Reserves (US\$ Bn)	53.8	85.8	140.5	168.7
Total External Debt (US\$ Bn)	168.5	172.5	181.4	186.9

Source: Santander Investment historicals and forecasts.

Figure 17. Chile – Select Economic Projections, 2005-2008E

	2005	2006	2007E	2008E
Real GDP (%)	5.7	4.0	5.7	5.2
CPI Inflation (%)	3.7	2.6	2.8	3.0
US\$ Exchange Rate (Year-End)	514	534	535	550
Interest Rate (Average)	3.5	5.0	4.8	5.4
Fiscal Balance (% of GDP)	4.7	7.9	8.0	5.1
Current Account Balance (% of GDP)	1.1	3.6	1.7	1.7
International Reserves (US\$ Bn)	17.0	19.4	16.4	16.6
Total External Debt (US\$ Bn)	44.9	47.7	48.3	50.3

Source: Santander Investment historicals and forecasts.

**Figure 18. Colombia – Select Economic Projections, 2005-2008E**

	2005	2006	2007E	2008E
Real GDP (%)	5.3	6.8	5.7	5.1
CPI Inflation (%)	4.9	4.5	5.2	4.5
US\$ Exchange Rate (Year-End)	2,285	2,238	2,225	2,310
Interest Rate (Average)	6.3	6.6	8.7	8.7
Fiscal Balance (% of GDP)	0.0	-0.8	-0.9	-1.6
Current Account Balance (% of GDP)	-1.3	-1.7	-1.0	-0.9
International Reserves (US\$ Bn)	14.9	14.6	15.9	16.1
Total External Debt (US\$ Bn)	28.0	23.4	25.4	28.5

Source: Santander Investment historicals and forecasts.

Figure 19. Peru – Select Economic Projections, 2005-2008E

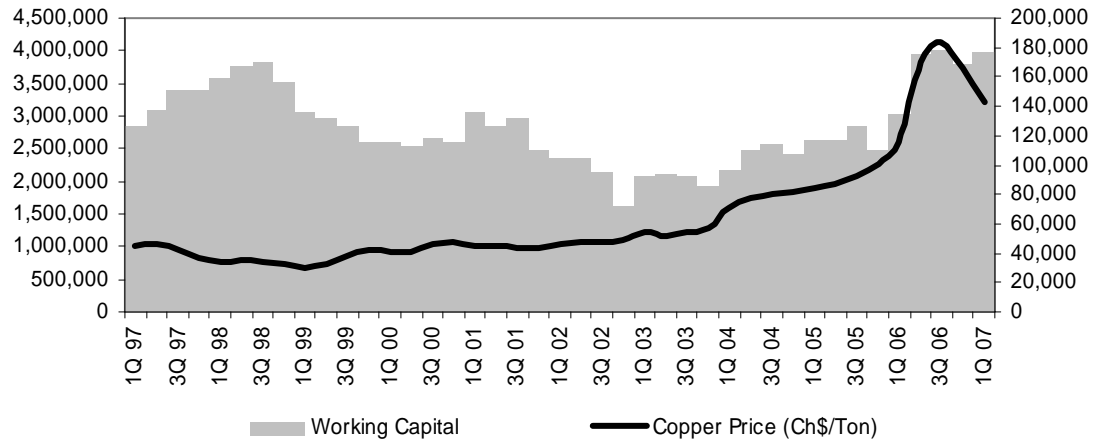
	2005	2006	2007E	2008E
Real GDP (%)	6.4	7.8	7.1	6.0
CPI Inflation (%)	1.5	1.1	2.0	2.5
US\$ Exchange Rate (Year-End)	3.43	3.20	3.17	3.15
Interest Rate (Average)	10.4	10.8	11.0	11.5
Fiscal Balance (% of GDP)	-0.3	1.9	0.0	-0.5
Current Account Balance (% of GDP)	1.4	2.6	2.8	2.1
International Reserves (US\$ Bn)	14.1	17.3	19.1	19.6
Total External Debt (US\$ Bn)	28.7	27.9	27.5	27.2

Source: Santander Investment historicals and forecasts.

