UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 1998**

_ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____________ to _____________
Commission file number 0-20486

COMPAÑIA CERVECERIAS UNIDAS S.A.
(Exact name of Registrant as specified in its charter)
UNITED BREWERIES COMPANY, INC.
(Translation of Registrant's name into English)

Republic of Chile
(Jurisdiction of incorporation or organization)

Bandera 84, Sixth Floor, Santiago, Chile
(56-2) 670-3000
(Address of principal executive offices)

Securities registered or to be registered pursuant to section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Stock, in the form of American Depositary Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.
None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.
Common stock, with no par value: **313,929,080**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES__X___ NO

Indicate by check mark which financial statement item the registrant has elected to follow.
ITEM 17_____ ITEM 18__X

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Introduction

In this Annual Report on Form 20-F, all references to the "Company" or "CCU" are to Compañía Cervecerías Unidas S.A., a stock corporation (*sociedad anónima*) organized under the laws of the Republic of Chile, and its consolidated subsidiaries, as of the date of the filing of this report. The fiscal year for the Company ends on December 31st. Unless otherwise specified, all references to "U.S. dollars", "dollars", or "US$" are to United States dollars, and references to "Chilean pesos", "pesos" or "Ch$" are to Chilean pesos. The Company publishes its financial statements in Chilean pesos that are adjusted to reflect changes in purchasing power due to inflation and/or changes in exchange rates. Unless otherwise specified, financial data regarding the Company is presented herein in constant Chilean pesos as of December 31, 1998 purchasing power. See the notes to the consolidated financial statements of the Company (the "Consolidated Financial Statements") included in pages F-7 through F-50 of this Annual Report. The Company uses the metric system of weights and measures in calculating its operating and financial data. The United States equivalent units of the most common metric units used by the Company are as shown on the following table:

1 liter = 0.2642 gallons	1 gallon = 3.7854 liters
1 liter = 0.008522 US beer barrels	1 US beer barrel = 117.34 liters
1 liter = 0.1761 soft drinks unit cases (8 oz cans)	1 soft drinks unit case (8 oz cans) = 5.6775 liters
1 liter = 0.1174 beer unit cases (12 oz cans)	1 beer unit case (12 oz cans) = 8.5163 liters
1 hectoliter = 100 liters	1 liter = 0.01 hectoliters
1 US beer barrel = 31 gallons	1 gallon = 0.0323 US beer barrels
1 hectare = 2.4710 acres	1 acre = 0.4047 hectares
1 miles = 1.6093 kilometers	1 kilometer = 0.6214 miles

This Annual Report contains various estimates by the Company of market share data and related sales volume information. These estimates are based principally on statistics published or made available by the single market research company that conducts store audits in Chile, A.C. Nielsen Chile S.A. ("Nielsen"), in the case of beer, soft drinks, mineral water and wine sales in Chile; the *Cámara de la Industria Cervecera Argentina* (Argentine Beer Industry Chamber, or "CICA") in the case of beer sales in Argentina; the Croatian Beer Industry Association in the case of beer sales in Croatia; and the *Asociación de Exportadores y Embotelladores de Vinos, A.G.* (the "Wine Exporters and Bottlers Association") in the case of Chilean wine exports. The Company believes that, due to the methodologies used, the statistics provided by these sources in some cases do not accurately reflect the Company's market share or industry sales volumes. For example, the Nielsen sampling base includes only the metropolitan areas of Chile and not the rural areas of the country, where the Company believes its beer market share is higher than in the metropolitan areas, due to its distribution system. Likewise, the sales of two of the Company's Argentine competitors are not reflected in CICA's statistics because these two companies are not members of CICA. Similarly, data regarding the size of the Chilean soft drinks and mineral water markets and market shares do not coincide with publicly available information of sales volume of the Company and its competitors. As a consequence, the Company has revised the share estimates from the sources identified below for Chilean and Argentine beer sales and soft drinks and mineral water sales to reflect what it believes is a more accurate measure of market shares, taking into account (i) reports published by the *Instituto Nacional de Estadísticas* (the Chilean National Institute of Statistics, or the "INE"), (ii) the Company's internal sales data, (iii) sales information filed publicly by the Company's competitors, (iv) equity research analyst reports and (v) import

and export reports made available by Chilean and Argentine customs authorities. However, the Company's revised estimates have not been confirmed by independent sources. Certain amounts (including percentage amounts) which appear herein have been rounded and may not sum exactly.

Exchange Rates

The *Ley Orgánica Constitucional del Banco Central de Chile N° 18.840* (the "Central Bank Act") now provides that the *Banco Central de Chile* (the "Central Bank") may determine that certain classes of purchases and sales of foreign exchange specified by law must be carried out in the *Mercado Cambiario Formal* (the "Formal Exchange Market"). The Formal Exchange Market is formed by the banks and the other entities so authorized by the Central Bank. All payments and distributions with respect to American Depositary Shares ("ADSs") described herein must be transacted at the spot market rate in the Formal Exchange Market.

For the purposes of the operation of the Formal Exchange Market, the Central Bank sets a reference exchange rate (*dólar acuerdo*) (the "Reference Exchange Rate"). The Reference Exchange Rate is reset monthly by the Central Bank, taking into account internal and external inflation, and is adjusted daily to reflect the variation in parities between the Chilean peso and each of the U.S. dollar, the Japanese yen and the German mark which, beginning January 14, 1999 was replaced by the Euro. The Central Bank, in order to keep the average exchange rate within certain limits, intervenes by buying or selling foreign exchange on the Formal Exchange Market. The daily observed exchange rate for a given date (the "Observed Exchange Rate"), reported by the Central Bank is the average exchange rate at which transactions are carried out in the Formal Exchange Market on the prior business day. The Central Bank, as well as other participants of the Formal Exchange Market are authorized to carry out their transactions at rates within a specified percentage of the Reference Exchange Rate (the "Percentage"). On December 23, 1998, the Percentage was set at 8.0% and the Central Bank decided to increase the Percentage by 0.013575% per day from December 24, 1998. Generally, however, the Central Bank carries out its transactions at the spot market rate. Nevertheless, when banks need to buy or sell dollars from or to the Central Bank, such transactions are made by the Central Bank at a rate of up to the Percentage above or below, the Reference Exchange Rate. Authorized transactions by banks are generally carried out at the spot rate, which usually fluctuates within a range above or below the Reference Exchange Rate equal to the Percentage.

Purchases and sales of foreign exchange which may be effected outside the Formal Exchange Market can be carried out in the *Mercado Cambiario Informal* (the "Informal Exchange Market"). The Informal Exchange Market and its predecessor, the "Unofficial Market", reflect the supply and demand for foreign currency. There are no limits imposed on the extent to which the rate of exchange in the Informal Exchange Market can fluctuate above or below the Observed Exchange Rate.

In summary, the purpose of the Reference Exchange Rate is to establish the range of spot market exchange rates at which transactions may occur, while the Observed Exchange Rate is the average exchange rate at which transactions are carried out in the Formal Exchange Market on a prior business day.

The following table sets forth the annual high, low, average and year-end Observed Exchange Rate for U.S. dollars for each year starting in 1994 as reported by the Central Bank. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

	Observed Exchange Rate of Ch$ per US$ (1)			
Year	Low (2)	High (2)	Average (3)	Period-end
1994	397.87	433.69	420.18	402.92
1995	368.75	418.98	396.77	406.91
1996	402.25	424.97	412.27	424.87
1997	411.85	439.81	419.31	439.18
1998	439.18	475.41	460.29	472.41
1999 (through March 31)	468.69	502.46	487.20	484.08

Source: Central Bank of Chile.

(1) Historical pesos.
(2) Observed Exchange Rates are the actual high and low, on a day-to-day basis, for each period.
(3) The average of monthly average rates during the period.

Incorporation of Certain Documents by Reference

The Company will provide without charge to each person to whom this Annual Report is delivered, on the written or oral request of any such person, a copy of any or all of the documents incorporated herein by reference (other than exhibits, unless such exhibits are specifically incorporated by reference in such documents). Written requests for such copies should be directed to Compañía Cervecerías Unidas S.A., Bandera 84, Piso 8, Santiago, Chile, Attention: Ricardo Reyes, Chief Financial Officer or Luis Eduardo Bravo, Investor Relations Director.

Facsimile requests may be directed to (56-2) 696-3468 or (56-2) 670-3585

Telephone requests may be directed to (56-2) 670-3416 or (56-2) 670-3400

E-mail requests may be directed to ccuir@ccu.cl

This Annual Report, as well as additional publicly available financial information provided by the Company from time to time, can be downloaded from the Company's web site at www.ccu-sa.com.

PART I

ITEM 1: Description of Business

1.1 Summary

The Company is a diversified beverage company operating principally in Chile and Argentina. The Company is the largest Chilean brewery, the second largest brewery in Argentina, the second largest Chilean soft drinks producer, the largest Chilean mineral water producer and the third largest wine producer in Chile. The Company's products in its beer and soft drinks businesses include a range of proprietary, licensed and imported brands.

In 1998, the Company had consolidated net sales of Ch$280,111 million, of which 41.8% was accounted for by beer sales in Chile, 13.5% by beer sales in Argentina, 31.4% by soft drinks, nectar and mineral water sales, 13.1% by wine sales and the remainder by sales of other products.

Beer. The Company estimates that its share of the Chilean beer market by volume was approximately 89% for 1996, 91% for 1997 and 90% for 1998. The Company's line of beers in Chile includes a full range of super-premium, premium, medium-priced and popular-priced brands, which are primarily marketed under five different proprietary brands and two brand extensions. The Company's flagship brand, Cristal, is Chile's best selling beer, accounting for an estimated 68% of all 1998 beer sales by volume in the country. The Company is the only brewery in the country with a nationwide production and distribution network, consisting of three production (brewing and bottling) facilities and one "bottling-only" facility. In January 1999, the Concepción plant was closed. This production facility will be replaced by a new plant in the southern city of Temuco which the Company expects to be in operation by the end of 1999. In addition, the Company is the exclusive distributor in Chile of imported Budweiser brand beer, the exclusive local producer of Guinness brand beer, and the exclusive local producer and importer of Paulaner brand beers.

The Company entered the Argentine beer market in 1995 by acquiring two breweries (and their respective brands), Compañía Industrial Cervecera S.A. ("CICSA"), with production facilities in the city of Salta, and Cervecería Santa Fe S.A. ("CSF"), with production facilities in the city of Santa Fe. The Company's Argentine operations also include a small mineral water production plant in the city of Rosario de la Frontera in the Salta province.

Under a joint venture agreement entered into with Anheuser-Busch Incorporated ("Anheuser-Busch") in December 1995, the Company began importing, selling and distributing Budweiser beer in Argentina in March 1996 and in Chile in October 1996. The Company began production and distribution of locally produced Budweiser beer in Argentina in December 1996 as part of its strategy to develop Budweiser as the flagship brand of its Argentine operations. Currently, as a result of the joint venture agreement and subsequent capital increases, the Company and Anheuser-Busch have 91.8% and 8.2% interests, respectively, in Compañía Cervecerías Unidas Argentina S.A. ("CCU Argentina"). The Company estimates that its market share of the Argentine beer market was approximately 9% in 1996, 11% in 1997 and 12% in 1998.

As of December 31, 1998, the Company also owned a 34.4% equity interest in Karlovacka Pivovara d.d. ("Karlovacka"), which owns and operates one of the largest breweries in Croatia. The Company's total investment in Karlovacka at December 31, 1998 was Ch$9,738 million. Karlovacka, which is not a consolidated subsidiary of the Company, contributed Ch$2,130 million, Ch$2,140 million and Ch$878 million to the Company's non-operating income in 1996, 1997 and 1998, respectively.

Soft Drinks and Mineral Water. The Company produces and sells soft drinks and mineral water products in Chile through a joint venture with Buenos Aires Embotelladora S.A. ("BAESA"). The joint venture company, called Embotelladoras Chilenas Unidas S.A. ("ECUSA"), is owned 55.0% by the Company and 45.0% by BAESA and was formed in November 1994 for the production, bottling and marketing of soft drinks, mineral water and nectar products previously sold by the Company's and BAESA's separate and competing entities. As a result, ECUSA is now the exclusive producer, bottler and distributor in Chile of the Company's proprietary brands and those brands produced under license from PepsiCo Inc. ("PepsiCo"), Cadbury Schweppes PLC ("Cadbury Schweppes") and Watt's Alimentos S.A. ("Watt's"). The Company is also the largest bottler and distributor of mineral water in Chile. ECUSA's soft drink and nectar products are produced in three facilities located throughout Chile, and its mineral water is produced in two bottling plants located at the natural sources in the central region of Chile. ECUSA operates its own distribution system in the central and certain southern areas of Chile and distributes its products through the Company's distribution system in conjunction with beer and wine in the northern and southern regions of the country. The Company estimates its Chilean soft drinks market share by volume to have been 26%, 24% and 24% and its Chilean mineral water market share by volume to have been 60%, 61% and 58% in 1996, 1997 and 1998, respectively.

Wine. The Company entered the Chilean wine industry in October 1994 with the acquisition of a 48.4% interest in Viña San Pedro S.A. ("VSP"), Chile's third largest winery and second largest wine exporter. After subsequent investments, the Company has increased its stake in VSP to 59.2% as of June 15, 1999. VSP produces and markets a full range of wine products for both the domestic and export markets. The Company believes that in 1998, VSP's sales by volume amounted to approximately 13% of total measured domestic industry sales and approximately 10% of Chile's total wine export sales. VSP's main vineyard is located in Molina, 200 kilometers south of Santiago. VSP's domestic wine products are distributed through the Company's nationwide distribution system and its export products are sold in 49 different countries through distribution agents.

Distribution Network. In Chile, the Company has an extensive and integrated distribution network for the sale and distribution of beer, soft drinks, mineral water, nectars and wine, including a total of 29 owned or leased warehouses, a network of independent transportation companies and a direct sales force of approximately 900 persons who sell the Company's products to more than 91,000 customers throughout the country. Specifically, the Company maintains one sales force dedicated to the sale of soft drinks, one dedicated to the sale of beer and wine, one dedicated to the sale of all products and another dedicated to "off-the-truck" sales of the Company's full range of products.

In Argentina, the Company's sales and distribution network for its beer products consists of 13 owned or leased warehouses and a direct sales force reaching approximately 12,400 customers. In addition, the Company entered into a distribution agreement with BAESA pursuant to which BAESA began full-scale distribution of the Company's beer in the greater Buenos Aires metropolitan area in December 1996. As of December 31, 1998, BAESA had

two sales forces responsible for the Company's products; one dedicated to key accounts that sells Budweiser brand beer along with BAESA's mineral water, soft drinks, etc., and targets approximately 1,100 high volume clients, and another that sells the Company's beer products in conjunction with the entire mix of BAESA products to another group of approximately 35,000 clients.

1.2 Historical Background

The Company was established in 1902 following the merger of two existing breweries. By 1916, the Company owned and operated the largest brewing facilities in Chile. The Company expanded its operations to include the production and marketing of soft drinks in 1916 and began bottling and selling mineral water products in 1960.

In 1986, Inversiones y Rentas S.A. ("Inversiones y Rentas"), the Company's principal shareholder, acquired its controlling interest through purchases of common stock, without nominal (par) value (the "Common Stock"), in an auction conducted by a receiver who had assumed control of the Company following an economic crisis in Chile and the resulting inability of the Company to meet its obligations to its creditors. All of CCU's Common Stock is currently owned by private parties. The Common Stock is listed and traded on the principal Chilean stock exchanges. See "—Item 4: Control of Registrant".

In September 1992, the Company issued 4,520,582 ADS, each representing five shares of the Company's Common Stock, in an international American Depositary Receipt ("ADR") offering. The ADSs were listed and traded on the National Association of Securities Dealers Automated Quotation National Market System ("NASDAQ") until March 25,1999. From that date, the ADRs have been listed and traded on the New York Stock Exchange ("NYSE").

In 1994, the Company diversified its operations both in the domestic and international markets. In October 1994, the Company purchased a 48.4% interest in the Chilean wine producer VSP (an interest which was subsequently increased to 50.1% in June 1995, to 51.2% in August-October 1997, to 52.2% in October 1998 and to 59.0% in May 1999). In November 1994, the Company created the ECUSA joint venture with BAESA for the production, bottling, distribution and marketing of soft drink and mineral water products in Chile. In addition, in 1994 through Southern Breweries Establishments ("SBE"), a 50%-owned company, the Company acquired a 26.9% indirect equity interest in Karlovacka, a Croatian brewer. Between 1994 and 1998, the Company increased its equity stake in Karlovacka to 34.4%.

Through CCU Argentina, the Company began its expansion into Argentina by acquiring an interest in two Argentine breweries, 62.7% of the outstanding shares of CICSA during January and February of 1995 and 98.8% of the outstanding shares of CSF in September 1995. Between June and September 1997, CCU Argentina increased its stake in CICSA to 97.2% and in CSF to 99.9% through the purchase of minority interests. In January 1998, the Company decided to merge these two breweries into one company operating under the name of CICSA. Following the merger, CCU Argentina's interest in CICSA was 99.2%. In April of 1998, CCU Argentina completed the purchase of the brand and assets of Cervecería Córdoba S.A. ("Cervecería Córdoba"), through a US$8 million transaction. The Company is currently brewing the Córdoba brand from its Santa Fe plant, while the Córdoba plant is currently being used as a warehouse servicing the areas of the province of Córdoba.

In addition to its acquisitions in Argentina, the Company signed a license agreement with Anheuser-Busch in 1995 granting it the exclusive right to produce, market, sell and distribute Budweiser brand beer in Argentina.

In December 1996 and January 1997, CCU increased its capital through the Company's second ADR offering in the international markets and through a simultaneous offering of Common Stock in the local Chilean market. A total of 48,630,167 shares of Common Stock, of which 10,823,750 shares were issued in the form of 2,164,750 ADRs, were subscribed and paid, raising approximately US$155 million.

During October 1997, 804,475 of the Company's remaining authorized and unissued shares from its 1996/1997 capital increase were sold in Chile in the form of Common Stock, raising approximately US$4 million. In May 1998, the Company sold an additional 3,100,000 of its remaining authorized and unissued shares of Common Stock in Chile, raising approximately US$15 million. In April 1999, the remaining 4,573,792 of the Company's shares from its 1996/1997 capital increase were sold through an auction on the *Bolsa de Comercio de Santiago* ("Santiago Stock Exchange"), raising approximately US$22 million.

The Company's principal executive offices are located at Bandera 84, Sixth Floor, Santiago, Chile. The Company's telephone number in Santiago is (56-2) 670-3000.

1.3 The Company's Beer Business

Commercial beer production was first established in Chile in 1830. Historically, the Company's core business has been its Chilean beer operations and the Company has played a leadership role in the industry since 1902. In 1995, the Company began building its presence in Argentina by acquiring a majority interest in two Argentine brewing companies, CICSA and CSF. In 1994, the Company also entered the Croatian beer market as it acquired a minority interest in a Croatian brewery, the results of which are not consolidated in the Company's Consolidated Financial Statements. See Notes 1(l) and 9 to the Consolidated Financial Statements.

1.3.1 The Company's Beer Business in Chile

The Chilean Beer Market. The Company estimates that annual beer consumption in Chile was 401 million liters in 1998, or approximately 27 liters per capita.

The following chart shows the Company's estimates for total and per-capita consumption levels for beer in Chile for the years 1994 -1998.

Year	Total Sales Volume (millions of liters)	Per Capita (liters)
1994	386	28
1995	400	28
1996	394	27
1997	397	27
1998	401	27

The Company estimates that the total beer market increased approximately 0.8% in terms of volume sold during 1998 as compared to 1997. The limited growth of the beer market in Chile for 1998 resulted from negative weather conditions caused by the El Niño phenomenon during the first half of 1998 and from the effects of the slowdown in Latin American economies during the second half of the year.

Virtually all of the beer consumed in Chile is produced by three Chilean manufacturers: the Company, Cervecería Chile S.A. ("Cervecería Chile") and Embotelladoras Coca-Cola Polar S.A. ("Polar"), whose principal brands of beer in Chile are Cristal, Becker and Austral, respectively. The Company estimates that in 1998, Cristal, Becker and Austral accounted for approximately 68%, 4% and slightly less than 1%, respectively, of total beer sales by volume in Chile. Due to the high costs of shipping beer to Chile and Chile's returnable glass bottle environment, sales of imported beer are not significant, representing an estimated 3% of total beer industry volume in 1998.

Wholesale and retail prices of beer are not regulated in Chile. Wholesale prices are subject to negotiation between the producer and the purchaser. Retail prices to the final consumer are determined by retailers. The Company believes that the key factors determining retailers' prices include: national and/or local price promotions offered by the manufacturer, the nature of product consumption (on-premise or take-out), the type of packaging (returnable or non-returnable), the desired profit margins and the geographical location of the retailer.

Beer Production and Marketing in Chile. The production of beer in Chile is the Company's principal activity, generating net sales of Ch$110,876 million, Ch$115,477 million and Ch$115,265 million or 44.0%, 42.4% and 41.1% of the Company's total net sales in 1996, 1997 and 1998, respectively. The Company's sales of beer by volume in Chile increased 0.3% in 1998. As a percentage of the Company's total net sales, net sales of beer in Chile have declined in recent years principally as a result of the Company's expansion and diversification into the Argentine beer and Chilean wine businesses.

The Company produces and markets super-premium, premium, medium-priced and popular-priced beers. The following table shows the Company's proprietary brands, brands produced under license and brands imported under license for the Chilean market:

Super-Premium beer brands	Premium beer brands	Medium-Priced beer brands	Popular-Priced beer brands
Royal Guard	Cristal	Escudo	Morenita
Royal Light			Dorada
Budweiser (1)			
Paulaner (1) (2)			
Guinness (2)			

(1) Imported
(2) Produced under license

Cristal is the Company's principal and best selling brand of beer in Chile. Escudo, Chile's second most popular beer, is a beer with a higher alcohol content than the Company's other beers. Royal Guard is the Company's single, proprietary, super-premium brand. Royal Light is a light beer extension of the Royal Guard line and contains a lower alcohol content. Morenita is a dark beer and Dorada is a discount brand.

In 1998, the Company exported a limited amount of beer. Export sales of beer accounted for less than 1% of the Company's net sales in 1998. Although the Company continually explores export opportunities, it does not expect beer exports to be a significant source of sales in the future since the Company's primary focus is on the domestic market.

The Company also produces, imports and markets Paulaner beer in Chile under an exclusive license agreement with Paulaner Brauerei AG ("Paulaner"), a German company. This license, granted in 1990, also permits the Company to sell Paulaner beer produced by the Company in other Latin American countries subject to the licensor's previous consent. Under the terms of the license, the Company cannot produce or distribute under license, import or promote any beer other than beer of its own proprietary brands without the prior consent of Paulaner, subject to certain exceptions. The license had an initial term of ten years beginning in May 1990 and was automatically renewable for successive ten-year periods. The agreement was amended in 1995 to provide for the Company's exclusive production in Chile of an additional super-premium beer under the Paulaner label and the Company's exclusive distribution in Chile of a variety of additional imported Paulaner products. The term of the amended contract was signed in May 1995 and is renewable for successive five-year periods beginning in the year 2000. Paulaner is a subsidiary of the Schörghuber Group, one of the two beneficial shareholders of Inversiones y Rentas, CCU's principal shareholder. See "—Item 4: Control of Registrant" and "Item 13: Interest of Management in Certain Transactions". The Company's total net sales of Paulaner beer accounted for Ch$895 million, or approximately 0.8% of its total net sales for beer in Chile in 1998.

In March 1995, a distribution agreement was signed between the Company and Guinness Brewing Worldwide Limited, represented by Guinness Brewing Worldwide Americas and Caribbean ("Guinness"), pursuant to which Guinness appointed the Company as the exclusive distributor in Chile of canned Draught Guinness beer and other products upon mutual agreement. Under the license, prior authorization from Guinness is required if the Company wishes to produce any kind of dark beer similar to the licensor's product, with the exception of Morenita proprietary beer brands. In April 1997, the Company signed a contract to produce Guinness locally. The contract, which amends the original one, is effective through March 2007 and is automatically renewable by mutual consent for an additional ten-year period. The Company's local production and distribution of Guinness is permitted under the Company's licensing agreement with Paulaner. The Company's total net sales of Guinness accounted for Ch$244 million in 1998, representing less than 0.3% of the Company's total net sales for beer in Chile.