RISKS TO INVESTMENT THESIS

- **A downturn in Latam economies could significantly affect Madeco's results.** Madeco's operations would be negatively affected in the event the Latam region experiences any sign of an economic deceleration. This is explained by the significant diversification of Madeco's business units throughout the region, and the dependence of its core products on the levels of investment in sectors such as electricity, mining, telecommunication, infrastructure and construction, which are key drivers for GDP expansion. It is worth remembering that 55.2% of Madeco's 2006 EBITDA came from outside Chile. Meanwhile, results will also depend on the level of growth of the company's main export markets. In addition, there are some political issues that could negatively affect the performance of Madeco's operations, particularly in Argentina. In this regard, our economic team is concerned about the sustainability of the current economic expansion with easier money, more regulation of the domestic economy, and accumulating imbalances due to price controls implemented during the Kirchner administration.
- **An increase in copper prices could imply a significant increase in working capital needs for Madeco.** Copper is one of the main raw materials for Madeco, and in the case of Chile, while the company has its supply of copper assured by the Copper Reserve Law, it has to pay for it in advance. This means the company has to finance increases in copper prices by itself, and receives no credit from its Chilean copper suppliers. It is important to mention that, since Madeco bases its prices in a close-to-constant margin per ton, an increase in copper prices positively affects revenue, and if volumes do not alter significantly it does not have any direct impact on the company's EBITDA.

Figure 20. Madeco – Estimate Revisions, 1997-2007E (Chilean Pesos in Millions)



Sources: Company reports and Santander Investment estimates.

- An increase in Madeco’s product prices could lead to some substitution.** Although most of the effects of this substitution risk would already be incorporated in the company’s valuation, such as the wireless telecom tendencies which negatively impacted demand for copper and fiber optics, we believe the higher utilization of PVC pipes could narrow margins at Madeco’s brass mills. Although PVC pipes have lower technical specifications than copper pipes (in terms of corrosion and fur formation), the lower price makes PVC pipes an attractive substitute for Madeco’s pipes. However, this risk would be moderated by the fact that PVC price is strongly correlated to the price of fuel oil. Meanwhile, aluminum profiles could be substituted by PVC profiles, but in our view, this risk could be moderated by the fact that Madeco is looking to enter this industry. In addition, aluminum profiles margins have been recently affected by the entrance of imported windows from China to the Chilean market. Finally, flexible packaging could be substituted by plastic containers. However, similar to aluminum profiles, the risk of this should be limited by the correlation between plastic and fuel oil prices, in our view.



FINANCIAL STATEMENTS

Figure 21. Madeco – Income Statement, Balance Sheet, and CF Statement, 2006-2009E
(U.S. Dollars in Millions)

Income Statement	2006	%	2007E	%	2008E	%	2009E	%
Sales	1,043.8	100%	1,266.3	100%	1,258.9	100%	1,250.2	100%
Cost of Sales	(894.2)	-86%	(1,094.6)	-86%	(1,071.7)	-85%	(1,040.7)	-83%
Gross Profit	149.7	14%	171.7	14%	187.2	15%	209.5	17%
SG&A Expenses	(53.0)	-5%	(63.4)	-5%	(71.3)	-6%	(79.4)	-6%
Operating Profit	96.6	9%	108.2	9%	115.8	9%	130.1	10%
Depreciation	(25.0)	-2%	(27.8)	-2%	(29.2)	-2%	(30.2)	-2%
EBITDA	121.6	12%	136.0	11%	145.1	12%	160.3	13%
Financing Costs	(20.7)	-2%	(16.0)	-1%	(17.3)	-1%	(5.2)	0%
Interest Paid	(21.3)	-2%	(23.6)	-2%	(14.9)	-1%	(4.0)	0%
Interest Earned	3.0	0%	5.1	0%	5.3	0%	2.2	0%
Monetary Gain/Loss	(3.0)	0%	(1.1)	0%	(0.9)	0%	(1.0)	0%
Forex Exposure	0.6	0%	3.6	0%	(6.7)	-1%	(2.5)	0%
Goodwill Amortization	(3.2)	0%	(3.4)	0%	(3.4)	0%	(3.4)	0%
Other Financial Operations	(5.1)	0%	(4.9)	0%	(5.0)	0%	(5.3)	0%
Profits Related Companies	1.3	0%	1.1	0%	1.1	0%	1.1	0%
Profit before Taxes	68.9	7%	85.0	7%	91.2	7%	117.3	9%
Tax Provision	(9.7)	-1%	(13.5)	-1%	(14.5)	-1%	(18.6)	-1%
Profit after Taxes	59.2	6%	71.5	6%	76.7	6%	98.7	8%
Minority Interest	(2.9)	0%	(5.7)	0%	(5.7)	0%	(5.8)	0%
Net Income	56.4	5%	65.9	5%	71.1	6%	93.0	7%
Balance Sheet	2006		2007E		2008E		2009E	
Assets	778.1	100%	934.4	100%	872.2	100%	897.3	100%
Current Assets	433.6	56%	551.1	59%	501.2	57%	522.5	58%
Cash and Equivalents	43.4	6%	49.3	5%	49.3	6%	75.3	8%
Accounts Receivable	179.2	23%	249.5	27%	229.1	26%	215.6	24%
Inventories	182.2	23%	220.4	24%	190.8	22%	199.0	22%
Other Short-Term Assets	28.8	4%	32.0	3%	32.0	4%	32.7	4%
Long-Term Assets	344.4	44%	383.3	41%	371.0	43%	374.8	42%
Fixed Assets	276.2	35%	320.2	34%	321.2	37%	327.4	36%
Inv. in Related Companies	23.4	3%	11.2	1%	11.2	1%	11.4	1%
Other Assets	44.8	6%	51.9	6%	38.6	4%	36.0	4%
Liabilities	287.0	37%	328.8	35%	185.8	21%	132.3	15%
Current Liabilities	149.8	19%	239.2	26%	140.1	16%	105.4	12%
S.T Financial Debt	68.6	9%	144.5	15%	48.8	6%	9.5	1%
Other Current Liabilities	81.2	10%	94.6	10%	91.3	10%	95.9	11%
L.T Financial Debt	115.2	15%	59.8	6%	15.8	2%	(3.7)	0%
Other Liabilities	171.9	22%	269.1	29%	170.0	19%	135.9	15%
Equity	469.6	60%	551.8	59%	632.6	73%	710.2	79%
Minority Interest	21.4	3%	53.7	6%	53.8	6%	54.8	6%
Cash Flow	2006		2007E		2008E		2009E	
Net Income	56.4		65.9		71.1		93.0	
Depreciation	25.0		27.8		29.2		30.2	
Changes in Working Capital	(108.6)		(84.8)		47.1		16.3	
Non-Cash Items	6.2		0.8		11.0		6.8	
Cash Flow from Operations	11.0		9.7		158.5		146.3	
Capex	(26.8)		(43.9)		(29.9)		(30.0)	
Cash Flow	(15.7)		(34.2)		128.6		116.3	

Sources: Company reports and Santander Investment estimates.

Figure 22. Madeco – Income Statement, Balance Sheet, and CF Statement, 2006-2009E
(Chilean Pesos in Millions)

Income Statement	2006	%	2007E	%	2008E	%	2009E	%
Sales	557,838	100%	677,470	100%	692,372	100%	694,485	100%
Cost of Sales	(477,853)	-86%	(585,637)	-86%	(589,424)	-85%	(578,110)	-83%
Gross Profit	79,985	14%	91,833	14%	102,948	15%	116,375	17%
SG&A Expenses	(28,340)	-5%	(33,942)	-5%	(39,242)	-6%	(44,095)	-6%
Operating Profit	51,645	9%	57,892	9%	63,706	9%	72,279	10%
Depreciation	(13,360)	-2%	(14,848)	-2%	(16,076)	-2%	(16,777)	-2%
EBITDA	65,005	12%	72,740	11%	79,782	12%	89,056	13%
Financing Costs	(11,052)	-2%	(8,574)	-1%	(9,504)	-1%	(2,878)	0%
Interest Paid	(11,384)	-2%	(12,636)	-2%	(8,206)	-1%	(2,208)	0%
Interest Earned	1,601	0%	2,705	0%	2,905	0%	1,226	0%
Monetary Gain/Loss	(1,603)	0%	(578)	0%	(496)	0%	(530)	0%
Forex Exposure	334	0%	1,936	0%	(3,707)	-1%	(1,366)	0%
Goodwill Amortization	(1,717)	0%	(1,796)	0%	(1,848)	0%	(1,903)	0%
Other Financial Operations	(2,729)	0%	(2,618)	0%	(2,773)	0%	(2,942)	0%
Profits Related Companies	687	0%	576	0%	593	0%	611	0%
Profit before Taxes	36,834	7%	45,480	7%	50,174	7%	65,167	9%
Tax Provision	(5,192)	-1%	(7,224)	-1%	(7,970)	-1%	(10,351)	-1%
Profit after Taxes	31,642	6%	38,256	6%	42,204	6%	54,816	8%
Minority Interest	(1,535)	0%	(3,023)	0%	(3,111)	0%	(3,204)	0%
Net Income	30,134	5%	35,265	5%	39,126	6%	51,645	7%
Balance Sheet								
Assets	415,810	100%	499,913	100%	479,704	100%	498,465	100%
Current Assets	231,742	56%	294,849	59%	275,647	57%	290,267	58%
Cash and Equivalents	23,182	6%	26,353	5%	27,122	6%	41,804	8%
Accounts Receivable	95,772	23%	133,474	27%	125,999	26%	119,755	24%
Inventories	97,374	23%	117,911	24%	104,914	22%	110,567	22%
Other Short-Term Assets	15,414	4%	17,112	3%	17,611	4%	18,140	4%
Long-Term Assets	184,068	44%	205,063	41%	204,058	43%	208,198	42%
Fixed Assets	147,604	35%	171,303	34%	176,671	37%	181,859	36%
Inv. in Related Companies	12,520	3%	5,991	1%	6,166	1%	6,351	1%
Other Assets	23,945	6%	27,769	6%	21,221	4%	19,988	4%
Liabilities	153,400	37%	175,934	35%	102,187	21%	73,471	15%
Current Liabilities	80,056	19%	127,959	26%	77,058	16%	58,546	12%
S.T Financial Debt	36,671	9%	77,328	15%	26,843	6%	5,275	1%
Other Current Liabilities	43,385	10%	50,632	10%	50,215	10%	53,271	11%
L.T Financial Debt	61,553	15%	31,982	6%	8,670	2%	-2,028	0%
Other Liabilities	91,847	22%	143,952	29%	93,517	19%	75,499	15%
Equity	250,969	60%	295,239	59%	347,937	73%	394,527	79%
Minority Interest	11,441	3%	28,740	6%	29,580	6%	30,467	6%
Cash Flow								
Net Income	30,134		35,265		39,126		51,645	
Depreciation	13,360		14,848		16,076		16,777	
Changes in Working Capital	(58,031)		(45,385)		25,917		9,067	
Non-Cash Items	3,320		437		6,051		3,799	
Cash Flow from Operations	5,900		5,166		87,170		81,288	
Capex	(14,304)		(23,471)		(16,442)		(16,665)	
Cash Flow	(8,405)		(18,305)		70,728		64,623	