In December 1996, the Company replaced its preliminary agreement for the distribution of imported Budweiser beer in Chile with a final agreement which granted the Company exclusive rights to distribute Budweiser beer in Chile and a right of first refusal in favor of the Company with respect to the distribution of all other Anheuser-Busch beers in Chile. The term of this final agreement is five years. During 1998, the Company's total net sales of Budweiser in Chile accounted for Ch$1,178 million, or approximately 1.0% of the Company's total net sales for beer in Chile.

The Company's beer products sold in Chile are bottled or packaged in returnable and non-returnable glass bottles, aluminum cans or stainless steel kegs at the Company's production facilities in the Chilean cities of Santiago, Concepción, Osorno and Antofagasta. During 1997 and 1998, the Company sold its beer products in Chile in the following packaging formats:

Container	Percentage of Total Beer Products Sold 1997	1998
Returnable (1)	82%	83%
Non-Returnable (2)	12%	12%
Returnable Kegs (3)	6%	6%
Total	100%	100%

(1) Returnable beer containers include glass bottles of various sizes.
(2) Non-Returnable beer containers include glass bottles and aluminum cans, both of assorted sizes.
(3) Returnable kegs are stainless steel containers which have a capacity of 50 liters.

The Company obtains all of its glass bottles and cans from third party suppliers. See "—Raw Materials" and "—The Company's Other Businesses".

The Company distributes its beer products directly throughout Chile to (i) small and medium sized retail outlets, which in turn sell beer to consumers for take-out consumption ("Retailers"), (ii) retail establishments such as restaurants, hotels and bars for on-premise consumption ("Bars and Restaurants"), (iii) wholesalers and (iv) supermarket chains. In 1997 and 1998, the percentage mix of the above distribution channels for the Company's beer products in Chile was as follows:

Distribution Channels	Percentage of Total Beer Products Sold 1997	1998
Retailers	42%	41%
Bars and Restaurants	24%	22%
Wholesalers	23%	25%
Supermarkets	12%	12%
Total	100%	100%

As of December 31, 1998, the Company had more than 38,000 customers in Chile for its beer products, none of which accounted for more than 3% of its total beer sales by volume. The Company does not maintain any long-term contractual arrangements for the sale of beer with any of its customers in Chile.

The following table sets forth the Company's beer sales volume in Chile by category during each of the last five years:

Category	1994	1995	1996	1997	1998
	(in millions of liters)				
Super-Premium	10.5	10.9	12.6	15.1	13.2
Premium	233.1	246.7	256.2	269.7	272.7
Medium-Priced	47.7	45.4	43.5	41.9	41.9
Popular-Priced	41.8	41.3	36.6	33.6	34.3
Other Brands	0.0	0.2	0.0	0.1	0.1
Total	333.2	344.5	348.9	360.4	362.3

The above figures do not include (i) export sales to third parties, which amounted to 1.6 and 0.7 million liters in 1997 and 1998, respectively, or (ii) export sales to affiliates, which amounted to 3.6 and 4.8 million liters in 1997 to 1998, respectively.

The real average price to the Company's customers for beer products in Chile has increased from Ch$305 per liter in 1994 to Ch$318 per liter in 1998. The prices five-year compounded annual growth rate ("CAGR") was 1.3%.

Beer production in 1998 was centralized in three plants in addition to the bottling facility in Antofagasta. In January 1999, the number of production facilities decreased to two after the closing of the Concepción plant. The Company expects to complete the construction of a new production facility in Temuco by the end of 1999. This new production facility will replace the closed plant in Concepción. For a more detailed discussion of the Company's capital expenditure program, see "—Capital Expenditures".

Raw Materials. The principal raw materials used in the Company's production of beer are barley (used to make malt), rice, water and hops. The Company obtains its supply of barley from local growers and in the international market. During 1998, the Company made contractual arrangements with approximately 300 farmers in Chile to provide supplies of barley in order to satisfy a portion of the Company's requirements. Additionally, during 1998 the Company imported 7,800 tons of barley as well as 15,000 tons of malt. Through March 1998, the Company owned facilities in Chile which produced approximately 28% of its malt requirements. The remaining 72% of its malt needs were provided by local or external suppliers under medium-term contracts. In April 1998, the Company sold its malting facilities to a third party and arranged a long-term malting contract with the buyer of these facilities. Rice is obtained from local and international suppliers in spot transactions and/or annual contract agreements. The Company pre-treats rice in order to ensure that it meets its standards of quality. The Company imports hops mainly pursuant to contracts with international suppliers, primarily in the United States and Europe, which permit the Company to secure supplies for periods of up to four years.

Although water does not represent a major raw material cost, it is nonetheless essential in the production of beer. The Company obtains all of its water from wells located at its plants and/or from public utilities in Chile. The water is treated at facilities located at the Company's plants to remove impurities and to adjust the characteristics of the water before it is used in the production process.

The Company maintains testing facilities at each of its plants and factories where raw materials are tested. Additionally, samples of beer are analyzed at various stages of production to ensure product quality.

The Company generally purchases all of the glass bottles used in packaging its beer from the major national supplier in Chile, Cristalerías Chile S.A. ("Cristalerías Chile"), under a one year agreement. In addition, other sources, principally in Argentina, can be used when price and delivery terms are favorable. During 1998, approximately one half of the Company's requirements for aluminum cans was supplied by local suppliers, while the remaining amount was imported. The Company's larger aluminum cans, as well as the larger kegs used for draft beer, are purchased from various suppliers outside Chile. The Company obtains the labels for its beer products principally from local suppliers. However, certain special labels are furnished

by suppliers in Europe. Crowns and screw caps are principally purchased from a single supplier in Chile.

The Company believes that all of the contracts or other agreements between the Company and third party suppliers with respect to the supply of raw materials for beer products contain standard and customary commercial terms and conditions. The Company does not believe it is dependent on any one supplier for a significant portion of its important raw materials. During the past ten years, the Company has experienced no material difficulties in obtaining adequate supplies of necessary raw materials at satisfactory prices nor does it expect to do so in the future.

Sales, Transportation and Distribution. The Company distributes all of its beer products in Chile directly to retail, supermarket and wholesale customers. This system enables the Company to maintain a high frequency of contact with its customers, obtain more timely and accurate marketing-related information, and maintain good working relationships with its retail customers.

During 1998, after production, bottling and packaging, the Company's beer was either stored at one of the four production facilities or transported to a network of 18 warehouses which are located throughout Chile and are either owned or leased by the Company. After the closing of the Concepción plant, the number of production facilities decreased to three, while the number of warehouses increased to 19 with the addition of ECUSA's Talcahuano warehouse. Beer products are generally shipped from the region of production to the closest warehouse, allowing the Company to minimize its transportation and delivery costs.

During 1998, the Company maintained one sales force responsible for its sales of beer and other products in Chile. This sales force was divided into two categories, one exclusively responsible for sales of beer and wine through a pre-sell system and the other responsible for sales of beer, wine and soft drinks products through both pre-sell and direct-sell systems.

In 1998, beer represented 73.8% of the volume sold by the beer division distribution system in Chile. The remaining 26.2% of sales volume were accounted for by soft drinks, mineral water and wine sales. The Company's customers make payment for the Company's products either by cash at the time of delivery or in accordance with one of various credit arrangements. Payment on credit sales for beer is generally due 30 days from the date of delivery. Credit sales accounted for 16.6%, 18.9% and 22.7% of the Company's beer sales in Chile in 1996, 1997 and 1998, respectively. Losses on credit sales of beer in Chile have not been material.

During the last four years, the Company has implemented a variety of changes with the goal of improving customer service and decreasing distribution costs. The Company has installed a distribution software package which enables delivery personnel to automatically generate client dispatch routes, thereby optimizing distribution efficiency. The software has been in operation since October 1995 and currently manages all of the distribution planning needs in the Santiago metropolitan area, the city of Rancagua in the VI Region, and in part of the V Region. These three distribution zones represented 48% of domestic beer volume sales in 1998. To decrease distribution costs, the Company is in the process of consolidating its distribution centers, resulting in fewer and larger warehouses strategically located throughout the country for more efficient distribution.

Seasonality. As a result of the seasonality of the beer industry, the Company's sales and production volumes are normally at their lowest in the second and third calendar quarters and at their highest in the first and fourth quarters (i.e., those months corresponding to the holidays as well as the summer vacation season in Chile).

The following table shows the Company's annual sales volume of beer in Chile by quarter in 1996, 1997 and 1998:

Year	Quarter	Sales Volume (millions of liters)	% of Annual Sales Volume
1996	1st quarter	103.1	29.6
	2nd quarter	66.1	18.9
	3rd quarter	69.8	20.0
	4th quarter	109.9	31.5
	Total	348.9	100.0
1997	1st quarter	104.4	29.0
	2nd quarter	68.3	18.9
	3rd quarter	73.6	20.4
	4th quarter	114.1	31.7
	Total	360.4	100.0
1998	1st quarter	108.7	30.0
	2nd quarter	69.1	19.1
	3rd quarter	71.7	19.8
	4th quarter	112.8	31.1
	Total	362.3	100.0

Geographical Markets. The Company's main beer production facility is located in Santiago. Santiago and the surrounding areas (referred to as the Metropolitan Region) accounts for approximately 41% of the population of Chile and accounted for approximately 40% of the Company's beer sales by volume in 1998. The Company also has one additional beer production facility and one additional bottling facility located outside the Santiago metropolitan area. The Company is in the process of constructing another production facility in the south of Chile. Virtually all brands are distributed to customers located within the geographic areas of the corresponding production facilities.

Competition. The Company's principal competitor in the beer business is Cervecería Chile (a subsidiary of Quilmes Industrial S.A. ("Quilmes") of Argentina), which commenced operations in Chile during the second half of 1991 resulting in a loss of market share for the Company. Nevertheless, since its market share low of 86% in 1994 and 1995, the Company has regained market presence. In 1998, the Company had a 90% market share.

The Company's estimated share of the Chilean beer market over the last five years is as follows:

The Company's Chilean Market Share for Beer

Year	Estimated Market Share
1994	86%
1995	86%
1996	89%
1997	91%
1998	90%

Cervecería Chile has one production facility located in Santiago and distributes its products in all areas of Chile except for Regions XI and XII, located in the southernmost parts of the country. Cervecería Chile uses third party distributors in Regions I and II in the north, and in Region X in the south. The Company estimates that the sales of Cervecería Chile's brands of beer by volume accounted for approximately 7% of total beer sales in 1997 and 1998. The Company estimates that Cervecería Chile has an annual production capacity of approximately 70 million liters which represents approximately 11% of the Company's annual nominal production capacity in Chile.

The Company's other domestic competitor in the beer business is Polar, which operates a brewery located in Punta Arenas, a city in the extreme south of Chile. The Company estimates that in both 1997 and 1998 sales of Polar's beer products accounted for approximately 1% of total beer sales by volume in Chile.

Due to the high cost of shipping beer to Chile and the competitive advantage inherent to domestic producers as a result of Chile's returnable glass bottle environment, imported beer is not a significant component of the Chilean beer market. The Company estimates that imports accounted for approximately 3% of total beer sales by volume during 1998.

Although there are currently no significant legal or regulatory barriers to entering the Chilean beer market, substantial investment would be required to establish or acquire production and distribution facilities and bottles for use in Chile's proprietary returnable bottling system, and to establish a critical mass in sales volumes. Nevertheless, if long-term economic conditions in Chile continue to be favorable, other enterprises may be expected to attempt to enter the country's beer market. In addition, the Company's beer brands in Chile may face increased competition from other alcoholic beverages such as wine and spirits, as well as from non-alcoholic beverages such as soft drinks.

1.3.2 The Company's Beer Business in Argentina

Overview. In December 1994, the Company established its Argentine subsidiary, CCU Argentina, in order to develop a presence in the Argentine beer market. During January and February 1995, the Company, through CCU Argentina, acquired a 62.7% interest in CICSA, a brewery located in the city of Salta, 1,600 kilometers northwest of Buenos Aires. In September 1995, CCU Argentina expanded its operations by purchasing 98.8% of CSF, a brewery located 450 kilometers northwest of Buenos Aires in the city of Santa Fe.

In December of 1995, the Company entered into a joint venture agreement pursuant to which Anheuser-Busch acquired 4.4% interest in CCU Argentina. Under the agreement, Anheuser-Busch maintains an option which expires in 2002 to expansion its stake in CCU Argentina to 20%. In December 1998, through a capital expansion, Anheuser-Busch increased its participation in CCU Argentina to 8.2% and the Company reduced its participation to 91.8%. This agreement has a duration of 20 years and grants CCU Argentina the exclusive right to produce, package, market, sell and distribute Budweiser beer in Argentina.

Between 1996 and 1998, the Company and Anheuser-Busch invested approximately US$189 million and US$17 million in CCU Argentina, respectively. The following chart outlines the timing and specific amounts of both the Company and Anheuser-Busch's capital increases in CCU Argentina:

CCU Argentina's Capital Increases
(US$ Millions)

Date	**The Company**	**Anheuser-Busch**	**Total Capital Increase**
1st Quarter 1996	US$ 40	US$ 2	US$ 42
3rd Quarter 1996	47	2	49
4th Quarter 1996	24	1	25
3rd Quarter 1997	38	2	40
4th Quarter 1998	40	10	50
Total	US$ 189	US$ 17	US$ 206

Amongst other things, this capital was used to prepay debt incurred to acquire the initial stake in CICSA and CSF, to increase CCU Argentina's stake in these subsidiaries, to increase plant capacity, to purchase land in Zárate (a region close to Buenos Aires), to purchase the brands and assets of Cervecería Córdoba and to reduce short term debt.

In January of 1998, the Company merged its two subsidiaries, CICSA and CSF. Currently both plants operate under the CICSA name. After the merger of CICSA and CSF, CCU Argentina holds a 99.2% interest in CICSA.

In April of 1998, CCU Argentina paid approximately US$8 million to acquire the brands and assets of Cervecería Córdoba. After the resolution of certain labor issues, the Company began the production of the Córdoba brand at the Company's Santa Fe plant during mid 1998.

The Argentine Beer Market. The Argentine beer market is estimated by the Company to be more than three times the size of Chile's. Traditionally, beer and wine have been the principal alcoholic beverages consumed in the country. The Company estimates that annual beer consumption in Argentina was 1,238 million liters, or approximately 34 liters per capita in 1998. The table below sets forth the Company's estimates of beer consumption in Argentina during each of the last five years:

Year	Volume (in millions of liters)	Per Capita(1) (liters)
1994	1,127	33
1995	1,118	32
1996	1,169	33
1997	1,257	35
1998	1,238	34

(1) Population estimated based on Argentina's national census of 1991.

The Company estimates that total beer consumption in Argentina increased at a five-year CAGR of 3.7%. However, during 1998, beer consumption in Argentina decreased by 1.5%. This decrease resulted from negative weather conditions caused by the El Niño phenomenon during the first half of 1998 and from the effects of the slowdown in Latin American economies during the second half of the year. In addition, sales resulting from increased competition from new entrants in the industry and corresponding increases in advertising and marketing activity, partially offset these negative influences on the Argentine beer industry.

Wholesale and retail prices of beer are not regulated in Argentina. Wholesale prices are subject to negotiation between the producer and the purchaser. Retail prices to the final consumer are established by the retailers themselves. The Company believes that the key factors determining retailers' prices include: national and/or local price promotions offered by the producer, the nature of product consumption (on-premise or take-out), the type of product packaging (returnable or non-returnable), the desired profit margins and the geographical location of the retailer.

Beer Production and Marketing in Argentina. The Company's production of beer in Argentina generated net sales of Ch$24,328 million, Ch$33,990 million and Ch$35,836 million representing 9.7%, 12.5% and 12.8% of the Company's total net sales in 1996, 1997 and 1998, respectively.

The Company produces and markets premium-priced and medium-priced beers in Argentina. The following table shows the Company's principal brands produced and imported under license in Argentina:

Premium-Priced	Medium-Priced
Budweiser (1) (2)	Schneider
Guinness (1)	Salta
	Santa Fe
	Córdoba

(1) Imported
(2) Produced under license

Schneider is the Company's principal proprietary brand in Argentina, accounting for 40.8% of the Company's Argentine sales volume in 1998. The Company began local production of Budweiser brand beer in December 1996 and has increased sales of that brand

at a strong pace ever since. Budweiser beer represented 24.1% of the Company's Argentine sales volume in 1998. The Company's Schneider and Santa Fe brands are sold in two varieties, regular lager and dark; the Salta brand is sold in those two varieties and an additional special lager variety. The Córdoba brand is sold only as a regular lager. During 1997, the Company began to import Guinness beer from Ireland, making Argentina one of the two countries in South America where Guinness draught is sold. During 1998, the Company exported 111,993 liters of beer from Argentina, representing less than 1% of CCU Argentina's beer sales volume.

The Company's beer products are bottled or packaged in returnable and non-returnable glass bottles, aluminum cans, or stainless steel kegs at the Company's production facilities. During 1997 and 1998, the Company sold its beer products in Argentina in the following packaging formats:

Container		Percentage of Total Beer Products Sold	
		1997	1998
Returnable (1)		93%	93%
Non-Returnable (2)		5%	5%
Returnable Kegs (3)		2%	2%
	Total	100%	100%

(1) Returnable beer containers include glass bottles of various sizes.
(2) Non-Returnable beer containers include glass bottles and aluminum cans, both of assorted sizes.
(3) Returnable kegs refer to stainless steel containers which have a capacities of either 30 or 50 liters.

The Company obtains all of its glass bottles from third-party suppliers located in Argentina and Brazil and stainless steel kegs from third-party suppliers in Germany. Since aluminum cans represent only a small amount of sales, the Company imports pre-packaged canned beer. See "—Raw Materials".

In Argentina, though most beer is sold to wholesalers, the Company also sells its products to retailers and supermarket chains. In 1997 and 1998, the percentage mix of the above distribution channels for the Company's beer products in Argentina was as follows:

Distribution Channels	Percentage of Total Beer Products Sold	
	1997	1998
Wholesalers	88%	85%
Retailers	5%	7%
Supermarkets	7%	8%
Total	100%	100%

In 1998, the Company sold to approximately 12,400 customers in Argentina, none of which individually accounted for more than 13% of its total beer sales by volume. The Company maintains only one long-term sales arrangement, for sales to BAESA for distribution. This distribution arrangement represented approximately 13% of the Company's total Argentine beer sales by volume during 1998. In addition, through this agreement, the

Company provides BAESA with sales on credit. As of December 31, 1998, accounts receivable from BAESA under this arrangement amounted to approximately US$4.9 million.

The following table sets forth the Company's beer sales volume in Argentina by category during each of the last four years:

Category	1995	1996	1997	1998
		(in millions of liters)		
Premium	0.0	3.8	26.6	35.0
Medium-Priced	89.8	96.6	115.7	110.5
Total	89.8	100.5	142.3	145.5

The real average net price to the Company's customers for its beer products in Argentina was Ch$244 and Ch$246 per liter in 1995 and 1998, respectively.

The license agreement between CCU Argentina and Anheuser-Busch, which provides CCU Argentina with the exclusive right to produce, package, market, sell and distribute Budweiser beer in Argentina, has an initial term of 20 years commencing in February 1996. Among other things, the license agreement includes provisions for both technical and marketing assistance from Anheuser-Busch. Under the license agreement, CCU Argentina is obligated to purchase some raw materials from Anheuser-Busch, or from suppliers approved by Anheuser-Busch. CCU Argentina cannot produce, package, sell or distribute within Argentina any North American beer other than the licensed product without the prior written consent of Anheuser-Busch. The Company began distribution of its locally produced Budweiser beer through the BAESA distribution system in December 1996. See "—Sales, Transportation and Distribution". In addition, the license agreement is subject to certain specified market share targets and marketing expenditures.

Raw Materials. The principal raw materials used in the production of the Company's beer products in Argentina are barley (used to make malt), corn syrup, rice and hops. During 1998, the Company continued obtaining malt and rice from regional suppliers, benefiting from the lower costs, as compared to imported materials. The Company obtains rice from suppliers in Uruguay and malt from suppliers in Argentina.

In Argentina, the Company owns storage facilities which are normally capable of storing all of the barley and/or malt in the Company's inventory at any given time. Additional storage capacity can be leased if required. During 1997, the Company closed its malting facility in Bahía Blanca because it was more cost effective to source raw materials from third parties for the production of its proprietary brands. In 1998, the Company sold this facility, generating an accounting write-off in the form of a non-operating loss of approximately US$4 million. Given the widespread availability of malt supplies in Argentina, in neighboring countries and in the international market, the sale of the Bahía Blanca malt plant should not affect the Company's ability to obtain malt for its production needs. Other raw materials are obtained from local and international suppliers in spot transactions and/or annual contracts. All purchased raw materials are tested in order to ensure that they meet certain standards of quality.

Although water does not represent a major raw material cost, it is nonetheless essential in the production of beer. The Company's operation in Salta obtains all of its water from wells located at its plant, and the Santa Fe operation obtains all of its water from the Paraná river.

The water is treated at facilities located at the Company's plants to remove impurities and adjust the characteristics of the water before it is used in the production process.

The Company maintains testing facilities at each of its plants and factories in which raw materials are analyzed according to the Company's standards. Additionally, samples of beer are analyzed at various stages of production to ensure product quality. Samples of Budweiser are periodically sent to Anheuser-Busch facilities in the United States to assure consistency and quality of the Budweiser product.

The Company purchases all of its glass bottles locally from various suppliers. Other sources, principally in Brazil, can be used when price and delivery terms are favorable. As the Company does not operate any canning lines in Argentina, pre-packaged canned Budweiser beer and the Company's proprietary brand canned beers are imported from the United States and Chile, respectively. Kegs used for draft beer are purchased from various suppliers in Germany. Plastic storage and carrying crates, as well as the labels for beer products and crowns, are obtained from local suppliers.

The Company believes that all contracts or other agreements between the Company and third party suppliers with respect to the supply of raw materials for beer products contain standard and customary commercial terms and conditions. The Company does not believe it is dependent on any one supplier for a substantial portion of its raw materials in Argentina. The Company has experienced no significant difficulties in obtaining adequate supplies of necessary raw materials at satisfactory prices and does not expect it will in the future.

Sales, Transportation and Distribution. The Company's beer products in Argentina are principally sold to wholesalers in the regions surrounding the cities of Santa Fe, Salta, Córdoba and Buenos Aires.

After production, bottling and packaging, the Company's beer is either stored at the production facilities or transported to a network of 13 warehouses, which are either owned or leased by the Company. Beer products are generally shipped to those warehouses which are located within the region in which the beer products are sold.

Most of the Company's beer in Argentina is sold and distributed through third-party sales and distribution chains. As of December 31, 1998, the Company had a direct sales force which sold the Company's beer products to approximately 9,200 customers within the Salta, Jujuy, Santa Fe and Cordoba regions.

A distribution agreement was signed in December 1995 between CCU Argentina and BAESA, pursuant to which BAESA distributes Budweiser brand beer and the Company's proprietary beer brands throughout the greater Buenos Aires metropolitan area. The agreement has an initial term of ten years and is automatically renewable for another ten-year period. As of December 31, 1998, under the terms of its distribution agreement with the Company, BAESA maintained two sales forces responsible for the Company's products: one dedicated to key accounts that sells Budweiser brand beer along with mineral water and soft drinks, and another that sells the Company's Argentine beer products in conjunction with the entire mix of BAESA's products to another group of approximately 35,000 clients.

The Company's Argentine beer customers make payments for the Company's products either by cash at the time of delivery or through one of the Company's various credit arrangements. Payment on credit sales is generally due 30 days from the date of delivery.

Credit sales accounted for 92%, 94% and 93% of the Company's beer sales in Argentina in 1996, 1997 and 1998, respectively. Losses on credit sales of beer in Argentina have not been material.

Seasonality. As a result of the seasonality of the beer industry, the Company's sales and production volumes are normally at their lowest in the second and third calendar quarters and at their highest in the first and fourth quarters (i.e., those months corresponding to the summer and holiday seasons in Argentina). The following table shows the annual sales volume of beer in Argentina during each quarter in 1996, 1997 and 1998:

Year	Quarter	Sales Volume (in millions of liters)	% of Annual Sales Volume
1996	1st quarter	27.6	27.5
	2nd quarter	15.4	15.3
	3rd quarter	19.2	19.1
	4th quarter (1)	38.2	38.1
	Total	100.5	100.0
1997 (2)	1st quarter	41.8	29.4
	2nd quarter	24.2	17.0
	3rd quarter	27.8	19.5
	4th quarter	48.5	34.1
	Total	142.3	100.0
1998 (2)	1st quarter	34.3	23.6
	2nd quarter	25.6	17.6
	3rd quarter	31.2	21.5
	4th quarter	54.3	37.3
	Total	145.5	100.0

(1) Fourth quarter sales information for 1996 includes sales of Budweiser for December. As a result, the sales figures for this quarter are not comparable with prior years and overstate the degree of seasonality.
(2) Includes the sales of Budweiser.

Geographical Markets. The Company's beer production facilities in Argentina are located in Santa Fe and Salta. Santa Fe and its surrounding areas account for approximately 11% of the population of Argentina and for approximately 32.1% of total beer sales of CCU Argentina by volume in 1998. The region surrounding and including the cities of Salta and Jujuy account for approximately 4.4% of the population of Argentina and for approximately 13.1% of total beer sales of CCU Argentina by volume in 1998. The region surrounding and including the city of Córdoba accounts for approximately 8.5% of the Argentine population and represents approximately 11.9% of the Company's sales. Lastly, the province of Buenos Aires accounts for approximately 47.0% of the population of Argentina and for approximately 20.3% of total beer sales of CCU Argentina by volume in 1998.

Competition. In 1998, after the Company's purchase in April of Cervecería Córdoba, the Argentine beer market consisted of five brewing groups: Quilmes, the Company, Companhia Cervejaria Brahma ("Brahma"), Warsteiner Brauerei Hans Cramer GmbH & Co. ("Warsteiner") and Cervecería Estrella de Galicia S.A. ("Galicia"). The principal brands of these companies are Quilmes, Schneider, Brahma, Isenbeck and San Carlos, respectively.

According to the CICA and the Company's estimates for Brahma and Isenbeck, the different brewing groups had the following market shares in 1998: Quilmes, 73%; the Company, 12%; Brahma, 11%; Warsteiner, 3%; and Galicia, less than 1%.

The following table shows the Company's market share in the Argentine market over the past four years:

The Company's Argentine Market Share for Beer

Year	Estimated Market Share
1995	8%
1996	9%
1997	11%
1998(*)	12%

(*) Includes Córdoba which had a 0.5% market share in 1998.

Quilmes, the beer market leader in Argentina and the Company's principal competitor, also has beer operations in Chile, Paraguay, Uruguay and Bolivia. In February 1997, Quilmes purchased Cervecería Bieckert S.A. ("Bieckert") in Argentina, and, as a result of that acquisition, increased its production capacity by approximately 170 million liters, increased its market share by an estimated 4.9% and decreased the number of brewing groups to six. As of December 31, 1998, Quilmes had six breweries in Argentina with an estimated total annual production capacity of 1.5 billion liters (including Bieckert's brewery). Quilmes' large size enables it to benefit from economies of scale in the production and distribution of beer throughout Argentina.

Quilmes' estimated 1998 average market share has decreased to 73% (including Bieckert) from the 82% market share in late 1994. At that time, Brahma, one of the two largest beer producers in Brazil, commenced production at its new brewery in Luján, near Buenos Aires. In addition, Warsteiner, a large German brewer, commenced production at its new brewery in Zárate, also near Buenos Aires. The annual production capacity for these breweries is estimated to be approximately 220 million liters and 120 million liters, respectively. Prior to commencing production in Argentina, Brahma and Warsteiner competed in the Argentine market with imported beer.

During 1997, Cervecería Córdoba and Galicia were the two other principal beer producers in Argentina, each having one plant with a total annual capacity of approximately 45 million liters and 25 million liters, respectively. As mentioned above, in April 1998, the Company acquired the assets and brands of Cervecería Córdoba, thereby reducing the number of brewing groups to five.

Due to the high cost of shipping beer to Argentina and the competitive advantage inherent to domestic producers as a result of Argentina's returnable glass bottle environment, the Company estimates that imported beer sales accounted for less than 1% of the total sales volume in 1998.

The Company's beer brands in Argentina also face competition from other alcoholic beverages such as wine and spirits, as well as from non-alcoholic beverages such as soft

drinks. Excise taxes for the beverage industry in Argentina have been subject to variations in the past. In 1996, the Argentine Government decreased taxes for cola soft drinks from 24% to 4%. The following table shows certain current Argentine excise beverage taxes:

Product Type	Excise Tax
Non-Alcoholic Beverages	
Cola Soft Drinks	4%
Flavored Soft Drinks, Mineral Water and Juices	0%
Alcoholic Beverages	
Beer	4%
Whiskey	12%
10-29% Alcohol Content	6%
30% or more Alcohol Content	8%

Future changes in excise taxes in Argentina could adversely affect the Company's sales volume, market share and operating margins.

1.3.3 The Company's Beer Business in Croatia

The Company owns a 34.4% economic interest in Karlovacka Pivovara d.d., through its 50% stake in SBE. Karlovacka Pivovara operates a brewery located in Croatia with a single production facility. At December 31, 1998 the Company's total investment in SBE was Ch$9,738 million. SBE, which is not a consolidated subsidiary of the Company, contributed Ch$878 million of the Company's non-operating income in 1998. The Company's investment in Karlovacka is recorded by the equity method and therefore accounted for in the "Other assets" line of the Company's balance sheet. See Note 9 to the Consolidated Financial Statements.

Karlovacka has been in operation since 1856 and is one of the largest beer producers in Croatia, with production volume representing an estimated 30% of total industry production in 1998. Karlovacka operates one production facility located in the city of Karlovac and nine distribution centers throughout the country. Karlovacka's proprietary beer brands include Karlovacka Svijetlo and Rally (a non-alcoholic beer). In addition, at the end of 1997, Karlovacka began importing and distributing Paulaner products, including Helles, Pils, and Weissbier types of beer. Karlovacka's current annual production capacity is approximately 182 million liters. In 1998, Karlovacka sold 113 million liters of beer. Net income for Karlovacka was approximately Ch$3,402 million in 1998.

1.4 The Company's Soft Drinks and Mineral Water Business

1.4.1 The Company's Soft Drinks and Mineral Water Business in Chile

Overview. The Company has produced and sold soft drinks in Chile since 1916. Prior to October 1994, the Company independently produced, bottled and distributed carbonated

and non-carbonated soft drinks in Chile. The Company's line of soft drink products included its own proprietary brands in addition to brands produced under license from Cadbury Schweppes (Orange Crush, Diet Orange Crush, Canada Dry Agua Tónica, Canada Dry Ginger Ale, Canada Dry Limón Soda and Squirt). Under a similar licensing arrangement with Watt's, a local consumer products company, the Company has bottled and distributed Watt's nectars products in Chile since 1987. In addition, under its two proprietary brand names, Cachantun and Porvenir, the Company bottles and nationally distributes mineral water from its own two natural sources located within the central region of Chile.

In November 1994, BAESA and the Company entered into two joint venture contracts (i) an Association Contract (Joint Venture Agreement), under which both companies contributed the assets used in their respective soft drinks and mineral water businesses in Chile, and (ii) a shareholders' agreement relating to the governance of ECUSA. The Company contributed the net assets and rights under various franchise and licensing agreements used in its soft drinks and mineral water businesses in exchange for 55% of the outstanding shares of ECUSA and a US$50 million payment obligation from BAESA. BAESA contributed the operation of its Chilean subsidiary (consisting principally of its business to produce, sell and distribute soft drinks under license from PepsiCo) and the US$50 million payment obligation in exchange for a 45% interest in ECUSA. On June 30, 1997, ECUSA's shareholders' agreement was amended. Under the amended terms, the Company and BAESA no longer have equal representation on the Board of Directors of ECUSA, and BAESA relinquished its option to purchase an additional 4% equity interest in ECUSA. As a result of the foregoing, ECUSA's Board of Directors now consists of seven members, four elected by CCU and three elected by BAESA. The Board of Directors designates as its Chairman an individual nominated by the Company's elected directors. In addition, the Board of Directors designates as its Vice Chairman a director nominated by BAESA's elected directors. The quorum now required for a board meeting is four members.

Although certain matters require a favorable vote of at least five members for approval, all other Board actions require only a majority of Board members in attendance for approval. As a result of the arrangements in the revised shareholders' agreement, the Company effectively assumed control of the management of ECUSA and appointed a new Chief Executive Officer, who took office in January 1998. However, mutual consent is required for some significant operating and management decisions, therefore ECUSA's financial statements are not consolidated in the Company's financial statements under U.S. generally accepted accounting principles ("GAAP"). Under the new agreement, BAESA maintains the right to sell its interest in ECUSA subject to the Company's right of first refusal. Should BAESA sell its interest in ECUSA to a third party, the proposed purchaser must be approved by the Company under certain procedures established in the shareholders' agreement. For a detailed description of BAESA's recent developments, see "—Risk Factors—Significance of Relationship with BAESA".

Since the ECUSA joint venture was established, BAESA has encountered a certain level of financial difficulty. In connection with the formation of ECUSA, BAESA agreed to pay US$50 million to the Company in consideration for certain assets transferred to ECUSA by the Company and for BAESA's 45% stake in ECUSA. On June 30, 1997, BAESA's total outstanding indebtedness to the Company was rescheduled. As of December 31, 1998, BAESA's total indebtedness (including accrued interest but not accounts receivable to CCU Argentina) to the Company was approximately US$28 million. See "—Risk Factors—Significance of Relationship with BAESA". In the case of a default by BAESA, BAESA's indebtedness to the Company is secured by a pledge of 33.75% of the outstanding shares of

ECUSA which are currently owned by BAESA. The book value of the pledged ECUSA shares exceeds the amount owed to the Company by BAESA.

The Company believes its arrangements with BAESA with respect to ECUSA provide adequate provisions which should assure continued stability of ECUSA's business notwithstanding changes in BAESA's financial situation. See "—Risk Factors—Significance of Relationship with BAESA".

The Chilean Soft Drinks and Mineral Water Market. Commercial soft drinks production was first established in Chile by the Company in 1916, and mineral water production began in 1960. The Company estimates that annual carbonated soft drinks consumption in Chile was 1,305 million liters, or approximately 88 liters per capita, in 1998. The Company also estimates that consumption of mineral water, including both carbonated and non-carbonated types, was 110 million liters, or approximately 7 liters per capita, in 1998.

The table below sets forth the Company's estimates of total and per capita carbonated soft drinks and mineral water sales in Chile during each of the last five years:

Carbonated Soft Drinks and Mineral Water Sales

Year	Volume (1) (millions of liters) Soft Drinks	Mineral Water	Total	Liters Per Capita (2) Soft Drinks	Mineral Water	Total
1994	1,016	76	1,091	73	5	78
1995	1,122	81	1,202	79	6	85
1996	1,235	90	1,325	86	6	92
1997	1,294	101	1,396	89	7	95
1998	1,305	110	1,416	88	7	96

(1) Based on Company sales data, publicly available information from competitors and equity research analyst reports.
(2) Population estimated in accordance with the national census of April 1992.

The Company estimates that during 1998, soft drinks industry sales volume increased 1% and mineral water industry sales volume increased 9% compared to 1997. The Company believes the stagnant volume growth of the soft drinks industry is explained by both the high per capita consumption level, compared to other Latin American countries, and the tightened macro-economic situation in 1998. In addition, the increasing industry volumes for mineral water are explained by a low per capita consumption in Chile as compared to other Latin American countries, increased marketing activities, new product brands and high levels of competition.

The soft drinks market in Chile consists of both carbonated and non-carbonated beverages. The principal types of carbonated beverages are colas and non-colas. The principal non-carbonated beverages are fruit nectars and fruit juices, sold in both liquid and powdered form, and are estimated by the Company to have accounted for less than 3% of the Company's total soft drinks sales by revenues in 1998.

The following table sets forth the Company's estimates as to the percentage of total carbonated soft drinks production in Chile represented by each of the two principal categories of carbonated soft drinks during the last three years:

Type	1996	1997	1998
Colas	55%	52%	55%
Non-colas	45%	48%	45%
Total	100%	100%	100%

Since the creation of the ECUSA joint venture in November 1994, the two main soft drinks producer groups in Chile have been (i) the licensees of The Coca-Cola Company (consisting of three companies with 13 bottling plants) and (ii) the Company. These two groups produce and distribute virtually all of the soft drinks in Chile. Due to the strong presence of local producers, the high cost of transportation and the existing returnable bottle system that accounts for a large portion of soft drinks sales volume, the Company believes that there is no significant market for imported soft drinks in Chile, which were estimated to represent less than 1% of all soft drinks sales by volume in 1998.

The mineral water market in Chile comprises both carbonated and non-carbonated water. As with the soft drinks market, approximately 95% of all mineral water in Chile is processed and marketed by two entities, the Company and Vital S.A., a subsidiary of one of The Coca-Cola Company's licensees in Chile. The Company's mineral water products have been produced through its ECUSA subsidiary since November 1994.

Wholesale and retail prices of both soft drinks and mineral water products are not regulated in Chile. The Company believes that the key factors determining retailers' prices include any national and/or local price promotions offered by the manufacturer, the nature of product consumption (on-premise or take-out), the type of product packaging (returnable or non-returnable), the desired profit margins and the geographical location of the retailer.

The Company's Soft Drinks, Mineral Water and Nectar Production and Marketing in Chile. The Company's soft drinks, nectar and mineral water production and marketing in Chile generated net sales of Ch$91,007 million, Ch$89,065 million and Ch$86,709 million, or 36.1%, 32.7% and 31.0% of the Company's total net sales, in 1996, 1997 and 1998, respectively.

The following table shows the soft drinks and mineral water brands produced by the Company through the ECUSA joint venture:

Brand	Product	Category	Affiliation
Bilz	Soft Drink	Non-Cola Proprietary	CCU Proprietary
Pap	Soft Drink	Non-Cola Proprietary	CCU Proprietary
Kem Piña	Soft Drink	Non-Cola Proprietary	CCU Proprietary
Ginger Ale	Soft Drink	Non-Cola Licensed	Cadbury Schweppes
Agua Tónica	Soft Drink	Non-Cola Licensed	Cadbury Schweppes
Limón Soda	Soft Drink	Non-Cola Licensed	Cadbury Schweppes
Orange Crush	Soft Drink	Non-Cola Licensed	Cadbury Schweppes
Diet Orange Crush	Soft Drink	Non-Cola Licensed	Cadbury Schweppes
Squirt	Soft Drink	Non-Cola Licensed	Cadbury Schweppes
Pepsi	Soft Drink	Cola Licensed	PepsiCo
Pepsi Max	Soft Drink	Cola Licensed	PepsiCo
Diet Pepsi	Soft Drink	Cola Licensed	PepsiCo
Seven-Up	Soft Drink	Non-Cola Licensed	PepsiCo
Diet Seven-Up	Soft Drink	Non-Cola Licensed	PepsiCo
Watt's	Nectars		Watt's
Sip-Sup	Powdered Drink Mix		CCU Proprietary
Cachantun	Mineral Water		CCU Proprietary
Porvenir	Mineral Water		CCU Proprietary

ECUSA and Cadbury Schweppes have entered into a license agreement for all Cadbury Schweppes products (Orange Crush, Diet Orange Crush, Canada Dry Limón Soda, Squirt, Canada Dry Ginger Ale and Canada Dry Agua Tónica). This agreement, which commenced in November 1994, has an initial term of ten years and is automatically renewable by mutual consent for six additional five-year periods. On December 11, 1998, The Coca-Cola Company announced an agreement to acquire Cadbury Schweppes' international beverage brands in certain markets. The Company has no additional information on the status of Cadbury Schweppes' agreement with The Coca-Cola Company or its potential effects on ECUSA's contract with Cadbury Schweppes. Under the current contract conditions, ECUSA's license expires in 2034 and must be renewed/renegotiated in 2004. Cadbury Schweppes' brands accounted for 30.1% of the Company's sales of soft drinks and 7.8% of overall revenues in 1998.

In January 1998, a new exclusive bottling appointment was signed between ECUSA and PepsiCo authorizing ECUSA to produce, sell and distribute Pepsi products (Pepsi, Diet Pepsi, Pepsi Max, Seven Up and Diet Seven Up) in Chile. The new agreement has an initial term of ten years and is automatically renewable by mutual consent for successive five-year periods.

In addition, ECUSA has been granted the exclusive license to produce and distribute the Company's proprietary brands Bilz, Pap and Kem Piña. This license agreement remains in effect through November 2004, is renewable by mutual consent for six additional five-year periods and is subject to termination upon the expiration of ECUSA's licensing agreement with PepsiCo.

The license agreement for nectar products with Watt's, which grants the Company exclusive production rights, was first signed in June 1987 and originally had a 33-year term. A new license agreement between the Company and Watt's was signed in February 1999. This new contract provides the Company with a ten-year license renewable automatically for three consecutive periods of five years if the conditions set forth in the contract are fulfilled at the date of renewal.

In October 1994 the Company entered into two license agreements with Agua Mineral Cachantun S.A. and Agua Mineral Porvenir S.A.I. for the use of the natural sources of mineral water and the Cachantun and Porvenir brand names. These agreements were amended in November 1994 and have a ten-year term, renewable for a five-year period with prior mutual consent. However, the term of both agreements is limited to the life of ECUSA's licensing agreement with PepsiCo.

Under each license agreement, the Company has the exclusive right to produce, sell and distribute the respective licensed products in Chile. Generally, under its license agreements, the Company is required to maintain certain standards of quality with respect to the production of licensed products, to dedicate certain levels of marketing and, in certain cases, to fulfill minimum sales requirements. The Company believes that it is in compliance with the material requirements of all its license agreements.

During 1997 and 1998, the Company sold its soft drinks and mineral water products in the following packaging formats:

	Soft Drinks and Nectars		Mineral Water	
Container	**1997**	**1998**	**1997**	**1998**
Returnable (1)	64%	63%	37%	26%
Non-Returnable (2)	33%	34%	63%	74%
"Post-Mix" (3)	3%	3%	--	--
Total	100.0%	100.0%	100.0%	100.0%

(1) Returnable soft drinks containers include both glass and plastic bottles of assorted sizes. Returnable mineral water containers include glass bottles of assorted sizes and returnable 19-liter jugs.

(2) Non-returnable soft drinks containers include glass and plastic bottles of assorted sizes as well as aluminum cans also of assorted sizes. Non-returnable mineral water containers include both glass and plastic bottles of assorted sizes.

(3) Post-mix cylinders are sold specifically to on-premise locations for fountain machines.

The Company manufactures most of its returnable and non-returnable plastic bottles and obtains all of its glass bottles and cans from third party suppliers. See "—Raw Materials" and "—The Company's Other Businesses".

The Company distributes its soft drinks and mineral water products throughout Chile to (i) small and medium-sized retail establishments which, in turn, sell the beverages to consumers for take-out consumption ("Retailers"), (ii) retail establishments such as restaurants, hotels and bars for on-premise consumption ("Bar and Restaurants"), (iii) wholesalers and (iv) supermarkets. In 1997 and 1998, the percentage mix of the above distribution channels for the Company's soft drinks and mineral water products was as follows:

Distribution Channels		Percentage of Total Soft Drinks and Mineral Water Products Sold 1997	1998
Retailers		52%	46%
Bars and Restaurants		14%	14%
Wholesalers		12%	15%
Supermarkets		22%	25%
	Total	100%	100%

During 1998, the Company had no single customer that accounted for more than 5% of its sales by volume. The Company does not maintain any long-term contractual arrangements for the sale of soft drinks and/or mineral water with any of its customers.

The following table shows sales volume of the Company's soft drinks and mineral water by category during each of the last three years:

Category	1996	1997	1998
	(in millions of liters except powdered drink mix)		
Colas			
Licensed	66.4	52.3	47.0
Non-colas			
Proprietary	134.1	148.2	163.7
Licensed	118.0	109.6	102.1
Nectars	4.9	5.8	5.9
Soft Drinks Total	323.6	315.9	318.7
Mineral Waters			
Cachantun	48.4	56.4	59.6
Porvenir	5.8	5.5	4.0
Mineral Waters Total	54.2	61.9	63.6
Total	377.8	377.8	382.3
Sip-Sup (powdered drink mix) (1)	370	271	201

(1) In metric tons.

The following table shows sales volume of the Company's soft drinks by affiliation during each of the last three years:

Affiliation	1996	1997 (in millions of liters)	1998
Proprietary	134.2	148.2	163.7
Cadbury Schweppes	107.0	101.6	96.7
PepsiCo	76.6	60.1	52.4
Others	5.8	6.0	5.9
Total	323.6	315.9	318.7

The real price per liter to the Company's customers for soft drinks products decreased from an average of Ch$239 in 1994 to Ch$232 in 1998. The four-year CAGR was -0.7%. For mineral water products, the real price per liter increased from an average of Ch$162 in 1994 to Ch$197 in 1998 and experienced a four-year CAGR of 5.1%.

Raw Materials. The principal raw materials used in the production of soft drinks are sugar, flavoring concentrate and in the case of carbonated products, carbon dioxide gas. The Company generally purchases all of its sugar requirements from Empresas Iansa S.A., the sole producer of sugar in Chile, but it occasionally purchases sugar in the international market when prices are favorable. The Company purchases flavoring concentrates for its licensed soft drinks brands from the respective licensing companies. See "—The Company's Soft Drinks and Mineral Water Production and Marketing in Chile". Flavoring concentrates for the Company's proprietary brands are purchased from third party suppliers in Chile and Germany which manufacture the concentrates under contract with the Company. The Company obtains carbon dioxide gas from local suppliers in Chile.

The Company also requires a small amount of fruit pulp, juices, citric acid and other artificial and natural flavors and chemical substances for its fruit nectars and powdered beverage mixes.

Although water does not represent a major raw material cost, it is nonetheless essential in the production of soft drinks. The Company obtains all of its water from wells located at its plants and/or from public utilities in Chile. The water is treated at facilities located at the Company's plants to remove impurities and adjust the characteristics of the water before it is added in the production process.

The Company owns two mineral water sources in Chile from which the Cachantun and Porvenir brand mineral water products are obtained. These water sources are located in two areas near Santiago: Coinco and Casablanca, respectively. All of the Company's mineral water products are bottled at their respective sources and distributed throughout the country.

The Company maintains testing facilities at each of its plants in order to analyze raw materials. Additionally, samples of soft drinks and mineral water are inspected at various stages of production to ensure product quality.

The Company generally purchases all of the glass bottles used in packaging soft drinks and mineral water from the major supplier in Chile, Cristalerías Chile. Other sources, principally in Argentina and Peru, can be used when price and delivery terms are favorable;

however, no significant purchases were made in either of these countries during 1998. While aluminum cans used in packaging the Company's soft drinks are generally purchased from a local supplier, the Company produces most of its own plastic returnable and non-returnable bottles. See "—The Company's Other Businesses". The Company obtains the labels for its soft drinks and mineral water products principally from local suppliers. Crowns and resealable plastic caps are principally purchased from two suppliers in Chile.

The Company believes that all of the contracts or other agreements between the Company and third party suppliers with respect to the supply of raw materials for soft drinks and mineral water products contain standard and customary commercial terms and conditions. Apart from the soft drinks concentrates purchased from Cadbury Schweppes and PepsiCo under the license agreements described under "—The Company's Soft Drinks and Mineral Water Production and Marketing in Chile", the Company does not believe it is dependent on any one supplier for a significant portion of its raw materials. Historically, the Company has experienced no significant difficulties in obtaining adequate supplies of necessary raw materials at satisfactory prices and expects that it will be able to continue to do so in the future.

Sales, Transportation and Distribution in Chile. In the central region of Chile, including the areas of Santiago, Viña del Mar, Rancagua, Melipilla and Concepción, ECUSA manages its own sales force that is directly responsible for exclusively servicing soft drinks and mineral water clients. The ECUSA sales force sells directly to approximately 54,400 customers, accounting for 73.8% of the Company's total soft drinks and mineral water sales by volume in Chile in 1998. The area served by ECUSA accounts for approximately 63% of the Chilean population. In the outlying northern and southern regions of Chile, ECUSA has contracted the sales and distribution services of the Company's beer divisions, which sells and distributes soft drinks and mineral water products both exclusively and in connection with the sales and distribution of the Company's beer and wine products. Such sales accounted for the remaining 26.2% of the Company's total soft drinks and mineral water sales by volume in Chile in 1998.