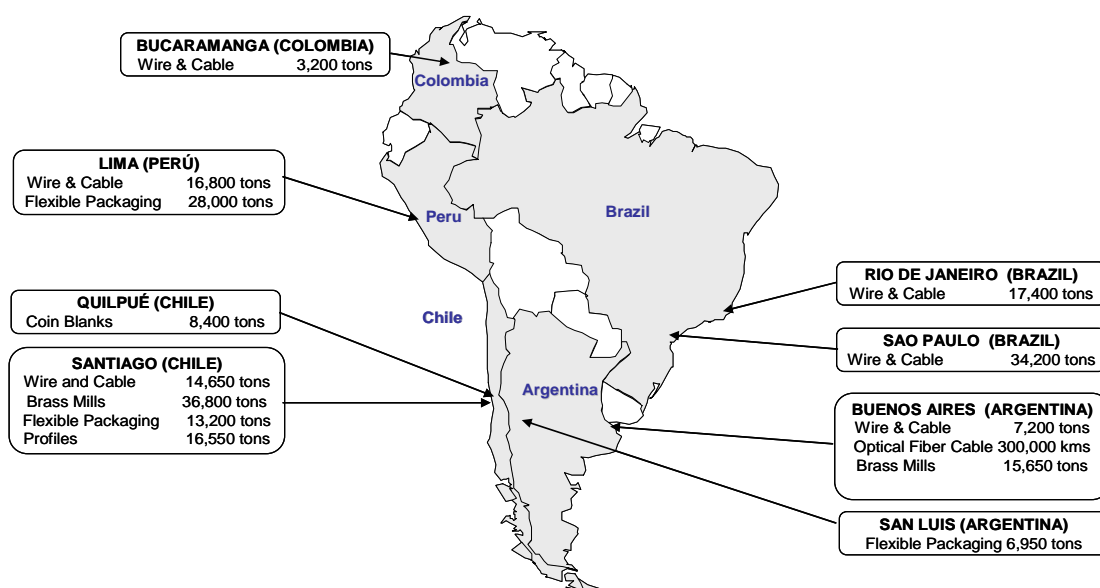
Sources: Company reports and Santander Investment estimates.



APPENDIX I: COMPANY DESCRIPTION

Madeco is a leading Latin American manufacturer of finished and semi-finished non-ferrous products based on copper, aluminum and related alloys, while it is also a manufacturer of flexible packaging products for use in the mass consumer market. The company has operations in Chile, Brazil, Peru, Argentina and Colombia, and its operations are divided in four main divisions: wire and cable, brass mills, flexible packaging and aluminum profiles.