The Company's Chilean soft drinks and mineral water customers make payment for the Company's products either in cash at the time of delivery or in accordance with one of the Company's various credit arrangements. Payment on credit sales is generally due 30 days from the date of delivery. Credit sales accounted for 27.8% and 32.4% of ECUSA's soft drinks and mineral water sales to third parties in Chile in 1997 and 1998, respectively. Losses on credit sales of soft drinks and mineral water in Chile have not been material.

Seasonality in Chile. Due to the seasonality of sales for both soft drinks and mineral water products, the Company's sales and production volumes are normally at their lowest in the second and third calendar quarters and at their highest in the first and fourth quarters (i.e. those months corresponding to holidays and summer vacation season in Chile).

The following table shows the Company's annual sales volume of soft drinks and mineral water by quarter for the last three years:

Year	Quarter	Soft Drinks & Mineral Water Sales Volume (in millions of liters)	% of Annual Sales Volume
1996	1st quarter	104.5	27.6
	2nd quarter	75.7	20.0
	3rd quarter	84.1	22.3
	4th quarter	113.5	30.1
	Total	377.8	100.0
1997	1st quarter	107.5	28.4
	2nd quarter	76.6	20.3
	3rd quarter	82.0	21.7
	4th quarter	111.7	29.6
	Total	377.8	100.0
1998	1st quarter	111.0	29.0
	2nd quarter	76.3	20.0
	3rd quarter	82.3	21.5
	4th quarter	112.8	29.5
	Total	382.3	100.0

Competition in Chile. The Company's principal competitors in the soft drinks business are the companies which produce, bottle and distribute soft drinks in Chile under licenses from The Coca-Cola Company and its affiliates. The Coca-Cola Company's products are produced, bottled and distributed in Chile through three separate licensees which market soft drinks under the Coca-Cola, Coca-Cola Light, Fanta, Sprite, Diet Sprite, Quatro, Nordic Mist, Andina nectars and juices, and Kapo juice brand names. According to store audits conducted by Nielsen, Coca-Cola and related brands accounted for approximately 73% of total carbonated soft drinks net sales in 1998. However, calculations made by the Company are higher than Nielsen estimates. In addition, during 1998 a few supermarket chains began selling soft drinks products under generic labels. Even though these companies did not represent a significant portion of the soft drinks market in Chile, they are expected to increase their presence in the future.

Since the formation of the joint venture between CCU and ECUSA, the Company's market share has decreased as a consequence of decreased marketing support for the Pepsi brands and increased marketing activity on the part of the Company's competitors. During 1998, the Company's market share decreased by a point to 27% as a result from market share losses on behalf of Pepsi and Cadbury, both partially compensated by gains achieved by the Company's proprietary brands.

The Company's market share for its soft drinks and nectar products over the last five years is presented in the following table based on store audits conducted by Nielsen. These Nielsen results are, for each year, higher than the Company's own estimates.

The Company's Chilean Soft Drink Market Share

Year	Nielsen	Company Estimates
1994	35%	29%
1995	32%	26%
1996	31%	26%
1997	28%	24%
1998	27%	24%

The Company's domestic competitors in the soft drinks business have benefited from both internationally recognized brand labels (especially with regard to the Coca-Cola product line) and a large number of local bottling companies distributing their products throughout Chile. As a result of the ECUSA joint venture, the Company also similarly benefited from the internationally recognized Pepsi brand as well as its previous competitive strengths, which include a portfolio of nationally well known brands and a nationwide distribution system.

Given the high percentage of soft drinks sales volume in returnable containers coupled with the high cost of transportation to Chile, the market for imported soft drinks in Chile is not significant and accounted for less than 1% of total sales by volume in 1998. While there are no legal barriers to entry, the Company believes that the existing returnable bottle system and high transportation costs may continue to deter potential competitors from exporting soft drinks to Chile.

Fruit nectars and powdered juice products, a small segment of the Company's soft drinks business, face competition from other liquid and powdered juices, which are provided by a variety of local companies.

The Company's main competitor in the mineral water business is Vital S.A. (a subsidiary of Embotelladora Andina S.A., one of The Coca-Cola Company licensees in Chile). The Company estimates that its sales of Cachantun and Porvenir brand mineral waters accounted for approximately 58%, while those of Vital S.A. products accounted for approximately 38% of total mineral water sales by volume in 1998. Small domestic bottlers, as well as imported mineral water products such as Evian and Perrier, comprise the remaining 4% sales volume. In its effort to develop the mineral water industry in Chile, the Company introduced during 1998 a moderately carbonated mineral water product, Cachantun Light Gas, thus creating a new product category within the Chilean mineral water industry.

The following chart shows estimates of the Company's mineral water market share for the last five years based on store audits conducted by Nielsen. These Nielsen results are, for each year, higher than the Company's own estimates.

The Company's Chilean Mineral Water Market Share		
Year	Nielsen	Company Estimates
1994	68%	65%
1995	68%	62%
1996	66%	60%
1997	66%	61%
1998	64%	58%

1.4.2 The Company's Soft Drinks and Mineral Water Business in Argentina

The Company operates a mineral water production plant in the city of Rosario de la Frontera in the Salta province, where Palau mineral water is produced by obtaining water from natural sources. The Company's volume sales of Palau mineral water amounted to 5.4 million liters, 5.1 million liters and 4.5 million liters in 1996, 1997 and 1998, respectively, representing approximately 9.1%, 7.6% and 6.6% of the Company's total mineral water sales volume in 1996, 1997 and 1998, respectively. Net sales of Palau were Ch$712 million, Ch$637 million and Ch$560 million in 1996, 1997 and 1998, respectively, or less than 0.3%, 0.2% and 0.2% of the Company's total net sales, in 1996, 1997 and 1998, respectively. During the last three years, all of the Company's mineral water sales were in the northeast region of Argentina.

The Company also distributes soft drinks in Argentina which are produced by small-scale soft drinks bottlers. These sales aggregated Ch$182 million, Ch$326 million and Ch$280 million in 1996, 1997 and 1998, respectively, representing approximately 0.1% of the Company's total net sales in each of the three years.

1.5 The Company's Wine Business

Overview. The Company entered the Chilean wine market in October 1994 with the purchase of 48.4% of VSP's equity for approximately US$17.1 million, thereby acquiring an interest in the third largest winery in Chile. During the first half of 1995, VSP's capital was increased by approximately US$20 million, of which the Company contributed approximately US$10 million. During August-October 1997, VSP's capital was increased again by approximately US$18 million, of which the Company contributed approximately US$11 million. In addition, in October 1998 and during 1999 the Company purchased additional shares in VSP through the local stock exchanges. During April-June 1999, VSP's capital was increased by approximately US$25 million, of which the Company contributed approximately US$16 million. As a result of these activities, as of June 15, 1999 the Company's total ownership interest in VSP has risen to 59.2%. VSP's results have been consolidated in the Company's financial statements since April 1, 1995.

The Company believes that expansion into the Chilean wine business provides it with the opportunity to further exploit its nationwide distribution system through the expansion of its

beverage portfolio. The Company also believes that further development of its domestic wine business may help reduce the seasonality of the Company's sales, as wine sales in Chile tend to be stronger during the winter months when beer and soft drinks consumption decline.

The proceeds from VSP's capital increase during 1995 were used to reduce debt, expand capacity and add new hectares of vineyards in the Maipo Valley for producing premium red wines. Part of VSP's capital increases during 1997 were used to add new hectares of vineyards in Requinoa, Chépica and Molina during 1997, and in Pencahue during 1998. These recent purchases of land more than double the number of hectares of the Company's vineyards. The winery also increased its total vinification and wine storage capacity in both tanks and barrels from 36.3 million liters in 1997 to 52.1 million liters as of December 31, 1998, as well as its peak bottling and packaging capacity from 25,100 liters per hour in 1997 to 35,100 liters per hour as of December 31, 1998.

VSP is a publicly traded company that, at December 31, 1998, had a market capitalization of Ch$ 37,378 million. VSP shares trade on the Santiago Stock Exchange, the *Bolsa de Comercio de Valparaíso* ("Valparaíso Stock Exchange") and the Bolsa Electrónica de Chile ("BEC").

In Argentina, the Company sells a small amount of wine which generated net sales of Ch$530 million, Ch$400 million and Ch$227 million in 1996, 1997 and 1998, respectively. These sales represented approximately 0.2%, 0.1% and 0.1% of the Company's total net sales in 1996, 1997 and 1998, respectively.

The Chilean Wine Market. The Company estimates that wine consumption in Chile amounted to approximately 15 liters per capita in 1998. As the Chilean wine industry is fragmented, no single producer accounts for the majority of production and/or sales. The leading wineries include Viña Concha y Toro S.A. ("Concha y Toro"), Viña Santa Rita S.A. ("Santa Rita"), VSP and Bodegas y Viñedos Santa Carolina S.A. ("Santa Carolina"). In addition, there are numerous medium-sized wineries, including Viña Undurraga S.A. ("Undurraga"), Cousiño Macul S.A. ("Cousiño Macul"), Viña Cánepa y Cía. ("Cánepa") and Viña Tarapacá S.A. ("Tarapacá"). All wineries which sell wine products that comply with industry and tax regulations make up Chile's formal wine market ("Formal Wine Market"). VSP is a member of the Formal Wine Market, as are most other principal wineries in Chile. The *Servicio Agrícola Ganadero* (Agricultural and Livestock Service, or "SAG") is the entity in charge of wine industry regulation and principally oversees inventory records and product quality. Small wine producers which are believed not to comply with industry and tax regulations (an 18% value added excise tax and an additional 15% alcohol excise tax) comprise Chile's "informal market". The Company estimates that the informal market wineries produced and sold approximately 20 - 25 million liters of wine during 1998 as compared to 217 million liters for the producers in the Formal Wine Market.

The following chart shows the Company's estimates for total and per-capita consumption levels for wine in Chile for the years 1994 through 1998.

Year	Total Volume (millions of liters)	Per Capita (liters)
1994	238	17
1995(1)	217	15
1996(1)	232	16
1997(1)	193	13
1998(1)	217	15

(1) Includes wine sales from pisco producers in the III and IV Regions of Chile.
Sources: SAG, Central Bank and Wine Exporters and Bottlers Association

Wines in Chile can be segmented by product type. Chilean wineries produce and sell premium, varietals and popular-priced wines within the domestic market. Premium wines and many of the varietal wines are produced from high quality grapes, aged and packaged in glass bottles. Popular-priced wines are usually produced using non-varietal grapes and are not aged. These products are generally sold in either cartons or jug packaging.

VSP's Production and Marketing. VSP was founded in 1865. Its principal vineyards are located in Molina, approximately 200 kilometers south of Santiago. The VSP estate in Molina is the largest single-site vineyard in Chile with an area of 1,160 hectares. As of December 31, 1998, VSP's total land amounted to 2,550 hectares, including additional property acquired in Requinoa, Chépica, Molina and Talca. VSP's vineyards currently cover an aggregate of 1,913 hectares.

VSP is one of Chile's largest producers and distributors of wine in terms of sales volume and net sales. In 1996, 1997 and 1998, the Company's sales amounted to Ch$19,889 million, Ch$26,837 million and Ch$36,411 million representing 7.9%, 9.8% and 13.0% of the Company's total net sales, respectively. The above net sales figures for wine include sales of bulk wine which amounted to Ch$146 million, Ch$1,083 million and Ch$247 million in 1996, 1997 and 1998, respectively.

VSP's results have been consolidated into the Company's results since April 1995. The following chart indicates the breakdown of VSP's volume in the domestic and export markets and net sales resulting therefrom.

Year	Domestic Volume (million liters)	Export Volume (million liters)	Total Volume (million liters)
1995(1)	18.0	9.4	27.4
1996	23.8	11.6	35.4
1997	25.4	18.6	44.0
1998	28.7	23.1	51.8

(1) In 1995, sales of 21.3 million liters of VSP's total 27.4 million liters of sales were consolidated into the Company's net sales.

The Company estimates that VSP's share by volume of Chile's Formal Wine Market was approximately 10%, 13% and 13% in 1996, 1997 and 1998, respectively. According to the Wine Exporters and Bottlers Association, VSP's share of Chile's total wine export sales by volume was 6%, 9% and 10% in 1996, 1997 and 1998, respectively. Specifically, during 1998, VSP became the second largest exporter of Chilean wines measured in both volume and revenues.

VSP produces and markets premium, varietal and popular-priced wines under the brand families, Viña San Pedro and Santa Helena, as set forth below:

Brand	Premium	Varietal	Popular-priced
Viña San Pedro			
Cabo de Hornos	X		
Castillo de Molina	X	X	
35 Sur		X	
Las Encinas	X		
Urmeneta		X	
Gato		X	X
Etiqueta Dorada			X
Santa Helena			
Selección del Directorio	X		
Siglo de Oro		X	
Gran Vino		X	X

In 1998, VSP won the following medals in both international and national contests:

Contest	Country	Wine		Award
Vinitaly '98	Italy	1995	Cabo de Hornos	Silver
Sélections Mondiales '98	Canada	1996	Castillo de Molina Reserva M.	Gold
		1995	Cabo de Hornos	Silver
		1997	35 Sur S.B.	Silver
		1995	Castillo de Molina Reserva C.S.	"Prix du Jury" (1)
Int'l Wine Challenge '98	England	1997	35 Sur S.B.	Gold
		1994	Cabo de Hornos	Silver
		1995	Cabo de Hornos	Silver
		1997	Castillo de Molina Reserva C.D.	Silver
Challenge Int'l du Vin '98	France	1997	35 Sur S.B.	Silver
		1997	35 Sur C.D.	Bronze
		1997	35 Sur M.	Bronze

(1) The "Prix du Jury" is awarded to the wine earning the highest overall score of all Chilean wines.
(2) Note the following definitions for the above notations: "C.S." refers to Cabernet Sauvignon, "S.B." refers to Sauvignon Blanc, "C.D." refers to Chardonnay and "M." refers to Merlot.

VSP sources approximately 50% of the grapes required for the production of its exported wines from its own vineyards. In contrast, most of the wine required for domestic wine sales is purchased from local suppliers. In 1998, approximately 46% of wine for domestic sale was purchased from five local producers: Vinícola Patacón Ltda., Agrícola Santa Rita Ltda.,

Sociedad Agrícola Santa Teresa Ltda., Cooperativa Agrícola Control Pisquero de Elqui y Limarí Ltda., and Empresas Lourdes S.A. VSP has various alternative sources of supply which can be used when they are attractive.

The following table presents the Company's breakdown of total sales volume in thousands of liters by category of VSP's wines during 1998:

Category	Domestic	Export	Total
	(thousands of liters)		
Premium	119	581	700
Varietal	867	21,749	22,616
Popular-Priced	27,730	283	28,013
Bulk	0	471	471
Total	28,717	23,084	51,800

As of December 31, 1998, VSP's storage capacity totaled 52.1 million liters and its peak bottling and packaging capacity totaled 35,100 liters per hour.

Domestic Market. The Company's domestic wine is packaged in bottles, jugs, cartons, and bag-in-box containers at VSP's production facilities in Lontué, Chile. The following chart shows the Company's packaging mix for domestic wine sales in 1997 and 1998:

	Percentage of Total Domestic Wine sold	
Container	1997	1998
Carton	87.7%	89.7%
Jug	5.5%	4.6%
Glass Bottles	4.5%	4.3%
Bag-in-Box	2.3%	1.4%
Total	100.0%	100.0%

In 1997 and 1998, VSP obtained all of its glass bottles, carton package containers and jugs from third party suppliers. See "—Raw Materials".

Beer is the principal substitute product to wine in Chile. In addition, the Company's wine products may also compete with other alcoholic beverages, such as spirits (mainly, pisco) and with non-alcoholic beverages such as soft drinks and juices.

The real average price for the Company's domestic wine customers was Ch$465 and Ch$511 per liter in 1995 and 1998, respectively.

Export Market. According to industry sources, exports of Chilean wine (excluding champagne) increased from approximately 43 million liters in 1990 to 229 million liters in 1998, at a compounded rate of 23.3% per annum. From 1997 to 1998, the volume of wine exported increased 7%. The Company believes that Chilean wine exports have grown steadily due to their comparatively low prices and positive international image, as well as due to external factors, such as low wine production in the northern hemisphere in certain years.

VSP exported 23.1 million liters of wine in 1998 to 49 countries worldwide. These exports accounted for net sales of Ch$21,765 million. In 1998, VSP's primary export markets included the United Kingdom, Japan, United States and Finland.

Most exported wine is sold in glass bottles, except for a small quantity of unbranded wine that is occasionally sold in bulk and a small amount that is sold in carton containers. The following chart shows the Company's packaging mix for export wine volume in 1997 and 1998:

Container	Percentage of Total Export Wine Volume 1997	1998
Glass Bottles	89%	95%
Bulk	11%	2%
Carton	1%	3%
Total	100%	100%

The real average price for the Company's export wine customers was Ch$752 and Ch$943 per liter in 1995 and 1998, respectively.

Raw Materials. The principal raw materials that VSP uses in its production process are purchased and harvested grapes, purchased wine, bottles, carton containers, corks and cardboard boxes. VSP obtains approximately 50% of the grapes used for export wines from its own vineyards. The majority of the wine sold in the domestic market is purchased from third parties, tested to assure compliance with the Company's quality standards, and blended at the winery before packaging. VSP's bottles are principally purchased from Cristalerías Chile; however, when prices have been favorable, VSP has purchased bottles from other suppliers. Carton containers are purchased either from Tetra Pak de Chile Comercial Ltda. or from SIG Combibloc Inc. and are assembled in VSP's corresponding automated packing lines.

Domestic Sales, Transportation and Distribution. After production, bottling, and packaging, wine is either stored at the production facilities or transported to one of 18 warehouses which are part of the Company's beer warehouse network located throughout Chile with the exception of the XII Region, located in the southernmost part of the country. VSP wines are distributed and sold in Chile through the Company's sales and distribution network, under the same system and payment terms as the Company's beer and soft drink products. During 1998, the Company's core products were distributed to the extreme south of Chile through an exclusive distributor for the XII Region, principally in the city of Punta Arenas. See "—The Company's Beer Business—The Company's Beer Business in Chile—Sales, Transportation and Distribution".

The Company distributes VSP wine products in Chile directly to retail, bars and restaurants, supermarket and wholesale customers. In 1997 and 1998, the percentage mix of the above distribution channels for the Company's wine products in Chile was as follows:

Distribution Channels		Percentage of Total Wine Products Sold 1997	1998
Retailers		38%	37%
Bars and Restaurants		12%	9%
Wholesalers		27%	28%
Supermarkets		23%	26%
	Total	100%	100%

The Company had approximately 34,000 customers for its wine products at December 31, 1998, none of which accounted for more than 3% of its total wine sales by volume. The Company does not maintain any long-term contractual arrangements for the sale of wine with any of its customers.

Export Sales, Transportation and Distribution. Internationally, VSP has arrangements with 83 agents who facilitate the export of its wine to 49 countries. The Company has signed distribution agreements with Schenk, one of the largest distributors in Europe, Asahi Breweries, one of the largest beverage companies in Asia, and Shaw Ross International, a subsidiary of Southern Wine and Spirits, the main liquor wholesale distributor for the United States, as well as other distributors.

Geographical Markets. In Chile, Santiago and surrounding areas (referred to as the Metropolitan Region), which account for approximately 41% of the Chilean population, represented approximately 45% of total domestic sales of VSP products by volume in 1998.

The following table provides the distribution of VSP's exports during 1998 by geographical markets:

Market	Volume (thousands of liters)	Percentage of Total Exports
Europe	11,921	51.6%
Latin America	4,880	21.1%
USA & Canada	3,430	14.9%
Asia	2,435	10.5%
Others	418	1.8%
Total	23,084	100.0%

Competition. The wine industry is highly competitive in both the domestic and the export markets. The Company estimates that VSP's domestic market share was approximately 13% in 1998. In Chile, VSP competes directly against all other Chilean wineries. The Company believes that VSP's primary domestic competitors, Concha y Toro and Santa Rita, derive their relative competitive strengths from their wide portfolio of products, well recognized brand names and established distribution networks. The Company estimates that, in 1998, Concha y Toro and Santa Rita had market shares of 24% and 19%, respectively. VSP also competes with Santa Carolina and numerous medium-sized wineries, including Undurraga, Cousiño Macul and Tarapacá, and many small wine producers that make up Chile's "informal market".

Internationally, VSP competes against Chilean producers as well as with wine producers from other parts of the world. According to information compiled by the Wine Exporters and Bottlers Association, VSP is the second largest exporter of Chilean wines with a market share of approximately 10% in 1998. The Company's other principal Chilean competitors, namely Concha y Toro, Santa Carolina and Santa Rita had market shares of 20%, 7% and 5%, respectively.

1.6 The Company's Other Businesses

Through its subsidiary Fábrica de Envases Plásticos S.A. ("PLASCO"), the Company owns and operates a plastic bottle factory which supplies most of the returnable and non-returnable plastic bottles used by the Company in the packaging of its soft drinks and mineral water products. The manufacturing of both returnable and non-returnable plastic bottles involves a two-step process. The first step consists of an injection molding process which manufactures pre-forms from resin (polyethylene terephthalate). The second step involves blowing plastic bottles from the molded pre-forms. The Company purchases resin and completes the two-step process in order to fulfill the majority of its bottling requirements. In some cases, the Company purchases pre-forms manufactured by third party suppliers and completes only the bottle-blowing step at its own facilities.

In 1998, all returnable and non-returnable plastic bottle requirements of ECUSA were supplied directly by PLASCO with the exception of five-liter bottles, which are bought by ECUSA in small quantities from third party suppliers. Of all containers supplied by PLASCO, approximately 84% were manufactured by PLASCO into pre-forms and then blown into bottles, approximately 8% were manufactured by PLASCO and sold as pre-forms (to be blown at ECUSA's facility located in the city of Talcahuano), approximately 6% were bought as pre-forms and blown by PLASCO, and 2% were bought as finished bottles from third parties. PLASCO has, to date, not made any bottle sales to third parties.

PLASCO also produces plastic crates which are used to carry glass and plastic bottles used for beer, soft drinks and mineral water distribution. Most of these products are sold to the Company and its other subsidiaries.

Plastic bottle production increased from 86.6 million units in 1997 to 104.2 million in 1998. Plastic crate production increased by 57.1% from 0.7 million units in 1997 to 1.1 million units in 1998. PLASCO's net sales of Ch$11,617 million and net income of Ch$2,486 million in 1998 represented increases of 22.3% and 27.8%, respectively, over 1997.

1.7 Capital Expenditures

The Company's capital expenditures for 1996, 1997 and 1998 totaled approximately Ch$140,298 million and were principally accounted for by Ch$36,612 million invested in the Company's beer operations in Chile, Ch$52,576 million invested in the Company's Argentine beer operations, Ch$25,956 million invested in soft drinks and mineral water operations, and Ch$18,618 million invested in wine operations.

In recent years, capital expenditures have been made primarily for the expansion of the Company's production capacity. In Chile, these expenditures include the addition of a new beer bottling facility in Antofagasta and improvements and expansion of the beer production facility in Santiago. In Argentina, capital expenditures have been made for the expansion and improvement of the beer production facility in Santa Fe and the purchase of Cervecería Córdoba's brands and assets. Capital expenditures have been made in the Company's soft drinks division in order to adjust soft drinks bottling lines to meet changes in consumer demand for new packaging formats. With regard to the Company's wine operations, capital expenditures have been made to add new hectares of vineyards and to increase its total vinification and wine storage capacity.

The Company continues to make substantial capital expenditures to meet estimated growth in demand for its products. The Company's plans for capital expenditures during 1999 and the 2000-2002 period are as follows:

Business Unit	**1999**	**2000-2002**	**Total**
		(Ch$ Millions)	
Beer—Chile	32,658	51,195	83,852
Beer—Argentina	4,982	60,715	65,697
Soft Drinks and Mineral Water	7,345	29,066	36,411
Wine	4,701	11,185	15,886
Others	3,570	14,161	17,730
Total	53,255	166,321	219,576

In the years 1999 through 2002, the Company plans to make capital expenditures to increase production capacity, install new bottling lines, implement production quality improvements, such as water and yeast treatment facilities, optimize its distribution system and warehouse facilities, invest in additional returnable bottles and crates to replace obsolete supply, and support industry volume growth, improve management information systems and make additional investments in marketing assets.