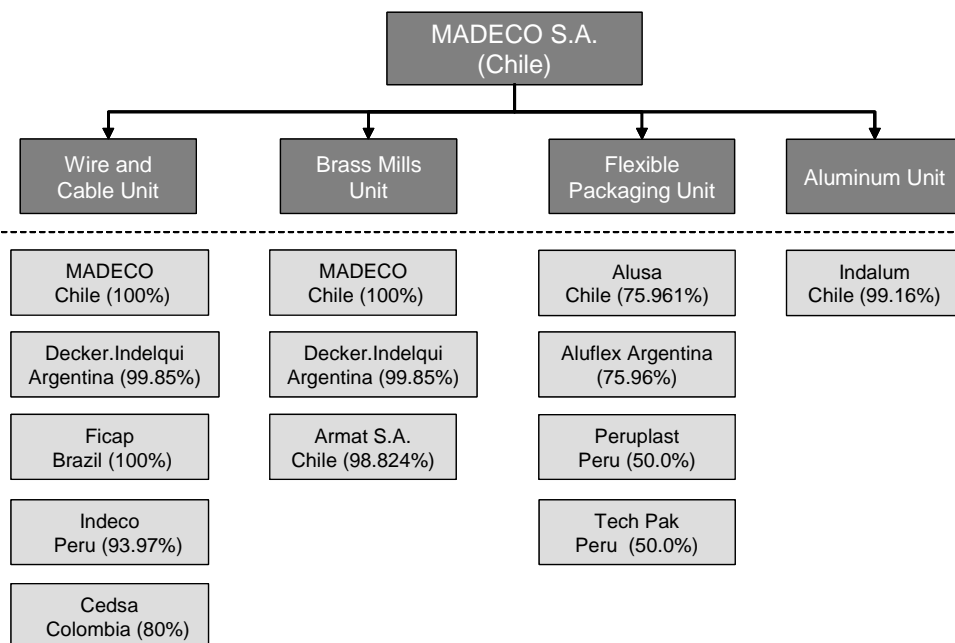
Figure 23. Madeco's Operations and Production Capacity, 2007



Sources: Company reports and Santander Investment estimates.

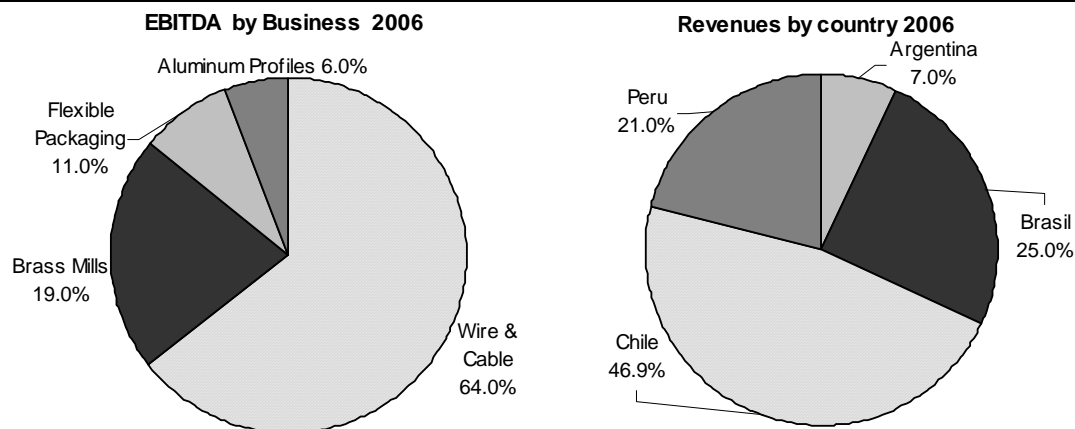
In terms of divisions, the main contributor to Madeco's consolidated sales is the Wire & Cable business, while in terms of countries, the company's Chilean operations account for the lion's share of consolidated sales. The Wire & Cable unit represented 64.4% of the company's consolidated revenues in 2006, and includes two divisions: Metallic Cable, which includes Copper Rod (operations in Chile, Brazil, Peru, Argentina and Colombia), and Optical Fiber (operating in Argentina). The Brass Mills unit represented 21.4% of the company's consolidated revenues in 2006, and includes two divisions: Pipes, Bars, and Sheets ("PBS", operations in Chile and Argentina); and Coins and Sheets (with operations only in Chile). The Flexible Packaging unit represented 8.3% of the company's consolidated revenues in 2006, and operates in Chile, Argentina and Peru. Meanwhile, the Aluminum Profiles unit represented 6% of the company's consolidated revenues in 2006, with operations only in Chile. Finally, in terms of countries, Chile represented 46.9% of total revenues, followed by Brazil (25%), Peru (21%) and Argentina (7%).

Figure 24. Madeco - Business Units and Main Subsidiaries



Source: Company reports.

Figure 25. Madeco- Revenues by Business/Country, 2006



Sources: Company reports and Santander Investment.