Over the next four years, the most significant investments are expected to be related to production capacity increases, including the construction of two additional brewing facilities. The Company expects to complete the first stage of construction of a brewery in the southern city of Temuco, located approximately 670 kilometers south of Santiago. This Temuco plant will replace the older Concepción plant (53 million liters per year) closed in January 1999, while increasing the Company's total Chilean nominal beer production capacity from 615 million liters per year at year-end 1998 to 727 million liters per year by the end of the year 2002. In its first stage the Temuco plant is expected to reach a production capacity of 12 million liters per month. In its second stage the Temuco plant is expected to reach a production capacity of 15 million liters per month.

In Argentina, the Company's planned capital investments primarily involve the completion of its expansion of the Santa Fe plant and the construction of a new plant in Buenos Aires. The Santa Fe plant's total nominal beer production is expected to increase its capacity to accommodate Budweiser's volume growth. The Company also expects to build a brewery in the city of Buenos Aires within the next four years; however, the timing and magnitude of such a project will depend largely on future growth in demand for the Company's beer products.

During 1999, Viña San Pedro plans to complete its expansion of both, the amount of its plantable land, as well as its production and storage capacities. The additional land will be utilized principally to expand the production of grapes for export wines. The Company's capital expenditure plan also contemplates completing the increase in VSP's bottling and storage capacities.

The Company reviews its capital investment program periodically and changes to the program are made as appropriate. Accordingly, there can be no assurance that the Company will make any of these proposed capital expenditures at the anticipated level or at all. In addition, the Company is studying the possibility of making acquisitions in the same or related beverage businesses, either in Chile or in other countries of South America's southern cone. The capital investment program is subject to revision from time to time due to changes in market conditions for the Company's products, general economic conditions in Chile, Argentina and elsewhere, interest, inflation and foreign exchange rates, competitive conditions and other factors.

The Company expects to fund its capital expenditures through a combination of internally generated funds and the proceeds from its recent capital increases.

1.8 Research and Development

The Company's research and development efforts do not involve material expenditures, as the Company relies primarily on technical assistance and technology transfer agreements with domestic and foreign companies and institutes. In June 1989, the Company entered into a technology transfer agreement with Paulaner-Salvator-Thomasbräu AG (now Paulaner Brauerei AG, a member of the Schörghuber Group, which owns 50% of Inversiones y Rentas, CCU's principal shareholder) for assistance with all technical issues related to the production and bottling of beer. The initial term of the agreement was five years, effective through May 1994, and the agreement has since been renewed annually. See "—Item 10: Directors and Officers of Registrant" and "Item 13: Interest of Management in Certain Transactions". In January 1995, a technological assistance and license agreement was signed between the Company and Schoeller Engineering S.A. of Switzerland for the design, production and marketing of special carrying crates for beer bottles. The license agreement between CCU Argentina and Anheuser-Busch, signed in December 1995, provides the Company with both technical and marketing assistance for the production and marketing of Budweiser beer brand in Argentina. See "—The Company's Beer Business – The Company's Beer Business in Argentina—Beer Production and Marketing in Argentina". The brewing and distribution agreement between the Company and Guinness, signed in April 1997, provides the Company with both technical and marketing assistance for the production and marketing of Guinness beer in Chile. See "—The Company's beer business—The Company's beer business in Chile—Beer production and marketing in Chile".

1.9 Employees

Chile. As of December 31, 1998, the Company had a total of 4,335 permanent employees in Chile, of which 2,490 were represented by 34 labor unions. In turn, 30 of the

labor unions are members of five federations which represent their union members in collective bargaining negotiations with the Company. As of December 31, 1998, the average tenure of the Company's full-time employees was approximately eight years.

Two of the federations of unions collectively represent approximately 65% of the Company's beer division's union-affiliated workers. In 1997, the Company negotiated a two-year agreement covering these workers.

Ten unions represent approximately 67% of ECUSA's work force. In 1998, ECUSA entered into two-year collective bargaining agreements with six of these unions.

Four unions represent approximately 60% of VSP's workers. During 1997 and 1998, the Company completed negotiations with all four of the unions for two-year and two and a half year contracts.

All employees who are terminated for reasons other than misconduct are entitled by law to receive a severance payment. In the years 1996, 1997 and 1998, the Company made severance payments in the amounts of Ch$1,350 million, Ch$1,864 million and Ch$1,512 million, respectively. Permanent employees are entitled to the basic payment as required by law of one month's salary for each year, or six-month portion thereof, worked. This condition is subject to a limitation of a total payment of no more than 11 months' pay for employees hired after August 14, 1981. Severance payments to employees hired before August 14, 1981 are not subject to any limitation. The Company's employees who are subject to collective bargaining agreements have a contractual benefit to receive a payment in case of resignation, which consists of a portion of one month's salary for each full year worked, not subject to a limitation on the total amount payable but subject to a limitation on the total number of employees who can claim the severance benefit during any one year.

VSP laid off seven employees in 1996 and incurred indemnity obligations of approximately Ch$9 million. During 1997, VSP laid off 196 employees and incurred Ch$179 million in indemnity obligations. During 1998, VSP laid off 15 employees and incurred Ch$58 million in indemnity obligations. In 1998, ECUSA laid off 276 employees, incurring indemnity obligations of Ch$600 million.

In 1996, the Company's Chilean beer division laid off a total of 50 employees, incurring indemnity obligations of approximately Ch$154 million. During 1997, this division laid off an additional 196 employees incurring indemnity obligations of approximately Ch$1,070 million. In 1998, this division laid off an additional 75 employees, incurring indemnity obligations of an additional Ch$853 million.

The Company does not maintain any pension fund or retirement program for its employees. Workers in Chile are subject to a national pension fund law which establishes a system of independent pension plans, administered by *Administradoras de Fondos de Pensiones* ("AFPs"). The Company has no liability for the performance of the pension plans or any pension payments to be made to the employees.

In addition to its permanent work force during 1998, the Company had 776 temporary employees, who were hired for specific time periods to satisfy short-term needs.

Argentina. As of December 31, 1998, the Company had a total of 674 employees in Argentina, of which 364 were represented by four labor unions. Two of the labor unions are

members of one federation, *Federación Argentina de Trabajadores Cerveceros y Afines* (the Argentine Beer Workers Federation, or "FATCA"). As of December 31, 1998, the average tenure of the Company's employees in Argentina was nine years.

Collective bargaining in Argentina is done on an industry-wide basis, rather than, as in Chile, on a company-by-company basis. According to the provisions of an agreement signed in 1975, salary levels of unionized workers are reviewed periodically. At the end of December 1998, an agreement was signed regulating working conditions and worker salaries for the period between January 1, 1999 and June 30, 2000.

In Argentina, as in Chile, all employees who are terminated for reasons other than misconduct are entitled by law to receive a severance payment. The Company made severance payments in connection with its Argentine operations in the amounts of Ch$300 million, Ch$388 million and Ch$500 million in 1996, 1997 and 1998, respectively. Employees are entitled to the basic payment as required by law of one month's salary for each year or fraction thereof worked. This monthly amount cannot exceed three times the average monthly salary established under the applicable collective bargaining agreement and cannot be less than the equivalent of two monthly salaries of the employee.

1.10 Government Regulation

Chile. The Company is subject to the full range of governmental regulation and supervision generally applicable to companies engaged in business in Chile. These regulations include labor laws, social security laws, public health, consumer protection and environmental laws, securities laws, and anti-trust laws. In addition, there exist regulations to insure sanitary and safe conditions in facilities for the production, bottling, and distribution of beverages. As to environmental laws, see "—Environmental Matters" below.

The Company is subject to additional regulations concerning the production and distribution of alcoholic beverages which establish the definition of "alcoholic beverage", what type of alcohol can be used in the manufacture of alcoholic beverages, what additional products can be used in the production of each alcoholic beverage, and how alcoholic beverages must be packaged. The *Ley de Alcoholes* ("Alcoholic Beverages Law") establishes penalties, including criminal liability, depending on the seriousness of the violation of the law. Regulations issued under the Alcoholic Beverages Law specify the different types of alcohol and standards for human consumption, the minimum requirements that different types of alcoholic beverages must meet, the information that must be provided on labels and the procedures that must be followed to import alcoholic beverages. The production and bottling of alcoholic and non-alcoholic beverages is also subject to the supervision of the *Servicio de Salud del Ambiente ("*Environmental Health Service"), which inspects plants on a regular basis and takes samples for analysis.

There are no special licenses or permits for the production of alcoholic beverages other than those regulations dealing generally with the production of consumer products. The sale of alcoholic beverages is regulated by Title III, Book II of the Alcoholic Beverages Law, which requires a special municipal license which depends upon the nature of the point of sale (i.e.: liquor store, restaurant, or other type of outlet). The Company has all licenses necessary for the Company's wholesale sales. Establishments for the retail sale of alcoholic beverages are

regulated as to location and number in relation to the size of the municipality. No sale of alcoholic beverages is permitted to persons under 18 years of age. In addition, advertising of beer and other alcoholic beverages is not permitted on television before 10 p.m. Recently, some municipalities have began to impose restrictions to limit the hours during which liquor stores can remain open.

The production and distribution of mineral water is also subject to special regulation. Mineral water may only be bottled directly from sources which have been designated for such purpose by a Supreme Decree signed by the President of Chile. A certification of data necessary to achieve such a designation is provided by the Environmental Health Service. All of the Company's facilities have received the required designation.

There are currently no material legal or administrative proceedings pending against the Company in Chile with respect to any regulatory matter. The Company believes that it is in compliance in all material respects with all applicable statutory and administrative regulations with respect to its businesses in Chile.

Argentina. The Company is subject to the full range of governmental regulation and supervision generally applicable to companies engaged in business in Argentina, including social security laws, public health, consumer protection and environmental laws, securities laws, and anti-trust laws.

National Law 18,284 (the Argentine Food Code, or the "Code") regulates the manufacturing and packaging of food and beverages. The Code provides specific standards with which beer bottling plants must comply and regulates the production of the different types of beer mentioned in the Code. The Code also specifies the different methods in which beer may be bottled as well as the information to be provided on labels. The enforcement of the Code is undertaken by the health authorities of each province, which also establish the minimum age requirements for the purchase of alcoholic beverages. In general, no sale of alcoholic beverages is permitted to persons under 18 years of age. In the province of Buenos Aires, local law restricts the sale of alcoholic beverages, particularly between the hours of 11 p.m. and 8 a.m., and establishes harsh penalties for infringement. The Argentine Congress continues to consider proposed legislation to improve enforcement of drinking laws by establishing a drinking age at 18 by federal law and limiting the hours permitted for the advertisement of alcohol products on radio and television as well as any content in such advertisement associating alcohol consumption with healthy activities.

The bottling of mineral water is also regulated by the Code, which requires that the actual bottling process occur at the same location where mineral water is obtained.

There are currently no material legal or administrative proceedings pending against the Company in Argentina with respect to any regulatory matter. The Company believes that it is in compliance in all material respects with all applicable statutory and administrative regulations with respect to its business in Argentina.

1.11 Environmental Matters

Chile. The Company's operations are subject to both national and local regulations in Chile relating to the protection of the environment. The fundamental environmental law in

Chile is the Health Code, which establishes minimum health standards and provides for the regulation of air and water quality as well as sanitary landfills.

The Ministry of Health has issued regulations for the control of pollution in the Santiago metropolitan area. In cases of emergency due to high levels of air pollution, these regulations state that the Santiago metropolitan area section of the Environmental Health Service has the authority to order the temporary reduction of the activities of companies in the area that produce particle and gas emissions. In emergency situations, depending on the degree of severity, this agency can also order the reduction or even the suspension of activities of those companies classified as producing the highest level of particle and gas emissions. The Company complies in all material respects with current regulations applicable to both its beer and soft drink facilities in the Santiago metropolitan area.

There are currently no material legal or administrative proceedings pending against the Company in Chile with respect to any environmental matter. The Company believes that it is in compliance in all material respects with all applicable environmental regulations.

Additionally, application has begun of Law Nº19,300 of March 9, 1999 which adopted the General Environmental Principles Act, including not only environmental protection regulations but also rules concerning the preservation of natural resources. The Ordinance, for the law's application, enacted on April, 1997, sets a term until year 2002 for all industries and facilities operating before the passing of the Act, to implement the improvements required to meet the objectives of the Act relating to the discharge of liquid wastes into the sewage systems. The Company is in all material respects in compliance with the Act and the ordinance, having fulfilled at each relevant stage all requirements prescribed by them.

Argentina. To an increasing extent, new laws and regulations are being enacted in Argentina as a result of heightened community concerns for environmental issues. As a consequence, there are several statutes imposing obligations on companies regarding environmental matters at the federal, provincial, and municipal levels. On many occasions, private entities operating public utilities such as water supply and sewage are in charge of controlling and enforcing those regulations. Many of these regulations have been recently enacted and little precedent exists as to their scope.

The most important environmental statute in Argentina is the Hazardous Waste Act (Law 24,051) which, although a federal law, has been strictly adhered to in no more than three provinces. When certain federal tests indicate the need, the provisions of the Hazardous Waste Act are enforced. The application of the provisions of the Hazardous Waste Act are applied depending upon the magnitude of the public health risk and whether those conditions exist in more than one province. Hazardous waste is defined to cover any residue that may cause harm, directly or indirectly, to human beings or may pollute the soil, water, atmosphere or the environment in general. Generally, claims involving hazardous waste give rise to strict liability in the event of damage to third parties. In addition, each province in which the Company operates facilities has enacted environmental legislation with broad and generic goals, as well as water codes and related agencies to regulate the use of water and the disposal of effluents in the water.

The Argentine Constitution provides that the Federal Congress may only legislate on matters expressly delegated to it by the provinces. To date, no authority over environmental matters has been delegated to the Federal Congress. As a result, with certain limited exceptions, the provinces claim for themselves the authority to regulate environmental matters.

The Company spent approximately US$0.2 million in Argentina on facility improvements designed to meet environmental objectives during 1998. There are currently no material legal or administrative proceedings pending against the Company in Argentina with respect to any environmental matter. The Company believes that it is in compliance in all material respects with all applicable environmental regulations.

The regulation of matters relating to the protection of the environment is not as well developed in Argentina as in the United States and certain other countries. Accordingly, the Company anticipates that additional laws and regulations will be enacted over time with respect to environmental matters. While the Company believes that it will continue to be in compliance with all applicable environmental regulation, there can be no assurance that future legislative or regulatory developments will not impose restrictions on the Company which could result in material effects.

1.12 Risk Factors

Competition in the Beer Market. The Company's largest competitor in the Chilean beer market is Cervecería Chile, a subsidiary of Quilmes, the largest Argentine brewer. Quilmes entered the Chilean market in October 1991 by establishing a new Chilean brewer, Cervecería Chile. The Company estimates that Cervecería Chile had a market share in Chile of approximately 7% in both 1997 and 1998. The Company's only other significant competitor in the Chilean beer business is Polar, with an estimated national market share of approximately 1% in 1997 and 1998. Polar's production and distribution are concentrated in the southernmost region of Chile.

Competition in the Chilean beer market has been strong in recent years, especially in light of the aggressive price discounting by Cervecería Chile, which began during the first quarter of 1994. Price discounting by Cervecería Chile diminished somewhat in the second quarter of 1995, and its beer prices continued to rise through 1995 and 1996. During 1997 and 1998, prices remained relatively stable. There can be no assurance, given the current environment, that aggressive price discounting will not resume in the future, and that any such discounting or other competitive activity will not have a material adverse impact on the Company's results.

In view of favorable long-term economic conditions in Chile, other enterprises may be expected to attempt to enter the country's beer market either by producing beer locally or through imports. In addition, the Company's beer brands in Chile may face increased competition from other alcoholic beverages such as wine and spirits as well as from non-alcoholic beverages such as soft drinks. In particular, the Company's beer products compete directly with domestic wine. Beer consumption in Chile historically has been influenced by changes in domestic wine prices. Increases in domestic wine prices have tended to lead to increases in beer consumption, while reductions in wine prices have tended to reduce or slow the growth of beer consumption. Similarly, as the price of soft drinks has decreased relative to the price of beer over the past few years due to lower packaging costs and the introduction of larger packaging formats, growth in beer consumption has slowed.

We are engaged in an ongoing process of assessing our exposure to the Year 2000 issue (the potential problems arising from computer systems that were designed to use two

digits, rather than four, to specify the year). We describe with more detail our efforts to address this issue in "—Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations". The process, including developing contingency plans to assess the likelihood of and address worst-case scenarios, is continuing. We expect that we will incur incremental costs of approximately US$0.6 million through the end of 1999 to resolve Year 2000 issue related to critical systems.

The Company is the second largest brewery in Argentina with an estimated year-end market share of 8% in 1995, 9% in 1996, 11% in 1997 and 12% in 1998. In Argentina, the Company faces competition from Quilmes, Brahma, Warsteiner and Galicia, which had estimated market shares of approximately 73%, 11%, 3% and less than 1%, respectively, in 1998. Over the past two years, two important acquisitions took place in the Argentine beer industry. In February 1997, Quilmes acquired Bieckert and in April 1998 the Company acquired Cervecería Córdoba's brands adding approximately 4% and 1% to each respective company's market share. Though the Company's increased level of advertising and other competitive efforts may continue to increase its overall market volumes, the Argentine market may be affected due to increased consolidation. As of the date hereof, a law to modify excise taxes on soft drinks, wine and beer was pending. If approved, increased excise taxes for beer could adversely affect beer consumption and therefore the Company's beer sales and operating profits might also be adversely result affected.

There can be no assurance that the Company's results will not be materially adversely affected from time to time by significant increases in advertising and promotion costs, loss of sales volume, price discounting, or a combination of these and other factors related to the competitive beer markets in Chile and Argentina.

Significance of Relationship with BAESA. In 1994 the Company and BAESA formed the ECUSA joint venture in Chile to produce, distribute and sell soft drink and mineral water products. As a result, the Company is subject to the potential adverse impact (which it believes is limited for the reasons described below) of a material adverse change in the financial condition of BAESA.

After reporting substantial losses, BAESA announced on October 18, 1996 that it had reached a "Standstill Agreement" with its major creditors. This agreement allowed it to defer principal payments on approximately US$505 million of its total unsecured debt of approximately US$682 million until March 31, 1997. According to its terms, the Standstill Agreement expired on March 31, 1997. On May 9, 1997, as a consequence of BAESA's reporting negative net equity in its financial statements as of, and for, the three months ended March 31, 1997, trading in BAESA's shares and ADSs was suspended indefinitely on the Buenos Aires Stock Exchange and the NYSE, respectively. In addition, as part of its restructuring efforts during 1997, BAESA sold its soft drink businesses in Costa Rica and Brazil.

BAESA continued negotiations with its creditors until December 4, 1997, when it entered into a comprehensive "Restructuring Agreement" with all of the creditors that had been parties to the Standstill Agreement. This Restructuring Agreement, which was subsequently amended, covered BAESA's commercial bank debt, debt related to their Brazilian operations and debt owed to PepsiCo. The restructuring agreement contemplated exchanging debt and negotiable obligations for a package of securities and cash, including $113.2 million of new debt securities, new shares constituting up to 98% of BAESA's equity capital after the restructuring and cash proceeds from the rights offering.

On January 29, 1998, BAESA's shareholders approved the terms of its restructuring plan. On May 20, 1998, BAESA completed an exchange offer for the Eurobonds and in July 1998, BAESA reached a settlement agreement with the plaintiffs in a class action lawsuit against BAESA. On February 25, 1999, BAESA announced the completion of its restructuring process and the new shareholders assumed control of BAESA following the capitalization. The restructuring process restored BAESA's financial situation to positive equity under U.S. and Argentine GAAP and eliminated the immediate risk of a mandatory dissolution.

According to the ECUSA joint venture agreements, the Company owns 55% of ECUSA and BAESA owns 45%. Under the terms of the original shareholders agreement of November 1994, the Company and BAESA had equal representation on the Board of Directors of ECUSA and the Chairman of ECUSA was a director nominated by the BAESA-elected directors. On June 30, 1997, ECUSA's shareholders' agreement was revised. Under the new terms, the Company and BAESA no longer have equal representation on the Board of Directors of ECUSA. The Board now consists of seven members, four elected by CCU and three elected by BAESA, and the Board of Directors now designates as its Chairman a director nominated by the directors representing the Company. In addition, the Board of Directors designates as its Vice Chairman a director nominated by the directors representing BAESA. The quorum now required for a Board Meeting is four members. Although certain matters require a favorable vote of at least five members for approval, all other Board actions require only a majority of Board members in attendance for approval. In certain circumstances, including a change of control of BAESA, or if BAESA were to become involved in insolvency or bankruptcy proceedings, the Company would be entitled to terminate the shareholders agreement. Due to the change of control of BAESA that took place in February 1999, the Company has the option to terminate the shareholders agreement on July 2002.

In connection with the formation of ECUSA, BAESA agreed to pay US$50 million to the Company in consideration of certain assets transferred to ECUSA by the Company (see Note 10 to the Consolidated Financial Statements). US$10 million was paid at the time of formation of ECUSA, an additional US$10 million (with interest) was paid in November 1995, and the remaining US$30 million (with interest) was payable in equal annual installments in November of 1996, 1997 and 1998. The Company agreed to defer payment of the US$10 million due in November 1996. This payment was rescheduled to May 1997 when interest and US$1.5 million of the principal amount was paid. The remaining US$8.5 million of the US$10 million installment was rescheduled to June 30, 1997. On June 30, 1997, the total remaining outstanding indebtedness of approximately US$28.5 million was rescheduled. Under the new terms, between 1997 and 1999, the yearly interest that accrues on the indebtedness at a rate of 9.375% and any outstanding obligations derived from the most recent rescheduling will be paid out of BAESA's share of ECUSA's annual dividends. After these payments, any excess (or deficit) of the total dividends will be used to reduce (or increase) the principal amount of the indebtedness. In 2000, BAESA will pay any unpaid interest accrued during this period and will amortize the principal in order to reduce it to US$ 20 million, which will be payable in two years in annual installments and may be paid out of BAESA's share of ECUSA's annual dividends. In 2002, BAESA will pay the remaining principal and interest to the Company. In the case of a default by BAESA under the agreement, BAESA's indebtedness to the Company is secured by a pledge of 33.75% of the outstanding shares of ECUSA which are currently owned by BAESA. The book value of the pledged ECUSA shares exceeds the amount owed to the Company by BAESA. As of December 31, 1998, BAESA's total indebtedness (including accrued interest and accounts receivable to CCU Argentina) to the Company was approximately US$33 million.

In addition, in March and December of 1996, BAESA began distributing Budweiser beer imported and produced by the Company throughout the Buenos Aires metropolitan area. Any indebtedness in respect of accounts receivable or other obligations that may result from this distribution agreement is also secured by BAESA's share of ECUSA dividends. As of December 31, 1998, BAESA's indebtedness to the Company under this agreement amounted to approximately US$5 million.

The Company considers its relations with BAESA to be good, and since the agreement to the rescheduling of debt in June 30, 1997, the Company has not experienced any negative effects in its dealings with BAESA as a result of BAESA's financial situation. There can be no assurance, however, that BAESA will remain in the ECUSA joint venture or that such favorable relations with BAESA will continue.

Forward-Looking Information is Subject to Risk and Uncertainty. Certain statements contained in this Annual Report, specifically included in the sections entitled "Item 1: Description of Business" and "Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations" contain "forward-looking" information (as defined in the U.S. Private Securities Litigation Reform Act of 1995) that involves risk and uncertainties, including statements concerning increases in beer exports/imports, obtaining adequate supplies of raw materials, a new production facility in Temuco, Chile, and in Buenos Aires, Argentina, the effect of an increase in both soft drinks and beer excise taxes in Argentina, capital expenditures and the utilization of certain tax loss carry-forwards. Actual future results and trends may differ materially depending on a variety of factors discussed in this "Risk Factors" section and elsewhere in this Annual Report, including: (i) the Company's success in implementing its investment and capital-expenditure program; (ii) the nature and extent of future competition in the Company's principal marketing areas; and (iii) political and economic developments in Chile, Argentina, Croatia and other countries where the Company currently conducts business or may conduct business in the future, including other Latin American countries. For a description of the Company's capital expenditure program, see "—Capital Expenditures".

Coca-Cola's Potential Acquisition of Cadbury Schweppes. On December 11, 1998, The Coca-Cola Company announced an agreement to acquire Cadbury Schweppes' international beverage brands in certain markets. The Company has no additional information on the status of Cadbury Schweppes' agreement with The Coca-Cola Company or its potential effects on ECUSA's contract with Cadbury Schweppes. Under the current contract conditions, ECUSA's license expires in 2034 and must be renewed/renegotiated in 2004. Cadbury Schweppes' brands accounted for 30.1% of the Company's sales of soft drinks and 7.8% of overall revenues in 1998. No assurance can be given that sales under the Cadbury Schweppes license will remain at current levels.

Other Risk Factors. For a discussion of other risk factors not typically associated with investing in the securities of United States companies, the reader is referred to the discussion under the same heading in the Prospectus (except for the section entitled "Mandatory Arbitration Provisions May Limit Ability to Enforce Liabilities under U.S. Securities Laws," as the Company's by-laws have been amended to address this point) included in the Company's Registration Statement on Form F-3, as amended, filed with the Commission on December 11, 1996 (File No. 333-6042), which as amended is hereby incorporated by reference.

ITEM 2: Description of Property

Set forth below is information concerning the production facilities of the Company as of December 31, 1998, all of which are owned and operated by the Company or its subsidiaries:

	Nominal Installed Monthly Production Capacity (in million liters)	Utilized Capacity During Peak Month (1)	Average Utilized Capacity During 1998 (2)
Beer Production Facilities			
Santiago (3)	46.0	75.3%	55.5%
Concepción (4)	4.8	37.2%	45.2%
Antofagasta	4.1(5)	57.7%(6)	53.9%
Osorno	5.1	93.4%	73.1%
Chile Total	55.9 (7)	77.9%	60.1%
Santa Fe	23.0	70.2%	52.7%(8)
Salta	3.4	78.0%	64.2%
Argentina Total	26.4	71.2%	54.3%
Soft Drink Production Facilities			
Santiago	72.1	41.7%	33.2%
Talcahuano	17.5	33.5%	25.2%
Antofagasta	9.8	12.0%	11.7%
Total	99.4	37.4%	29.7%
Mineral Water Production Facilities			
Coinco	14.7	56.3%	38.3%
Casablanca	2.0	16.2%	18.1%
Chile Total	16.7	51.5%	35.9%
Rosario de la Frontera	2.8	27.0%	15.2%
Argentina Total	2.8	27.0%	15.2%

(1) Based on the year ended December 31, 1998. Utilized Capacity During Peak Month is equal to production output as a percentage of Nominal Installed Production Capacity during the Company's peak month for each respective plant (i.e., the month of December, January or February). The implicit slack capacity does not necessarily measure real slack capacity. The Company believes that real production capacity is less than the nominal installed production capacity as adjustments are required for real machinery performance, packaging mix, availability of raw materials and bottles, seasonality within the months and other factors. As a result, the Company believes that the peak monthly capacity utilization rates shown above understate real capacity utilization and that slack capacity is overstated. The Company estimates that during the peak month in 1998, the real slack capacity amounted to approximately 10.3 million liters in Chilean beer, 6.3 million liters in Argentine beer, 28.9 million liters in

soft drinks, 3.3 million liters in Chilean mineral water and 2.0 million liters in Argentine mineral water.

(2) Average Utilized Capacity During 1998 equals to the plant's total production output as a percentage of nominal installed annual production capacity in 1998. Nominal installed annual production capacity is calculated by multiplying the Nominal Installed Monthly Production Capacity multiplied by 11 months (on average, a one month period is required each year for maintenance and repairs). Given the seasonal nature of the Company's beer production and sales, these figures underestimate capacity utilization during peak months.

(3) The Santiago plant's Utilized Capacity During Peak Month increases from 73.5% to 80.5% and the Average Utilized Capacity during 1998 increases from 55.5% to 60.3% if the production of beer from the former Antofagasta production plant is included when considering this plant. Currently, the Santiago plant produces concentrated beer, which is tankered to the new Antofagasta plant for bottling.

(4) The Concepcíon plant was closed in January 1999.

(5) Figures relating to utilized capacity are calculated based on the plant's Nominal Storage Capacity of 4.1 million liters.

(6) Storage capacity.

(7) Does not include Antofagasta storage capacity.

(8) Considering the capacity increase completed in December 1998 for the entire year, the average utilized capacity of Santa Fe was 46.4%.

Wine Facilities	***Production***	**Installed Vinification Capacity (in millions liters)**	**Storage Capacity in tanks and barrels (in millions liters)**
Lontué		0.0	15.6
Molina		19.6	36.5
	Total	19.6	52.1

As of December 31, 1998, VSP's Lontué plant had a nominal packaging and bottling capacity of 35,100 liters per hour.

ITEM 3: Legal Proceedings

The Company is party to certain legal proceedings arising in the normal course of its business, none of which individually or in the aggregate is material.

ITEM 4: Control of Registrant

CCU's only outstanding voting securities are its shares of Common Stock. The following table sets forth certain information concerning ownership of the Common Stock as of April 30, 1999 with respect to each shareholder known to CCU to own more than 5% of the outstanding shares of Common Stock and with respect to all directors and executive officers of CCU as a group:

Shareholder	Number of shares owned	% Ownership
Inversiones y Rentas S.A.	196,137,960	61.58%
Compañía de Petróleos de Chile S.A.	23,887,716	7.50%
Directors and executive officers of the Company as a group (1)	6,667	0.00%

(1) Does not include the 196,137,960 shares owned by Inversiones y Rentas, which is 50% beneficially owned by the Luksic family, as discussed below. Guillermo Luksic and Andrónico Luksic, directors of the Company, are members of the Luksic family.

In addition, as of April 30, 1999, Morgan Guaranty Trust Company of New York, the Depositary for CCU's ADR facility, was the record owner of 56,099,935 shares of Common Stock (17.61% of the outstanding Common Stock) deposited in the Company's ADR facility.

Inversiones y Rentas is a Chilean closed corporation formed for the sole purpose of owning a controlling interest in the Company. Inversiones y Rentas is owned 50% by Quiñenco S.A., which is a holding company of the Luksic Group and 50% by Paulaner-Salvator Beteiligungs AG through its intermediate holding company, Finance Holding International B.V. ("FHI"). The two latter companies belong to the Schörghuber Group. An agreement between the two shareholders of Inversiones y Rentas gives each the right to transfer their holding in Inversiones y Rentas to the other, which may either buy such interest or transfer their own holding back to the offering shareholder at the same price.

The Company is not aware of any arrangements which may at a subsequent date result in a change in control of the Company.

Quiñenco S.A. is a Chilean holding company engaged in a wide range of business activities in Chile and countries of the Southern Cone and Mercosur regions, including Brazil, Argentina and Peru. Quiñenco's principal holdings include, among others, Madeco S.A. (the leading manufacturer of copper and aluminum-based products in Chile, Brazil, Argentina and Peru), Compañía Nacional de Teléfonos - Telefónica del Sur S.A. (a leading provider of local telephone service in southern Chile), Empresas Lucchetti S.A. (a leading producer of pasta in Chile, Argentina and Peru), Hoteles Carrera S.A. (a Chilean chain of luxury hotels) and Habitaria S.A. (a developer of residential real estate in Chile).

The beverage companies of the Schörghuber Group include a total of ten breweries and beverage operations. The group holds a considerable share of the German Coca-Cola anchor bottler, which controls more than 75% of Coca-Cola bottling operations in Germany. The Schörghuber Group is, through various ownership stakes in different breweries, the largest brewer in Bavaria and the fourth largest brewer in Germany. Paulaner, the largest brewery in Bavaria, was founded in Munich in 1634. Other breweries owned by the Paulaner group include Hacker-Pschorr Bräu GmbH in Munich, the Thurn & Taxis Brewery in Regensburg, Auerbräu AG in Rosenheim and the Reichelbräu AG, EKU and Mönchshof breweries in Kulmbach. Through KG Bayerische Hausbau, the Schörghuber Group is one of the largest real estate and urban development companies in Germany, with businesses in Spain, the Czech Republic, Hungary and Chile. Its lodging business interests include, through Arabella Hotels, the ownership of 14 hotels in Germany, Spain and Switzerland. Through

Bavaria Fluggesellschaft, the group's operations include aircraft leasing activities. See "—Item 13: Interest of Management in Certain Transactions".

ITEM 5: Nature of Trading Market

The Company's Common Stock is currently traded on the Santiago Stock Exchange, the BEC, and the Valparaíso Stock Exchange. The Santiago Stock Exchange accounted for approximately 66% of the trading volume of the Common Stock in Chile in 1997 and 65% of such volume in 1998. Shares of the Company's Common Stock traded in the United States on the NASDAQ stock exchange between September 24, 1992 and March 25, 1999 and on the NYSE as of March 26, 1999, in the form of ADSs, each representing five shares of Common Stock, with ADSs in turn evidenced by ADRs. The ADSs are issued under the terms of a deposit agreement dated September 1, 1992, as amended (the "Deposit Agreement"), among the Company, Morgan Guaranty Trust Company of New York, as depositary (the "Depositary"), and the holders from time to time of the ADSs.

For the periods indicated, the table below sets forth the reported high and low closing sales prices for the Common Stock on the Santiago Stock Exchange as well as the high and low sales prices of the ADSs as reported by NASDAQ or by the NYSE, the latter in the case of part of the first quarter of 1999:

	Santiago Stock Exchange (per share of common stock)(1)		NASDAQ or NYSE (per ADS)	
	High (Ch$)	Low (Ch$)	High (US$)	Low (US$)
1997				
1st quarter	1,600	1,310	20.125	15.484
2nd quarter	1,930	1,600	23.875	19.625
3rd quarter	2,350	1,751	29.500	21.125
4th quarter	2,500	1,910	30.750	22.000
1998				
1st quarter	2,630	1,980	30.133	22.234
2nd quarter	2,700	1,949	30.563	21.000
3rd quarter	2,200	1,390	23.750	13.875
4th quarter	2,080	1,300	22.625	13.250
1999				
1st quarter	2,080	1,370	21.813	14.203

(1) Pesos per share of Common Stock reflect nominal price at trade date.

As of April 30, 1999, there were 11,219,987 ADSs (equivalent to 56,099,935 shares of Common Stock) outstanding, held by approximately 26 holders of record. Such ADSs represented at such date 17.61% of the total number of issued and outstanding shares of Common Stock.

In May 1998, the Company sold an additional 3,100,000 of its remaining authorized and unissued shares of Common Stock from its 1996/1997 capital increase in Chile, raising approximately US$15 million. In April 1999, the Company sold the 4,573,792 remaining shares from its 1996/1997 capital increase, representing approximately 1.5% of the Company's total issued and subscribed shares of Common Stock. This capital increase raised approximately US$22 million which will be used to fund the Company's capital expenditure plan.

ITEM 6: Exchange Controls and Other Limitations Affecting Security Holders

Among other things, the Central Bank is responsible for establishing monetary policies and exchange controls in Chile. Appropriate registration of a foreign investment in Chile permits the investor access to the Formal Exchange Market. See "—Exchange Rates". Foreign investments can be registered with the Foreign Investment Committee under Decree Law No. 600 of 1974 or can be registered with the Central Bank under the Central Bank Act. The Central Bank Act is an organic constitutional law requiring a special majority vote of the Chilean Congress to be modified.

A foreign investment and exchange contract ("Foreign Investment Contract") was entered into among the Central Bank, CCU and the Depositary in 1992 and amended in 1996 pursuant to Article 47 of the Central Bank Act and to Chapter XXVI of the Compendium of Foreign Exchange Regulations of the Central Bank ("Chapter XXVI"), which addresses the issuances of ADSs by a Chilean company. Absent the Foreign Investment Contract, under applicable Chilean exchange controls, investors in the ADRs would not be granted access to the Formal Exchange Market for the purpose of converting from pesos to dollars and repatriating from Chile amounts received with respect to deposited shares of Common Stock withdrawn from deposit on surrender of ADRs (including amounts received as cash dividends and proceeds from the sale in Chile of the underlying Common Stock and any rights with respect thereto). The following is a summary of the material provisions contained in the Foreign Investment Contract. This summary does not purport to be complete and is qualified in its entirety by reference to Chapter XXVI and the Foreign Investment Contract.

Under Chapter XXVI and the Foreign Investment Contract, the Central Bank has agreed to grant to the Depositary, on behalf of holders of ADRs, and to any investor not residing or domiciled in Chile who withdraws shares of Common Stock upon delivery of ADRs (such shares of Common Stock being referred to herein as "Withdrawn Shares") access to the Formal Exchange Market to convert pesos to dollars (and remit such dollars outside of Chile) in respect of Common Stock represented by ADRs or Withdrawn Shares, including amounts received as (a) cash dividends, (b) proceeds from the sale in Chile of Withdrawn Shares, or from shares distributed because of the liquidation, merger or consolidation of the Company, subject to receipt by the Central Bank of a certificate from the holder of such shares (or from an institution authorized by the Central Bank) that such holder's residence and domicile are outside Chile and a certificate from a Chilean stock exchange (or from a brokerage or securities firm established in Chile) that such shares were sold on a Chilean exchange, (c) proceeds from the sale in Chile of preemptive rights to subscribe for additional shares of Common Stock, (d) proceeds from the liquidation, merger or consolidation of the Company and (e) other distributions, including without limitation those resulting from any re-capitalization, as a result of holding Common Stock represented by ADSs or Withdrawn Shares. Transferees of Withdrawn Shares are not entitled to any of the foregoing rights under Chapter XXVI unless the Withdrawn Shares are re-deposited with the Depositary. Investors receiving Withdrawn Shares in exchange for ADRs will have the right to re-deposit such shares in exchange for ADRs, provided that the conditions to re-deposit specified in the Deposit Agreement are satisfied. For a description of the Formal Exchange Market, See "—Exchange Rates".

Chapter XXVI provides that access to the Formal Exchange Market in connection with dividend payments will be conditioned upon certification by the Company to the Central Bank

that a dividend payment has been made and any applicable tax has been withheld. Chapter XXVI also provides that the access to the Formal Exchange Market in connection with the sale of Withdrawn Shares or distributions thereon will be conditioned upon receipt by the Central Bank of certification by the Depositary that such shares have been withdrawn in exchange for ADRs and receipt of a waiver of the benefit of the Foreign Investment Contract with respect thereto until such Withdrawn Shares are re-deposited.

Chapter XXVI and the Foreign Investment Contract provide that a person who brings certain types of foreign currency into Chile, including U.S. dollars, to purchase Common Stock with the benefit of the Foreign Investment Contract must convert it into pesos on the same date and has five banking days within which to invest in Common Stock in order to receive the benefits of the Foreign Investment Contract. If such person decides within such period not to acquire Common Stock, he can access the Formal Exchange Market to re-acquire dollars, provided that the applicable request is presented to the Central Bank within seven days of the initial conversion into pesos. Common Stock acquired as described above may be deposited for ADRs and receive the benefits of the Foreign Investment Contract, subject to receipt by the Central Bank of a certificate from the Depositary that such deposit has been effected and that the related ADRs have been issued and receipt by the Custodian of a declaration from the person making such deposit waiving the benefits of the Foreign Investment Contract with respect to the deposited Common Stock.

Access to the Formal Exchange Market under any of the circumstances described above is not automatic. Pursuant to Chapter XXVI, such access requires approval of the Central Bank based on a request therefor presented through a banking institution established in Chile. The Foreign Investment Contract will provide that if the Central Bank has not acted on such request within seven banking days, the request will be deemed approved.

Under current Chilean law, the Foreign Investment Contract cannot be changed unilaterally by the Central Bank. No assurance can be given, however, that additional Chilean restrictions applicable to the holders of ADRs, the disposition of underlying Common Stock or the repatriation of the proceeds from such disposition could not be imposed in the future, nor can there be any assessment of the duration or impact of such restrictions if imposed.

Subsequent to July 4, 1995, pursuant to the Compendium of Foreign Exchange Regulations, foreign investors acquiring shares or securities in Chile were required to maintain a mandatory reserve for one year in the form of a non-interest bearing U.S. dollar deposit with the Central Bank, in an amount equal to 30% of the amount of the proposed investment. Alternatively, foreign investors may choose to satisfy such reserve requirement (the "Reserve Requirement") by making payment to the Central Bank of a non-refundable amount calculated by multiplying LIBOR plus 4% by an amount equal to 30% of the proposed investment. The Reserve Requirement will be imposed with respect to investments made by foreign investors to acquire shares or securities in the secondary market for deposit in an ADR facility. However, on September 16, 1998, the Central Bank lowered the Reserve Requirement to 0% but did not completely eliminate it. Thus, the possibility exists that it could be reinstated at a later date.

The reinstatement of the Reserve Requirement could affect the price and volume of trading in securities in Chile, including the price and volume of trading in the Common Stock. A new Reserve Requirement could also affect the amount of any differential in prices between American Depositary Shares evidencing securities of Chilean issuers, including the ADRs representing the Common Stock, and the prices of the underlying securities traded in Chile, including the Common Stock. The Company is unable to predict whether, and if so, how or

when the Reserve Requirement may be modified or terminated or the effect of any such modifications or termination on the securities markets in Chile, the market for the Common Stock or the market for the ADRs. Moreover, the Company is unable to assess at this time the impact that the Reserve Requirement would have on the securities markets in Chile, the market for the Common Stock in Chile or the market for the ADRs.

ITEM 7: Taxation

7.1 Chilean Tax Considerations

The following describes the material Chilean income tax consequences of an investment in the ADSs or Common Stock by an individual who is not domiciled or resident in Chile or a legal entity that is not organized under the laws of Chile and does not have a permanent establishment located in Chile (a "foreign holder"). This discussion is based upon Chilean income tax laws presently in force, including Ruling No. 324 of January 29, 1990 of the Chilean Internal Revenue Service and other applicable regulations and rulings. The discussion is not intended as tax advice to any particular investor, which can be rendered only in light of that investor's particular tax situation.

Under Chilean law, provisions contained in statutes such as tax rates applicable to foreign investors, the computation of taxable income for Chilean purposes and the manner in which Chilean taxes are imposed and collected may only be amended by another statute. In addition, the Chilean tax authorities issue rulings and regulations of either general or specific application and interpret the provisions of Chilean tax law. Chilean taxes may not be assessed retroactively against taxpayers who act in good faith relying on such rulings, regulations and interpretations, but Chilean tax authorities may change said rulings, regulations and interpretations prospectively. There is no income tax treaty in force between Chile and the United States.

Cash Dividends and Other Distributions. Cash dividends paid by the Company with respect to Common Stock, including Common Stock represented by ADSs held by a foreign holder, will be subject to a 35% Chilean withholding tax, which is withheld and paid over by the Company (the "Withholding Tax").

Tax filings in Chile are due in April of each year in respect of the prior fiscal year. Given that the Company's dividends (interim and final) for a year generally are declared before tax filings are made, it is not possible to determine First Category Taxes at the time dividends are declared. If the Company has paid corporate income tax (the "First Category Tax") on the income from which the dividend is paid, a credit for the First Category Tax effectively reduces the rate of Withholding Tax. When a credit is available, the Withholding Tax is computed by applying the 35% rate to the pre-tax amount needed to fund the dividend and then subtracting from the tentative withholding tax so determined the amount of First Category Tax actually paid on that pre-tax income. If no First Category Tax credit is available when the dividends are paid, the Company must withhold the 35% tax on dividends until April of the following year, when First Category Taxes are finally determined, declared, and paid. Subsequently, should any tax credit be determined to be due, the resulting amount is paid to ADR holders.

For purposes of determining the rate at which First Category Tax was paid, dividends are treated as paid from the Company's oldest retained earnings. The effective Withholding Tax rate, after giving effect to the credit for First Category Tax, generally is:

$$\frac{\text{(Withholding Tax rate) - (First Category Tax effective rate)}}{\text{1 - (First Category Tax effective rate)}}$$

The effective rate of Withholding Tax to be imposed on dividends paid by the Company may vary materially depending upon the amount of First Category Tax paid by the Company on the taxable earnings to which the dividends are attributed. The effective rate for dividends attributed to earnings from 1991 and later years, for which the First Category Tax is 15%, generally is 23.5%. In 1996, 1997 and 1998, CCU paid First Category Tax at an effective rate below the 15% statutory rate. The Company expects that the effective consolidated tax rate in 1999 will continue to be less than the Chilean statutory rate of 15% as a result of tax loss carryforwards that remain available to certain of CCU's subsidiaries. For information on tax paid by the Company, see Note 15 to the Consolidated Financial Statements.

Dividend distributions made in property would be subject to the same Chilean tax rules as cash dividends. Stock dividends are not subject to Chilean taxation. The distribution of preemptive rights relating to shares of Common Stock will not be subject to Chilean taxation.

Capital Gains. Gain from the sale or exchange of ADSs (or ADRs evidencing ADSs) outside Chile will not be subject to Chilean taxation. The deposit and withdrawal of Common Stock in exchange for ADRs will not be subject to any Chilean taxes.

Gain recognized on a sale or exchange of Common Stock (as distinguished from sales or exchanges of ADSs representing such shares) will be subject to both the First Category Tax and the Withholding Tax (the former being creditable against the latter) if either (i) the foreign holder has held the Common Stock for less than one year since exchanging ADSs for the Common Stock or (ii) the foreign holder acquired and disposed of the Common Stock in the ordinary course of its business or as a regular trader of shares. In all other cases, gain on the disposition of Common Stock will be subject only to a capital gains tax, which is assessed at the same rate as the First Category Tax.

The tax basis of shares of Common Stock received in exchange for ADSs will be the acquisition value of the shares. The valuation procedure set forth in the Deposit Agreement, which values shares of Common Stock which are being exchanged at the highest price at which they trade on the Santiago Stock Exchange on the date of the exchange, will determine the acquisition value for this purpose. Consequently, the conversion of ADSs into shares of Common Stock and the immediate sale of such shares for no more than the value established under the Deposit Agreement will not generate a gain subject to Chilean taxation.

The exercise of preemptive rights relating to the shares of Common Stock will not be subject to Chilean taxation. Any gain on the sale or assignment of preemptive rights relating to the shares of Common Stock will be subject to both the First Category Tax and the Withholding Tax (the former being creditable against the latter).

Other Chilean Taxes. No Chilean inheritance, gift or succession taxes apply to the transfer or disposition of the ADSs by a foreign holder, but such taxes generally will apply to the transfer at death or by gift of Common Stock by a foreign holder. No Chilean stamp, issue, registration or similar taxes or duties apply to foreign holders of ADSs or Common Stock.

7.2 United States Tax Considerations

The following describes the material United States federal income tax consequences of an investment in the ADSs or shares of Common Stock. This discussion is based upon United States federal income tax laws presently in force. The discussion is not a full description of all tax considerations that may be relevant to a decision to purchase ADSs or shares of Common Stock. In particular, the discussion is directed only to U.S. holders that will hold ADSs or shares of Common Stock as capital assets and that have the United States dollar as their functional currency. It does not address the tax treatment of U.S. holders that are subject to special tax rules, such as banks, securities dealers, insurance companies, tax-exempt entities, holders who hold the ADRs or Common Stock as part of a straddler hedge, conversion, or integrated transaction and holders of 10% or more of the Company's voting shares. The Company believes, and the discussion therefore assumes, that the Company is not and will not become a passive foreign investment company or a foreign personal holding company for United States federal income tax purposes.

As used here, "U.S. holder" means a beneficial owner of ADSs or shares of Common Stock that is (i) a United States citizen or resident, (ii) a domestic corporation or partnership or (iii) a trust subject to the control of a US person and the primary supervision of a U.S. court or (iv) an estate the income of which is subject to United States federal income taxation regardless of its source. The term "non-U.S. holder" refers to any beneficial owner of ADSs or shares of Common Stock other than a U.S. holder. If the obligations contemplated by the Deposit Agreement are performed in accordance with its terms, holders of ADSs (or ADRs evidencing ADSs) will be treated for United States federal income tax purposes as the owners of the shares of Common Stock represented by those ADSs.