Figure 26. Madeco- Past Acquisitions

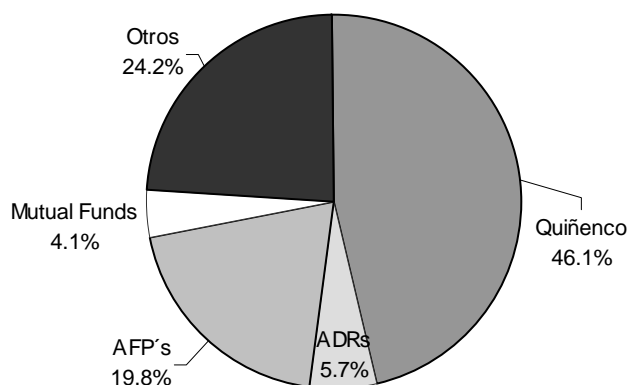
Year	Company	Stake	Country	Product
1988	Armat	99.99%	Chile	Coin Blanks and Minted Coins made of copper and copper based alloys
1990	Indelqui	98.3%	Argentina	Telecom and energy cables
1991	Indalum	99.16%	Chile	Aluminum profiles
1993	Triple C	100%	Peru	Cable producer
1993	Plant in Llavallol	100%	Argentina	Power cable
1994	Decker	100%	Argentina	Copper brass and sheets
1994	Indeco	92.92%	Peru	Cable manufacturer
1996	Peruplast and Tech Pak	25%	Peru	Flexible Packaging
1997	Ficap	67%	Brazil	Cable producer
1998	Ficap	33%	Brazil	Cable producer
1999	Ficap Optel	75%	Brazil	Optical fiber cables
2005	Ficap Optel	50%	Brazil	Optical fiber cables
2007	Cedsa	80%	Colombia	Cable producer
2007	Peruplast and Tech Pak	25%	Peru	Flexible Packaging

Source: Company reports.

SHAREHOLDER STRUCTURE

Madeco is currently controlled by Quiñenco, the holding company of the Luksic group. In 1980, Quiñenco began building a minority stake in the company, and ended up acquiring control in 1983. As of December 2006, Madeco's main shareholder was Quiñenco (46.2%), while the Chilean Pension Funds (AFPs) currently hold 17.8% and ADR holders 5.7%. The remaining 30.3% is in the hands of a diverse group of investors, which we believe includes retail investors and mutual funds.

Figure 27. Madeco – Shareholder Structure, as of March 2007



Sources: Company reports and Santander Investment.

The Quiñenco group is one of Chile's largest business conglomerates, with consolidated assets of around US\$3,044 million. Quiñenco is a publicly listed company (Ticker: QUINENC CI), and it is the controlling entity of a number of industrial and financial service companies. Today, Quiñenco's main investments include Banco de Chile, CCU, Telsur and Madeco. Quiñenco is controlled by the Luksic Group, which holds an 82.5% stake.

The management that currently runs Madeco assumed control in 2002, and led a restructuring of the company's debt. A new team, with extensive experience in the cable

manufacturing industry, led by Mr. Tiberio Dall'Olio, took over management of the company in October 2002. In March 2003, Madeco completed its debt restructuring process through a capital increase of approximately US\$169.9 million, the payment of 30% of the company's outstanding bank debt (US\$38.3 million), and a seven-year extension of the remaining bank debt (US\$74.2 million) with a three-year grace period.

PRODUCT DESCRIPTION

WIRE AND CABLE

Madeco is one of the largest cable producers in Latin America. Wire and Cable is Madeco's largest business unit; with revenues accounting for 64.4% of the company's consolidated sales in 2006. This unit produces metallic cables, which includes copper rod and optical fiber cable. The company has seven facilities for the production of metallic wire and cable products, located in Argentina, Brazil, Chile and Peru, as well as a plant in Colombia, which was acquired in February 2007. The former implies a total installed production capacity of 93,450 tpy of metal cable. Madeco has also one optical fiber cable manufacturing plant in Argentina, with a 300,000 kms capacity. Each country's production is mostly sold domestically, with exports representing only 14.6% of wire and cable revenues in 2005. Madeco currently produces a wide range of wire and cables, which are used mainly in the energy, mining, telecom and construction industries and by durable good manufacturers.

Figure 28. Madeco – Wire and Cable main products

Product	Uses
Copper and aluminum rod	Raw material for the fabrication of wires.
High capacity multi-pair transmission cables	Telecom underground trunk lines between major switching facilities
Distribution cable	Telecom interconnection of trunk lines to individual buildings
Internal Cable	Telecom cable within buildings
Bare copper and aluminum cable	High voltage transmission
Copper or aluminum insulated cables	Medium or low voltage distribution
Rubber and plastic insulated cables	Medium or low voltage distribution
Rubber insulated cables	Electric transmission for heavy machinery
Plastic insulated wire and cables	Manufacture of home appliances and internal energy distribution
Magnetic wires	Manufacture of motors and generators, electronic coil operations and refrigeration units.
Magnetic wire insulated with cotton or paper	Manufacture of transformers

Source: Company reports.

Copper is the main raw material used in the production of wires and cables, representing approximately 84% of the total raw material costs of this business unit. The Brazilian and Peruvian units purchases the majority of its copper requirements from domestic suppliers. In Chile, Madeco purchases its copper supplies from Corporación Nacional del Cobre (Codelco) and Empresa Nacional de Minería (Enami), and it's the only country where copper purchases are organized and controlled by the government. The government entity Corporación Chilena del Cobre (Cochilco) guarantees and regulates the supply of copper to all domestic manufacturers according to the Copper Reserve Law. All Chilean copper customers must inform Cochilco of its estimated copper requirements for the upcoming year, while Cochilco assigns the domestic copper demand to the various mining companies. Copper purchases are made on a monthly basis.

Madeco is an important player in the Wire and Cable industry in Chile, Brazil and Peru. In Chile, the company is the industry leader with 30% of market share, while its main competitor in this market is Phelps Dodge, with 28% market share. In Brazil, Madeco has a 15% market share, followed by Phelps Dodge with 12% and Prysmian with 10%. The company is the industry leader



in Peru, with a market share of 64%, and its main competitor is Conductores Eléctricos Peruanos (Cerper), with a market share of roughly 6%. In Argentina, Madeco maintains 9% of market share and currently has three main competitors, Prysmian being the most important with a market share of 32%.

BRASS MILLS

Madeco is one of the main producers of pipe and sheets in Argentina and Chile. The Brass Mills unit is Madeco's second-largest segment in terms of revenues, accounting for 21.4% of consolidated revenues in 2006. It produces pipes, bar sheet products and coin blanks in copper, aluminum and brass alloys, with three production facilities in Chile (two of Brass Mills and one of Coin Blanks), and two in Argentina, with a total capacity of 60,850 tpy. In Chile, Madeco is the largest local producer of pipes, bars and sheets, reaching a 54% of market share, while in the case of Argentina, the market is much more atomized, where Madeco is the third operator with an 11% market share.

The company's Brass Mills unit is the most internationally diversified, with customers in 20 different countries throughout the world. In 2005, 56.3 % of this business unit's revenue came from exports of pipes, bars and sheets to the United States, other countries in Latin America, Europe and Asia, with the remaining portion sold in Chile and Argentina. The main users of pipe bar and sheet products are durable goods manufacturers, mining, energy and the construction sectors. In the case of the coin products, the majority is exported to central banks and coin mints. Finally, the main raw materials used in the production of brass mills products are copper, aluminum, zinc, nickel and tin.

Figure 29. Madeco – Brass Mills, Main Products

Type	Uses
Copper pipes	Residential and commercial construction, sewage and potable water applications. Also is used in air conditioning, heating and refrigeration units and as in electric terminals and conductive bars.
Copper Bars	Raw material in the production of electrical devices.
Copper sheets and traps	Used in construction industry for power transformers. Also is used in roofs and gutter for houses and buildings.
Brass pipes	Used in the fabrication of condensers, heat exchangers, extinguishers, boiler feeding tubes and other mechanical components.
Brass bars	Used to make screws, bolts, nuts, fittings and electrical contacts.
Brass sheets	Used in the fabrication of radiators, lamps and fittings.
Brass wire	Used in the fabrication of scourers and zippers.
Aluminum discs	Used in the fabrication of pots and pans.
Aluminum sheets	Used in fabricating products for ducts and packaging.

Source: Company reports.

FLEXIBLE PACKAGING

Madeco is one of the leading manufactures of flexible packaging in Chile and Argentina, through its subsidiaries Alusa and Aluflex, respectively. In Peru, its two subsidiaries jointly represent the largest operator in the industry. The Flexible Packaging business unit accounted for 8.3% of consolidated revenues in 2006. The company has two plants, one in Chile and the other in Argentina, which produce different types of flexible packaging, with a total capacity of 20,150 tpy. In addition, in February, 2007, the company signed a contract to increase its stake in the Peruvian flexible packaging companies Peruplast and Tech Pak to 50%. The total capacity of the consolidated Peruvian operations now stands at 28,000 tpy.