Cash Dividends and Other Distributions. Cash dividends (including the amount of any Chilean Withholding Taxes withheld), reduced by any applicable Chilean tax credit for First Category Tax, paid with respect to the shares of Common Stock or shares of Common Stock represented by ADSs out of the current and accumulated earnings and profits of the Company as determined for United States federal income tax purposes generally will be included in the gross income of a U.S. holder as ordinary income. Dividends paid in pesos will be included in a United States dollar amount based on the exchange rate in effect on the date of receipt (which, in the case of ADSs, will be the date of receipt by the Depositary) regardless of whether the payment is in fact converted into U.S. dollars at that time. Any gain or loss recognized upon a subsequent sale or conversion of the pesos for a different amount of U.S. dollars will be United States source ordinary income or loss. Dividends generally will be foreign source income. The Chilean Withholding Tax (net of any credit for the First Category Tax) paid by or for the account of any U.S. holder will be eligible, subject to generally applicable limitations and conditions, for credit against the U.S. holder's federal income tax liability. Dividends generally will constitute foreign source "passive income" or "financial services income" for U.S. tax purposes. Dividends will not be eligible for the dividends-received deduction allowed to corporations.

Distributions to U.S. holders of additional shares of Common Stock or preemptive rights with respect to shares of Common Stock that are made as part of a pro-rata distribution to all shareholders of CCU generally will not be subject to United States federal income tax. The basis of the new shares or preemptive rights (if such rights are exercised or sold) generally will be determined by allocating the U.S. holder's adjusted basis in the old shares between the old

shares and the new shares or preemptive rights received, based on their relative fair market values on the date of distribution (except the basis of the preemptive rights will be zero if the fair market value of the rights is less than 15% of the fair market value of the old shares at the time of distribution, unless the U.S. holder irrevocably elects to allocate basis between the old shares and the preemptive rights). The holding period of a U.S. holder for the new shares or preemptive rights will include the U.S. holder's holding period for the old shares with respect to which the new shares or preemptive rights were issued.

A non-U.S. holder generally will not be subject to United States federal income or withholding tax on dividends paid with respect to Common Stock or Common Stock represented by ADSs, unless such income is effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States.

Capital Gains. U.S. holders will not recognize gain or loss on deposits or withdrawals of shares of Common Stock in exchange for ADSs or on the exercise of preemptive rights. U.S. holders will recognize capital gain or loss on the sale or other disposition of ADSs or shares of Common Stock (or preemptive rights with respect to such shares) held by the U.S. holder or by the Depositary equal to the difference between the amount realized and the U.S. Holder's tax basis in the ADSs or shares of Common Stock. Any gain recognized by a U.S. holder generally will be treated as United States source income. Consequently, in the case of a disposition of Common Stock or preemptive rights (which, unlike a disposition of ADRs, will be taxable in Chile), the U.S. holder may not be able to claim the foreign tax credit for Chilean tax imposed on the gain unless it appropriately can apply the credit against tax due on income from foreign sources. Loss may be treated as foreign source loss by reference to the source of dividends paid on the Common Stock.

A non-U.S. holder of ADSs or shares of Common Stock will not be subject to United States income or withholding tax on gain from the sale or other disposition of ADSs or Common Stock unless (i) such gain is effectively connected with the conduct of a trade or business within the United States or (ii) the non-U.S. holder is an individual who is present in the United States for at least 183 days during the taxable year of the disposition and certain other conditions are met.

ITEM 8: Selected Financial Data

The following table presents selected consolidated financial information for the Company as of the dates and for each of the periods indicated. This information should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements of the Company, including the notes thereto, included elsewhere herein. The report of Price Waterhouse on the Consolidated Financial Statements appears elsewhere in this Annual Report. The Consolidated Financial Statements are prepared in accordance with Chilean GAAP, which differ in certain significant respects from U.S. GAAP. Note 24 to the Consolidated Financial Statements provides a description of the principal differences between Chilean GAAP and U.S. GAAP as they relate to the Company and a reconciliation to U.S. GAAP of net income and shareholders' equity for the years ended December 31, 1996, 1997 and 1998.

The financial information as of and for the years ended December 31, 1994, 1995, 1996, 1997 and 1998 shown below is presented in constant Chilean pesos of December 31, 1998.

	Year ended December 31,				
	1994	1995	1996	1997	1998
	(millions of constant Ch$) (1)				
Income Statement Data:					
Chilean GAAP:					
Total revenues	Ch$166,476	Ch$221,243	Ch$252,019	Ch$272,477	Ch$280,111
Operating income	31,683	29,293	30,959	43,202	44,618
Interest expense	(3,662)	(6,374)	(7,995)	(7,039)	(7,429)
Other income	20,642	15,875	7,631	18,139	20,439
Income tax	(508)	(2,801)	(2,570)	(4,303)	(4,644)
Net income	39,912	29,641	20,149	38,998	39,315
EBITDA (2)	50,529	52,037	57,226	71,674	74,619
Net earnings per share	152.69	113.39	76.94	126.33	125.67
Net earnings per ADS	763.45	566.97	384.70	631.63	628.36
Dividends per share (3)	60.25	44.94	31.97	62.74	62.62
Weighted average shares outstanding (000s)	261,394	261,394	261,881	308,705	312,842
U.S. GAAP:					
Total revenues	Ch$154,919	Ch$143,134	Ch$166,324	Ch$188,001	Ch$196,962
Net income	32,972	26,307	25,220	42,958	40,086
Net earnings per share	126.14	100.64	96.30	139.16	128.14
Net earnings per ADS	630.70	503.20	481.51	695.78	640.68
Balance Sheet Data:					
Chilean GAAP:					
Total assets	Ch$316,668	Ch$435,951	Ch$460,822	Ch$535,588	Ch$567,384
Long-term liabilities	68,891	125,820	113,097	98,827	102,282
Total debt (4)	55,425	123,654	111,546	97,519	95,191
Total stockholders' equity	182,755	198,443	230,517	304,845	333,604
U.S. GAAP:					
Total assets	Ch$263,053	Ch$373,051	Ch$399,675	Ch$478,629	Ch$512,284
Long-term liabilities	55,132	109,157	92,181	82,899	85,922
Total debt (4)	49,080	112,770	105,492	96,980	95,096
Total stockholders' equity	172,393	185,939	223,372	302,684	333,227
Other Data:					
Sales volume (in millions of liters):					
Beer (Chile)	333.2	344.5	349.1	361.9	363.0
Beer (Argentina)	--	53.2	100.5	142.3	145.5
Soft drinks and mineral water (5)	269.4	357.0	383.2	382.9	386.8
Wine (6)	--	23.6	36.9	45.1	52.4
Change in consumer price index applicable for the restatement of financial statements (7)	8.9%	8.2%	6.6%	6.3%	4.3%

(1) Except shares outstanding, net earnings per share and per ADS, sales volume and inflation data.
(2) Under Chilean GAAP, EBITDA is operating income plus depreciation and amortization.
(3) Expressed in pesos as of December 31, 1998, except 1998 dividends, which were paid in January and May of 1999, and are expressed in pesos corresponding to those payment dates.
(4) Includes short-term and long-term financial debt.
(5) Includes sales of soft drinks and mineral water in Argentina.
(6) Includes sales of wine in Argentina.
(7) Based on the consumer price index of the INE for the twelve-month period ended November 30 of each indicated year. Accordingly, figures presented here may vary from other published inflation figures for given periods, which are generally calculated for the actual calendar period indicated.

8.1 Dividend Policy and Dividends

The Company's dividend policy is reviewed and established from time to time by the Board of Directors and approved at the annual regular shareholders' meeting, which is generally held in April. Shareholder approval of the dividend policy is not required. However, each year the Board of Directors must submit the declared final dividend in respect of the preceding year for shareholder approval at the annual regular shareholders' meeting. As required by the Chilean Companies Act, unless otherwise decided by unanimous vote of the issued, subscribed and paid shares, the Company must distribute a cash dividend in an amount equal to at least 30% of its net income for that year, unless and except to the extent it has a deficit in retained earnings for the year.

The Board of Directors announced at the annual regular shareholders' meeting held on April 26, 1999, its decision to maintain the current dividend policy for future periods, which authorizes distribution of cash dividends in an amount equal to 50% of the Company's net income under Chilean GAAP for the previous year. The Board of Directors has the authority to decide whether the dividend will be paid in the form of interim dividends or a single annual payment. The Company's dividend policy is subject to change in the future due to changes in Chilean law, capital requirements, economic results and/or other factors.

Dividends are paid to shareholders of record on the fifth business day (including Saturday) preceding the date set for payment of the dividend. The holders of the ADRs on the applicable record dates are entitled to dividends declared for each corresponding period.

The following table sets forth the amounts of interim and final dividends and the aggregate of such dividends per share of Common Stock and per ADS in respect of each of the years indicated:

	Ch$ Per share (1)			US$ Per ADS (2)		
Year ended December 31,	Interim	Final (3)	Total	Interim	Final (3)	Total
1994	23.00	24.76	47.76	0.28	0.33	0.61
1995	19.00	19.38	38.38	0.23	0.24	0.47
1996	10.55	18.76	29.31	0.13	0.22	0.35
1997	31.00	29.15	60.15	0.34	0.32	0.66
1998	32.00	30.62	62.62	0.34	0.32	0.66

(1) Interim and final dividend amounts are expressed in historical pesos.
(2) U.S. dollars per ADR dividend information serves reference purposes only as the Company pays all dividends in Chilean pesos. The Chilean peso amounts as shown here have been converted into U.S. dollars at the respective Observed Exchange Rate in effect at each payment date. Note: The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.
(3) The final dividend with respect to each year is declared and paid within the first five months of the subsequent year.

As a general requirement, each shareholder who is not a resident of Chile must register as a foreign investor under one of the foreign investment regimes contemplated by Chilean law to have dividends, sale proceeds or other amounts with respect to their shares remitted outside of Chile through the Formal Exchange Market (see "—Exchange Rates"). Under the Foreign Investment Contract, the Depository, on behalf of ADR holders, will be granted access

to the Formal Exchange Market to convert cash dividends from pesos to dollars and to pay such dollars to ADR holders outside of Chile. Dividends received in respect of shares of Common Stock by holders, including holders of ADRs who are not Chilean residents, are subject to Chilean withholding tax. See "—Item 7: Taxation".

ITEM 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

9.1 Introduction

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto included in Item 19: Financial Statements and Exhibits. As discussed below, the Consolidated Financial Statements have been restated to recognize certain effects of inflation. In the following discussion, Chilean peso amounts have been rounded to the nearest million pesos, unless otherwise indicated. Certain amounts (including percentage amounts) which appear herein have been rounded and may not sum exactly.

The Company prepares its financial statements in accordance with Chilean GAAP, which differs in certain important respects from U.S. GAAP. Note 24 to the Consolidated Financial Statements provides a description of the principal differences between Chilean GAAP and U.S. GAAP as they relate to the Company and a reconciliation to U.S. GAAP of net income and total shareholders' equity for the years ended December 31, 1996, 1997 and 1998. Although Chilean inflation was moderate during the periods covered by the Consolidated Financial Statements, as discussed below, Chile has experienced high levels of inflation in the past. Chilean GAAP requires that the Consolidated Financial Statements of the Company recognize certain effects of inflation. Accordingly, except where otherwise indicated, financial data have been restated in constant pesos of December 31, 1998 purchasing power.

9.2 Summary of Operations

The Company is engaged in the business of producing, selling and distributing beer, carbonated and non-carbonated soft drinks (including fruit nectars) and mineral water and wine in Chile, as well as exporting a portion of its Chilean wine production. The Company also produces, sells and distributes beer and mineral water in Argentina and sells and distributes limited amounts of wine and soft drinks in Argentina. The Company produces plastic bottles for use in its business and plastic crates primarily for its own use and for sale to third parties.

The following table sets forth for each of the periods indicated the net sales and operating income contributed by each of the Company's product segments, expressed in each case in millions of Chilean pesos as of December 31, 1998 and as a percentage of consolidated net sales or operating income, as the case may be:

	Year Ended December 31,					
	1996		1997		1998	
	(millions of Ch$, except percentages)					
Net Sales						
Beer Chile Segment (1)	Ch$113,794	45.2%	Ch$117,972	43.3%	Ch$117,081	41.8%
Beer Argentina Segment (1)	24,868	9.9%	35,213	12.9%	37,746	13.5%
Soft Drinks and Mineral Water Segment (2)	92,718	36.8%	90,699	33.3%	88,063	31.4%
Wine Segment (3)	20,024	7.9%	28,237	10.4%	36,825	13.1%
Other (4)	616	0.2%	357	0.1%	397	0.1%
Total	Ch$252,019	100.0%	Ch$272,477	100.0%	Ch$280,111	100.0%
Operating Income						
Beer Chile Segment (1)	Ch$24,179	78.1%	Ch$29,878	69.2%	Ch$33,763	75.7%
Beer Argentina (1)	(457)	(1.5)%	420	1.0%	(2,399)	(5.4)%
Soft Drinks and Mineral Water Segment (2)	7,120	23.0%	10,872	25.2%	9,053	20.3%
Wine Segment (3)	442	1.4%	2,566	5.9%	3,244	7.3%
Other (4)	(324)	(1.0)%	(534)	(1.2)%	958	2.1%
Total	Ch$30,959	100.0%	Ch$43,202	100.0%	Ch$44,618	100.0%

(1) Includes sales of beer, beer by-products and other products such as malt, barley and yeast.
(2) Includes sales of carbonated and non-carbonated soft drinks, nectar, mineral water, powdered juice and related merchandise.
(3) Includes sales of wine, by-products and other products such as labels and corks.
(4) Includes sales of crates and other packaging.

9.3 Results of Operations

The following table provides certain information relating to operating results in millions of pesos and as a percentage of net sales for the periods indicated:

	Year Ended December 31,					
	1996		1997		1998	
	(millions of Ch$, except percentages and sales volume data)					
Net Sales	Ch$252,019	100.0%	272,477	100.0%	280,111	100.0%
Cost of Sales	(122,694)	(48.7%)	(126,200)	(46.3%)	(127,643)	(45.6%)
Gross Profit	Ch$129,325	51.3%	146,278	53.7%	152,468	54.4%
Selling and Administrative Expenses	(98,366)	(39.0%)	(103,076)	(37.8%)	(107,849)	(38.5%)
Operating Income	Ch$30,959	12.3%	43,202	15.9%	44,618	15.9%
Non-Operating Income	7,631	3.0%	18,139	6.7%	20,439	7.3%
Non-Operating Expenses	(12,022)	(4.8%)	(11,944)	(4.4%)	(15,626)	(5.6%)
Price-Level Restatement	(432)	(0.2%)	(392)	(0.1%)	(9)	(0.0%)
Income Taxes	(2,570)	(1.0%)	(4,303)	(1.6%)	(4,644)	(1.7%)
Minority Interest	(3,417)	(1.4%)	(5,704)	(2.1%)	(5,464)	(2.0%)
Net Income	Ch$20,149	8.0%	38,998	14.3%	39,315	14.0%
EBITDA (1)	Ch$57,226	22.7%	Ch$71,674	26.3%	Ch$74,619	26.6%
Sales volume (2):						
Beer (Chile)		349.1		361.9		363.0
Beer (Argentina)		100.5		142.3		145.5
Soft drinks and mineral water (3)		383.2		382.9		386.8
Wine (4)		36.9		45.1		52.4

(1) EBITDA represents the sum of operating income, depreciation and amortization.
(2) In millions of liters.
(3) Includes sales of soft drinks and mineral water in Argentina, which equaled 5.4 million liters in 1996, 5.1 million liters in 1997, and 4.5 million liters in 1998.
(4) Includes sales of wine in Argentina, which equaled 1.5 million liters in 1996, 1.1 million liters in 1997 and 0.6 million liters in 1998.

9.4 Results of Operations for Years Ended December 31, 1998, 1997 and 1996

Net Sales. The Company's net sales were Ch$280,111 million in 1998 as compared to Ch$272,477 million in 1997, representing a 2.8% increase for 1998 which is mainly explained by increases in the Company's wine and Argentine beer segments, both partially offset by decreases in the Company's soft drinks and Chilean beer operations. The net sales performance of each business segment during 1998 is described below:

Beer Chile: Net Sales decreased by 0.8% to Ch$117,081 million in 1998. This decrease in sales resulted from a 0.5% decrease in per unit prices, partially compensated by a 0.3% increase in sales volume.

Beer Argentina: Net sales increased by 7.2% to Ch$37,746 million in 1998. This increase in sales resulted from both a 2.3% increase in sales volume and the effect of year to year foreign exchange rate fluctuations in prices expressed in Chilean pesos.

Soft Drinks and Mineral Water: Net sales decreased by 2.9% to Ch$88,063 million in 1998. This decrease in sales resulted from a 3.6% decrease in overall prices due to a 4.1% decrease in soft drinks unit prices and a 0.6% decrease in mineral water unit prices. These effects were partially compensated by a 1.0% increase in overall sales volume, comprising a 1.6% increase in mineral water volumes and a 0.9% increase in soft drinks volumes.

Wine: Net sales increased by 30.4% to Ch$36,825 million in 1998. This increase in sales resulted from both a 17.7% increase in overall sales volume consisting of a 23.9% increase in export volumes and a 13.1% increase in domestic volumes, and a 15.3% increase in overall prices, consisting of a 4.6% increase in domestic per unit prices and a 16.1% increase in export per unit prices.

In 1997, net sales increased 8.1% to Ch$272,477 million as compared to net sales of Ch$252,019 million in 1996. The 1997 increase resulted primarily from a 10.5% increase in net sales of beer products in both Chile and Argentina and a 41.0% increase in the net sales of wine primarily due to increases in export volumes. These gains were slightly offset by a 2.2% decrease in the Company's soft drinks and mineral water sales as compared to 1996.

Cost of Goods Sold. The Company's cost of goods sold consists principally of the costs of packaging and other raw materials, labor costs for production personnel, depreciation of assets related to production, depreciation of returnable bottles, licensing fees, bottle breakage and costs of operating and maintaining plants and equipment. Cost of sales in 1998 amounted to Ch$127,643 million as compared to cost of sales in 1997 which reached Ch$126,200 million. As a percentage of net sales, cost of sales was 45.6% in 1998 as opposed to 46.3% in 1997. The decrease in cost of sales as a percentage of net sales in 1998 is principally attributable to relative cost decreases in the Company's beer operations in both Chile and Argentina, which were partially offset by relative cost increases in the Company's wine and soft drinks and mineral water operations. The cost of goods sold performance of each business segment during 1998 is described below:

Beer Chile: Cost of goods sold decreased by 7.3% to Ch$42,387 million in 1998. Cost of goods sold as a percentage of sales was reduced from 38.8% in 1997 to 36.2% in 1998 due to lower per-unit raw material cost and higher efficiencies in the production processes.

Beer Argentina: Cost of goods sold increased by 0.8% to Ch$19,927 million in 1998. Cost of goods sold as a percentage of net sales decreased from 56.1% in 1997 to 52.8% in 1998, due to lower per-unit cost as a consequence of the substitution of imported raw materials for Budweiser's production by locally produced raw materials.

Soft Drinks and Mineral Water: Cost of goods sold decreased by 1.3% to Ch$42,954 million. Cost of goods sold as a percentage of sales increased from 48.0% in 1997 to 48.8% in 1998 mainly due to lower average prices, specially in the case of soft drinks.

Wine: Cost of goods sold increased by 38.2% to Ch$24,180 million in 1998. Cost of goods sold as a percentage of net sales increased from 62.0% in 1997 to 65.7% in 1998, due to higher per-unit cost as a consequence of increased costs of raw materials incurred when purchasing wine and grapes from third party suppliers.

In 1997, overall cost of goods sold increased 2.9% as compared to Ch$122,694 million in 1996. However, as a percentage of net sales, costs of sales decreased from 48.7% in 1996 to 46.3% in 1997. This decrease as a percentage of net sales in 1997 resulted primarily from: increased sales of proprietary soft drinks for which the Company does not pay royalty fees, decreased soft drinks and mineral water raw material costs mainly corresponding to packaging, lower cost of raw materials for the production of beer in Chile and a greater percentage of export wine sales.

Gross Profit. Gross profit increased 4.2% to Ch$152,468 million in 1998, from Ch$146,278 million in 1997. As a percentage of net sales, gross profit grew from 53.7% in 1997 to 54.4% in 1998. The increase in gross profit both in absolute terms and as a percentage of net sales was mainly due to higher sales volumes coupled with lower cost of goods sold as a percentage of net sales.

In 1997, gross profit increased 13.1% as compared to gross profit in 1996 which amounted to Ch$129,325 million. As a percentage of net sales, gross profit was 53.7% in 1997 and 51.3% in 1996. The increase in gross profit, both in absolute terms and as a percentage of net sales, was mainly due to higher sales volumes during 1997 in almost every business segment and lower prices for certain raw materials.

Selling General and Administrative Expenses ("SG&A"). The Company's selling, general and administrative expenses include advertising and promotional expenses, salaries of administrative personnel, maintenance and general expenses, and transportation and services provided by third parties. SG&A increased 4.6% in 1998, to Ch$107,849 million. This increase is principally explained by higher SG&A in the Company's Argentine beer and Chilean wine operations, both partially compensated by lower SG&A in the Company's soft drinks and mineral water as well as Chilean beer businesses. The SG&A performance of each business segment during 1998 is described below:

Beer Chile: SG&A decreased by 3.3% to Ch$40,931 million in 1998. This decrease resulted mainly from lower marketing expenditures.

Beer Argentina: SG&A increased by 34.5% to Ch$20,218 million in 1998. This increase resulted mainly from higher marketing expenditures.

Soft Drinks and Mineral Water: SG&A decreased by 0.7% to Ch$36,056 million in 1998.

Wine: SG&A increased by 15.1% to Ch$9,400 million in 1998. This increase resulted from higher marketing expenses related to Viña San Pedro's new product and packaging launches. However, as a percentage of sales, SG&A decreased from 25.9% in 1997, to 25.5% in 1998.

Operating Income. Operating income increased 3.3% in 1998 to Ch$44,618 million as compared to Ch$43,202 million in 1997. As a percentage of net sales, operating income remained constant at 15.9% from 1997 to 1998.

In 1997, operating income increased by 39.5% as compared to operating income of 1996 which amounted to Ch$30,959 million. As a percentage of net sales, operating income was 15.9% in 1997 as compared to 12.3% in 1996. This absolute and relative increase was principally due to higher operating profit in each of the Company's business segments; namely 23.6%, 52.7% and 481.1% in the Chilean beer, soft drinks and mineral water, and wine segments, respectively. On a consolidated basis, the increase in operating income as a percentage of net sales is mainly explained by an 8.1% increase in net sales for 1997, which outpaced a 2.9% increase in cost of goods sold and a 4.8% increase in selling, general and administrative expenses.

EBITDA. The Company considers EBITDA to be a useful measure of its operating results, especially in light of its recent various capital-intensive acquisitions, capital improvements and investments in fixed assets. The Company defines EBITDA as the sum of its operating income, depreciation and amortization. In 1998, EBITDA increased by 4.1% to Ch$74,619 million. In 1997, EBITDA increased by 25.2% to Ch$71,674 million from Ch$57,226 million in 1996.

Non-Operating Income. Non-operating income in 1998 amounted to Ch$20,439 million as compared to Ch$18,139 million in 1997. This increase is primarily explained by Ch$3,276 million increase in interest income (reflecting earnings on increased cash balances and higher interest rates) which was partially offset by Ch$1,262 million decrease in income from related companies, primarily from the Company's beer operations in Croatia. Similar to 1997, the Company obtained some non-recurring gains from the sale of non-strategic assets, such as the malting plant in La Calera and other pieces of land in Santiago.

In 1997, non-operating income increased 137.7% as compared to Ch$7,631 million in 1996. The increase in 1997 resulted primarily from a Ch$5,117 million increase in interest income (reflecting earnings on increased cash balances) and from a Ch$4,607 million non-recurring gain obtained from the sale of property in the city of Antofagasta.

Non-Operating Expenses. Non-operating expenses in 1998 amounted to Ch$15,626 million as compared to Ch$11,944 million in 1997. This increase is attributable to a Ch$4,739 million increase in other non-operating expenses primarily comprising a Ch$1,730 million non-recurring provision from the closing of the Company's beer plant in the city of Concepción and a Ch$1,808 million loss incurred from the sale of Bahía Blanca malting facility in Argentina.

In 1997, non-operating expenses decreased 0.6% as compared to Ch$12,022 million in 1996. This decreased resulted from Ch$957 million lower interest expenses which were partially offset by Ch$450 million of additional write-offs of property, plants and equipment resulting from obsolescence and closing of plants.