The main clients of the flexible packaging units are local and international companies that produce food, snack and home products for mass consumer markets. Flexible packaging include: wrappers for candies and snacks, bags for cookies and personal hygiene products, envelopes for soups and powdered juices, flexible bags for ketchup and mayonnaise, as well as packaging for cleaning products such as laundry detergents, peel-off tops, labels for yogurt containers, and wrappers for frozen products. The main raw materials used in the production of flexible packaging are plastics (i.e.: polypropylene, polyethylene, resin and polyester), paper, aluminum foil, ink, adhesives and solvents. Madeco sells mainly its flexible packaging products in the same markets where it maintains operations. Additionally, Madeco exports flexible packaging to various countries, both within Latin America and abroad; export sales accounted for 14.1% of the total unit's revenues in 2005 (no data is available for 2006).

ALUMINUM PROFILES

Madeco is the largest aluminum profile manufacturer and distributor in Chile, with a reported market share of 67% in 2006. The aluminum profile business unit accounted for 6.0% of the company's consolidated revenue in 2006. These products are used to make window and door frames for use in residential construction. The company is vertically integrated in this division, and owns both the largest manufacturer (Indalum) and distributor (Alumco), having a production capacity of 16,550 tpy. Madeco's main client in this division is the construction sector, both residential and non residential, while the sales volume is closely related to growth of the economy and the residential sector.

Figure 30. Madeco – Aluminum Profiles, Main Products

Type	Uses
Product Lines	Aluminum profiles and door & window locking systems.
Xelentia (System)	Sliding windows and door walls, casement and awning windows, aluminum coupling system-sliding, double hung windows, fixed and swinging doors, vertical pivot doors.
Superba (System)	Sliding windows and door walls, casement and awning windows, three-leaf windows, double hug windows, fixed and swinging windows, single or paired swinging doors, vertical pivot doors.
Superba RPT (System)	Sliding windows and door walls, fixed & operated windows, singled or paired swinging doors, vertical pivot doors.
Profiles for Curtain Walls	Stick or frame type.
Multiuse profiles	Shower doors, tubes, plates, angles, channels for railings, curtain rods, privacy screens, etc.
Custom Profiles	Specifically designed to meet any type of special need.

Source: Company reports.

The company makes substantial efforts towards developing strong long-term relationships which each of its major customers. Madeco has approximately 50 active aluminum profile customers, twelve of which are its national distributors. The largest is its subsidiary Alumco, with eight sales representatives serving approximately 1,500 active clients. Selling efforts are primarily focused in the Chilean market, as exports only account for a small sales volume.

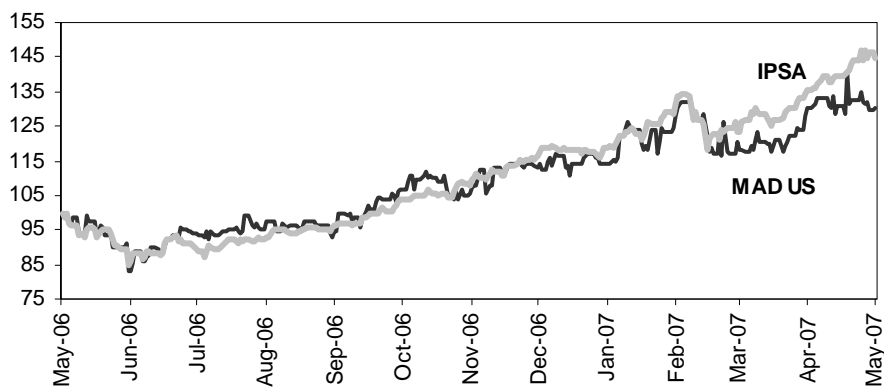
Aluminum is the main raw material used in the production of aluminum profiles, representing more than 74% of the total production cost. The company obtains most of its aluminum requirements from Aluar, located in Argentina, and STC Intermesa Trading Co, located in Brazil. Other raw materials used for aluminum profiles production include paint and chemical products. For the procurement of anodizing chemical products, the company establishes annual purchase agreements with its four main suppliers.

Being the only local producer of aluminum profiles in Chile enables the company to supply profile products more efficiently than its foreign competitors. The company's main competitor is the Brazilian manufacturer Alcoa, which is a recognized brand in the Chilean market. Other imports come mainly from the Republic of China.



IMPORTANT DISCLOSURES

Madeco – 12-Month Relative Performance (U.S. Dollars)



Sources: Bloomberg and Santander Investment.

IMPORTANT DISCLOSURES (CONTINUED)

Key to Investment Codes

Rating	Definition	% of Companies Covered with This Rating	% of Companies Provided Investment Banking Services in the Past 12 Months
Buy	Expected to outperform the local market benchmark by more than 5.0%.	52.52%	80.00%
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Underperform/Sell	Expected to underperform the local market benchmark by more than 5.0%.	8.63%	—

The numbers above reflect our Latin American universe, as of 7 May.

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