Price-Level Restatement. The price-level restatement of the Company's non-monetary assets, liabilities and equity due to Chilean inflation and foreign exchange fluctuations resulted in a net loss of Ch$9 million in 1998, as compared to a net loss of Ch$392 million in 1997. A loss in price-level restatement results from holding monetary assets in excess of monetary liabilities during inflationary periods, or, from holding foreign exchange denominated liabilities in excess of foreign exchange denominated assets during periods of devaluation of the Chilean peso. In both years, the loss incurred from price-level restatement as a percentage of net sales was less than 1%.

According to Chilean generally accepted accounting principles, the Company applied Technical Bulletin 64 ("TB 64") issued by the Chilean Institute of Accountants to translate and value investments in foreign subsidiaries (see Notes 1 and 2 of the Consolidated Financial Statements) as of December 31, 1998. Under TB 64, the Company's foreign investments in SBE and CCU Argentina are not subject to price-level restatements based on inflation in those countries. Instead, the Deutsche mark and the U.S. dollar are considered to be the functional currencies, respectively. As a result, the effect of a devaluation of the peso against the U.S. dollar on the Company's Financial Statements is determined, in part, by the impact of such devaluation on the value of the Company's investments in SBE and CCU Argentina, as well as on foreign currency denominated obligations that qualify as a hedge against those investments. These effects are recorded in the account "Cumulative translation adjustment" in shareholder's equity. As of December 31, 1998, the Company's investment in SBE and CCU Argentina amounted to Ch$87,811 million, and foreign currency denominated obligations that were designated as a hedge against these investments amounted to Ch$35,431 million.

In 1996, the price-level restatement of the Company's non-monetary assets resulted in a net loss of Ch$432 million which also represented less than 1% of net sales.

Income Taxes. The Company's income taxes for 1998 amounted to Ch$4,644 million translating into an effective consolidated tax rate for the Company of 9.4%. Income taxes in 1997 amounted to Ch$4,303 million translating into effective consolidated tax rate of 8.8%. The Company's effective tax rates for these periods were lower than the statutory rates of 15% for Chile and 35% for Argentina because of the Company's use of tax loss carryforwards generated by several of the Company's subsidiaries. The Company expects that the effective consolidated tax rate for the Company and its subsidiaries in 1999 will continue to be slighter lower than the Chilean statutory rate of 15% as a result of further use of tax loss carryforwards available to certain of the Company's subsidiaries.

In accordance with Chilean law, a Chilean company and each of its domestic subsidiaries calculate and pay taxes in Chile on a separate basis rather than on a consolidated basis. As of December 31, 1998, the Company's consolidated subsidiaries had available tax loss carryforwards of Ch$12,558 million in Chile and Ch$10,270 million in Argentina. The Company's Chilean subsidiaries with the most significant tax loss carryforwards available include Viña San Pedro S.A. with Ch$10,611 million and Porvenir S.A. with Ch$1,689 million. In Argentina, the subsidiaries with the most significant tax loss carryforwards available include CICSA and CCU Argentina S.A. with Ch$ 6,427 million and Ch$3,834 million, respectively. In

Chile, there is no legal expiration date prescribed by law with respect to tax loss carryforwards; however, in Argentina tax loss carryforwards are subject to a five-year expiration date. The extent to which such tax loss carryforwards can be utilized by the Company in the future will depend upon the amount of income earned by each subsidiary and the specific tax loss carryforwards available to that particular entity. Dividends paid to the Company by CCU Argentina will be included in the Company's taxable income in Chile, but governed by the applicable regulations of the Chilean tax authorities. The Company will receive a full credit against the tax in Chile with respect to such dividends for income taxes paid by the Argentine subsidiaries. On December 30, 1998, a 1% tax on assets was implemented in Argentina. This tax can be used as a credit to income tax and is subject to a four-year expiration date.

In 1997, income taxes were Ch$4,303 million as compared to Ch$2,570 million during 1996 translating into an effective consolidated tax rate for the Company of 8.8% in 1997 and 9.8% in 1996. As of December 31, 1997, the Company's consolidated subsidiaries had available tax loss carryforwards of Ch$34,450 million in Chile and Ch$7,361 million in Argentina. The Company's Chilean subsidiaries with the most significant tax loss carryforwards available include Cervecera Santiago Ltda. with Ch$12.661 million, VSP with Ch$12,627 million, Comercial CCU Norte Sur with Ch$2,724 million and Porvenir S.A.I. with Ch$1,771 million. The two Argentine subsidiaries with the most significant tax loss carryforwards available include CICSA and CCU Argentina S.A. with Ch$3,836 million and Ch$3,513 million, respectively.

Minority Interest. Minority interest in 1998 decreased 4.2% to Ch$5,464 million as compared to Ch$5,704 million in 1997. This decrease resulted from lower levels of income in ECUSA and a loss in CCU Argentina, both of which were partially compensated by increases in other subsidiaries, mainly VSP.

In 1997, minority interest increased 66.9% as compared to minority interest in 1996 of Ch$3,417 million. This increase resulted from higher levels of income in subsidiaries with significant minority interests, namely VSP and ECUSA.

Net Income. Net income in 1998 was Ch$39,315 million, Ch$318 million higher than 1997's net income of Ch$38,998 million. The increase in net income is primarily explained by 3.3% higher operating income, partially compensated by 17.3% lower non-operating result during 1998 and higher income tax rate as described above.

In 1997, net income was 93.5% higher than net income in 1996 of Ch$20,149 million. The difference in net income is largely explained by 39.5% higher operating income and 137.7% higher non-operating income during 1997. In addition, the Company benefited from a lower income tax rate.

9.5 Liquidity and Capital Resources

As of December 31, 1998, the Company had Ch$84,863 million in cash, time deposits and marketable securities, which does not include Ch$29,162 corresponding to re-adjustable promissory notes issued by the Central Bank purchased under resale agreements. Indebtedness, including accrued interest, amounted to Ch$95,191 million as of December 31, 1998. Short-term indebtedness included Ch$14,294 million of short-term obligations to banks and financial institutions under certain lines of credit described below, Ch$4,783 million

representing the current portion of long-term debt to the public, Ch$2,137 million representing the current portion of long-term debt to banks, and Ch$69 million representing other loans. As of December 31, 1998, long-term indebtedness (excluding the current portion thereof) comprised Ch$44,483 million of long-term obligations to banks, Ch$28,554 million of long-term obligations to the public represented by bonds and Ch$871 million of other loans.

As of December 31, 1998, the Company was required under debt covenants then in effect to maintain certain financial ratios. The most significant covenants required the Company to maintain an interest coverage ratio (the ratio of earnings before interest and taxes ("EBIT") to interest expense) of no less than 2.25 to 1 on a consolidated and unconsolidated basis; to maintain a ratio of total debt to total capitalization of no more than 0.60 to 1 for both consolidated and unconsolidated amounts (capitalization is defined for this purpose as total debt plus shareholders' equity and minority interest); and to maintain a consolidated net worth of at least Ch$134,323 million (which should be adjusted in accordance with all price-level restatements that occur after December 31, 1995) in addition to an aggregate amount equal to 25% of its consolidated net income in each year beginning with 1996. Furthermore, the Company was required to maintain a current ratio of more than 1.0 to 1 on both a consolidated and unconsolidated basis.

As of December 31, 1998, the Company met all its financial debt covenants and had a consolidated current ratio of 2.64 to 1; a ratio of EBIT to interest expense of 9.98 to 1 for the Company unconsolidated and 6.92 to 1 for the Company consolidated; and a ratio of total debt to total capitalization of 0.17 to 1 for the Company on an unconsolidated basis and 0.20 to 1 for the Company on a consolidated basis. The Company's net worth as of December 31, 1998 was Ch$333,604 million. Therefore, the Company meets all the financial debt covenants.

9.6 Impact of Inflation

In general, inflation imposes an adverse effect of diminishing the purchasing power of a company's monetary assets which are not price-level indexed, and imposes a positive effect of reducing the real value of a company's monetary liabilities which are not price-level indexed. In addition, to the extent that increases in a company's costs of production are not passed on in the form of higher prices for a company's goods, inflation will adversely affect earnings.

Most of the Company's monetary assets (principally accounts receivable) and liabilities (principally accounts payable) that are not price-level indexed are short-term and thus are not significantly affected by inflation. However, the Company's liability for deposits on bottles and containers (Ch$17,286 million at December 31, 1997 and Ch$18,106 million at December 31, 1998) is a long-term, non-indexed monetary liability that is affected over time by inflation. The net impact of inflation on the Company's capital expenditures has generally been neutral as all substantial assets created or acquired were fixed non-monetary assets and as all substantial liabilities incurred in the process of financing capital expenditures have been price-level indexed or foreign-currency denominated. Nonetheless, high rates of inflation in the future could have a variety of unpredictable effects on the Company and could adversely impact its operations.

9.7 U.S. GAAP Reconciliation

Net income under U.S. GAAP for 1996, 1997 and 1998 was Ch$25,220 million, Ch$42,958 million and Ch$40,086 million, respectively, as compared to that reported under Chilean GAAP of Ch$20,149 million, Ch$38,998 million and Ch$39,315 million, respectively. These differences are principally the result of the inclusion under U.S. GAAP of an adjustment for amortization of goodwill on purchases of equity investments and subsidiaries in Argentina, the revaluation of fixed assets sold, U.S. GAAP adjustments of ECUSA and deferred income taxes in results of operations.

Total shareholders' equity under U.S. GAAP as of December 31, 1996, 1997 and 1998 was Ch$223,372 million, Ch$302,684 million and Ch$333,227 million, respectively as compared to that reported under Chilean GAAP for the same period of Ch$230,517 million, Ch$304,845 million and Ch$333,604 million, respectively. The main differences between shareholders' equity under U.S. GAAP and Chilean GAAP are the reversal of the revaluation of fixed assets and land held for sale in each year, the adjustment of negative goodwill on equity investments and on assets (liabilities) from the inclusion of deferred income taxes (FAS 109). In addition, U.S. GAAP requires that the minimum dividend required under Chilean law be accrued at the end of the year in which it is earned, whereas Chilean GAAP requires it to be recorded at the date on which it is declared.

Another significant GAAP difference is that under Chilean GAAP, ECUSA is treated as a consolidated subsidiary, whereas under U.S. GAAP, the Company's investment in ECUSA would be recorded by the equity method.

For further details of these and other differences between Chilean GAAP and U.S. GAAP, see Note 24 to the Consolidated Financial Statements.

9.8 Year 2000 Compliance

In 1997, the Company began reviewing the replacement of the majority of its administrative and operating systems. This project will replace the majority of the Company's computer systems by a World Class Enterprise Resource Planning System ("ERP") which is year 2000 compliant, from PeopleSoft. Part of this software will be operational before the year 2000; however, it will not be fully implemented before that date. In order to address the potential year 2000 issues that may arise from systems that will not be replaced by PeopleSoft's ERP before the year 2000, the Company has developed a specific plan to complement the PeolpeSoft software.

Substantial economic benefits are expected from PeopleSoft's software implementation, in addition to solving the year 2000 problem. These economic benefits will come in the form of productivity improvements as well as better quality and timing of the internal information. The total investment in PeopleSoft's ERP project amounts to US$11.4 million. In addition, the Company estimates that the other costs related to the solution of the year 2000 problem will amount to US$0.6 million.

With respect to the year 2000 issue, the Company has identified the following risk areas: Administration and Finance, Purchases and Inventories, Sales and Distribution, Payrolls, Commercial System, Fixed Assets System, Servers and Workstations and Suppliers

and Customers Systems.

The Company has developed a plan to be fully year 2000 compliant by the third quarter of 1999. According to this plan, 70% compliance will be achieved by the end of the first semester of 1999 and 100% compliance by the end of the third quarter of 1999.

The plan considers two main steps: the replacement of the main information systems by the ERP system from PeopleSoft and the replacement and testing of the Company's current systems not replaced by PeopleSoft. Both options complement each other. The replacements of the systems not covered by PeopleSoft will be tested and verified by simulations.

Due to the significant number of suppliers of raw materials that work with the Company, the risk is considerably diversified. However, the year 2000 issue is being reviewed with every major supplier, in order to insure the correct supply of raw materials from that date on. In addition, every supplier of industrial equipment for the Company's production facilities has been asked to certify the correct operation of their equipment in relation to the change of the century. This information is currently being processed and no risk situation has been detected as of the filing date of this report. Similarly, in the case of the Company's approximately 91,000 customers, none represents more than 3% of the Company's sales volume. Moreover, every major client has been notified of the possible risk involved in the year 2000 issue and the probable consequences. Additionally, with every major client, the year 2000 compliance is going to be reviewed to verify the continuing of its operations from that date on.

ITEM 9A: Quantitative and Qualitative Disclosures About Market Risk

The following discussion about the Company's risk management activities includes "forward-looking statements" that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

The Company faces primary market risk exposures in three categories: interest rate fluctuations, exchange rate fluctuations and raw material price fluctuations. The Company periodically reviews its exposure to the three main sources of risk described above and determines at its senior management level how to minimize the impact on the Company's operations of interest rate, foreign exchange and raw material price changes. As part of this review process, the Company periodically evaluates the convenience of entering into hedging mechanisms to mitigate such risks.

None of the market risk sensitive instruments referred to below is entered into for trading purposes.

Risk of Variations in Floating Interest Rates. The major interest rate risk which the Company faces is a rise in the London Interbank Offered Rate ("LIBOR").

As of December 31, 1998, the Company's interest-bearing debt amounted to Ch$94,250 million (see Notes 11 and 12 to the Consolidated Financial Statements), 50.5% of which was fixed-rate debt and 49.5% was variable-rate debt. The majority of the Company's floating-rate debt was dollar-denominated and tied to LIBOR. As of December 31, 1998, the Company had Ch$36,505 million of LIBOR-based interest-bearing debt outstanding, none of

which was hedged, with the exception of Ch$13,178 million in time deposits that are related to LIBOR that would reduce the impact of a variation on that interest rate. The Company estimates that a LIBOR variation of 100 basis points would affect net income by less than 1%.

The following table summarizes debt obligations held by the Company as of December 31, 1998. The table presents principal payments obligations in millions of Chilean pesos that exist by maturity date, the related weighted-average interest rate and fair value.

Interest-Bearing Debt as of December 31, 1998
(millions of Ch$, except percentages)

			Expected Maturity Date							
Fixed rate	**Average Int. Rate**		**1999**	**2000**	**2001**	**2002**	**2003**	**Thereafter**	**TOTAL**	**Fair Value**
Ch$ (UF) (*)	Bonds	6.1%	Ch$4,783	4,377	4,584	1,187	1,187	17,219	33,337	30,388
Ch$ (UF) (*)	Banks	11.0%	8,019	-	-	-	-	-	8,019	8,011
US$	Banks	6.6%	4,298	-	-	-	-	-	4,298	4,293
Other curr.	Banks	8.2%	1,985	-	-	-	-	-	1,985	1,985
TOTAL			Ch$19,085	4,377	4,584	1,187	1,187	17,219	47,639	44,677

Variable rate	**Average Int. Rate**		**1999**	**2000**	**2001**	**2002**	**2003**	**Thereafter**	**TOTAL**	**Fair Value**
Ch$ (UF) (*)	Banks	12.2%	Ch$1,479	5,104	835	835	720	-	8,974	8,974
US$	Banks	6.6%	117	430	199	-	-	-	746	746
US$	Synd. L.	5.5%	328	3,543	10,629	10,629	10,629	-	35,758	35,758
Other curr.	Banks	5.0%	205	332	297	215	84	-	1,132	1,132
TOTAL			Ch$2,128	9,410	11,961	11,679	11,433	-	46,611	46,611

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(*) A UF (*Unidad de Fomento*) is a daily indexed, peso-denominated monetary unit. The UF is set daily in advance based on the previous month inflation rate.

Risk of Variations in Foreign Currency Exchange Rates. The major exchange rate risk which the Company faces is the variation of the Chilean peso against the dollar.

As of December 31, 1998, the Company's foreign currency denominated liabilities amounted to Ch$43,920 million, of which Ch$40,803 million were U.S. dollar denominated and Ch$3,118 million were denominated in foreign currencies other than U.S. dollars. Foreign currency denominated liabilities represented 46.6% of the Company's total interest-bearing debt and the remaining 53.4% was indexed to Chilean inflation. To reduce the impact of any devaluation of the peso against the U.S. dollar, as of December 31, 1998, the Company held Ch$13,178 million in dollar-indexed instruments, namely time deposits and re-adjustable promissory notes of the Central Bank. In addition, the Company held other assets denominated in U.S. dollars equal to Ch$23,030 million, most of which are accounts receivable. The short-term financial instruments are highly liquid and, as of December 31, 1998, covered 32.3% of the Company's dollar denominated liabilities. Including the other assets, the net liability exposure to variations in foreign exchange rates is Ch$7,712 million. With this exposure as of December 31, 1998, a theoretical devaluation of 10% of the Chilean peso against the U.S. dollar would have been a net loss of Ch$771 million, but the effect in net income would be different according to TB 64 issued by the Chilean Institute of Accountants.

According to Chilean generally accepted accounting principles, the Company applied TB 64 to translate and value investments in foreign subsidiaries (see Notes 1 and 2 of the Consolidated Financial Statements) as of December 31, 1998. Under TB 64, the Company's foreign investments in SBE and CCU Argentina are not subject to price-level restatements

based on inflation in those countries. Instead, the Deutsche mark and the U.S. dollar are considered to be the functional currencies, respectively. As a result, the effect of a devaluation of the peso against the U.S. dollar on the Company's Financial Statements is determined, in part, by the impact of such devaluation on the value of the Company's investments in SBE and CCU Argentina, as well as on foreign currency denominated obligations that qualify as a hedge against those investments. These effects are recorded in the account "Cumulative translation adjustment" in shareholder's equity. As of December 31, 1998, the Company's investment in SBE and CCU Argentina amounted to Ch$87,811 million, and foreign currency denominated obligations that were designated as a hedge against these investments amounted to Ch$35,431 million. Therefore, such amounts must not be included to determine the net exposure to foreign exchange, from the accounting point of view, that would have an impact on net income. According to this rule, the net accounting exposure is a net asset of Ch$27,718 million. With this exposure as of December 31, 1998, the net effect of a theoretical 10% devaluation of the Chilean peso against the U.S. dollar would have been a gain of Ch$2,772 million.

The exchange rate risk arising from the Company's business in Argentina is subject to the devaluation of the Argentine peso against the U.S. dollar. Currently, the Argentine Central Bank policy to maintain the Argentine peso linked to the U.S. dollar limits this risk. However, no assurance can be given with respect to the ability of the Argentine Central Bank to maintain its present policy. CCU Argentina, as of December 31, 1998, had a net liability exposure of US$2.8 million. In the event of a devaluation of the Argentine peso, such exposure would generate a loss. Additionally, according to TB 64 the Argentine peso working capital would generate a loss in the Company's net income in the case of a devaluation of the Argentine peso. As of December 31, 1998, the Argentine peso working capital amounted to Ch$7,653 million. With this exposure as of December 31, 1998, the effect of a theoretical 10% devaluation of the Argentine peso against the U.S. dollar would have been a loss of Ch$750 million, or less than 2% of the Company net income.

The Company has not entered into any derivative contracts to limit the exposure of fluctuations between the Chilean peso and the U.S. dollar or the Argentine peso.

Raw Material Price Fluctuations. The major raw material price risks which the Company faces are the costs related to barley, sugar, glass, PET, aluminum cans, wine and grapes.

The principal raw materials used in the Company's production of beer are barley (used to make malt), rice, water and hops. In Chile, the Company obtains its supply of barley from local growers and in the international market. During 1998, the Company made contractual arrangements with approximately 300 farmers in Chile, from which it obtained 35,000 tons of barley. Additionally, the Company imported 7,800 tons of barley, as well as 15,000 tons of malt. The barley is converted to malt by local maltsters with which the Company has medium term contracts. The Company enters into yearly contracts with its barley suppliers. In Argentina during 1998, the Company purchased all of its malt from local suppliers. See "—Item 1: The Company's Beer Business—The Company's Beer Business in Chile—Raw Materials" and "—The Company's Beer Business in Argentina—Raw Materials". The Company does not hedge these transactions. Rather, the Company negotiates yearly contracts with its barley and malt suppliers.

The principal raw materials used in the production of soft drinks are sugar, flavoring concentrate and in the case of carbonated products, carbon dioxide gas. The Company

generally purchases all of its sugar requirements from Empresas Iansa S.A., the sole producer of sugar in Chile, but it occasionally purchases sugar in the international market when prices are favorable. See "—Item 1: The Company's Soft Drinks and Mineral Water Business—The Company's Soft Drinks and Mineral Water Business in Chile—Raw Materials". The Company does not hedge these transactions. Rather, it negotiates yearly contracts with Empresas Iansa S.A.

The principal raw materials used in the production of wine are harvested grapes, purchased wine, bottles, carton containers, corks and cardboard boxes. VSP obtains approximately 50% of the grapes used for export wines from its own vineyards, thereby reducing grape price volatility. The majority of the wine sold in the domestic market is purchased from third parties. During 1998, the Company purchased the majority of its grape and wine needs based on yearly contracts at fixed prices from third parties. Spot transactions for wine are executed from time to time depending on additional wine needs. See "—Item 1: The Company's Wine Business—Raw Materials".

The Company generally purchases all of the glass bottles used in packaging its beer and wine businesses in Chile from a major local supplier, Cristalerías Chile, under a one-year agreement. During 1998, approximately one half of the Company's requirements for aluminum cans was supplied by local suppliers, while the remaining amount was imported. The Company does not hedge these transactions. Rather, it negotiates yearly contracts with its glass and aluminum package suppliers.

ITEM 10: Directors and Officers of Registrant

The Company is managed by its Board of Directors which, in accordance with the Company's By-laws (*Estatutos*), must consist of nine directors who are elected at the general shareholders' meeting. The entire Board of Directors is elected for three years and the last election of directors occurred in April 1999. The Board of Directors may appoint replacements to fill any vacancies that occur during periods between ordinary general shareholders' meetings. If such a vacancy occurs, the entire Board of Directors will be elected at the next ordinary general shareholders' meeting. The Company's executive officers are appointed by the Board of Directors and hold office at the discretion of the Board. There are regularly scheduled meetings of the Board of Directors once a month; extraordinary meetings are called when needed by the Chairman. The Board does not have an Executive Committee.

The Company's directors and the Company's executive officers as of April 30, 1999 are as follows:

Directors	Position	Position Held Since	At Company Since
Guillermo Luksic (1)	Chairman of the Board and Director	September 1990 (President) November 1986 (Director)	November 1986 November 1986
Thomas Fürst	Vice President of the Board and Director	November 1986	November 1986
Johannes Bauer	Director	April 1991	April 1991
Rosita Covarrubias (2)	Director	April 1999	April 1999
Peter Hellich	Director	February 1993	February 1993
Felipe Lamarca	Director	September 1990	September 1990
Andrónico Luksic (1)	Director	November 1986	November 1986
Manuel José Noguera	Director	May 1987	May 1987
Francisco Pérez (3)	Director	July 1998	February 1991

Executive Officers	Position	Position Held Since	At Company Since
Patricio Jottar	General Manager (Chief Executive Officer)	July 1998	July 1998
Dirk Leisewitz	General Comptroller	June 1988	December 1987
Ricardo Reyes	Chief Financial Officer	July 1996	July 1996
Margarita Sánchez	Legal Counsel	November 1986	April 1972
Pablo De Vescovi	Human Resources (Management & Development)	September 1998	November 1991
Gabriel Valls	Human Resources Manager	April 1982	January 1979
Jorge Aninat	Engineering and Projects Manager	March 1996	April 1977
Jennifer Tsang	Strategic Planning and Development Manager	March 1996	October 1994
Marisol Bravo	Corporate Affairs and Public Relations Manager	June 1994	July 1991
Alvaro Fernández	Corporate Projects and Investor Relations Manager	September 1998	September 1998
Polentzi Errazquin	CCU Chile Business Unit Manager	January 1998	August 1991
Fernando Sanchís	CCU Argentina Manager	May 1995	May 1995
Francisco Diharasarri	ECUSA Manager	January 1998	June 1985
Matías Elton	Viña San Pedro Manager	January 1997	January 1997
Santiago Toro	PLASCO Manager	January 1998	September 1984

(1) Guillermo Luksic and Andrónico Luksic are brothers. See "—Item 4: Control of Registrant".
(2) Rosita Covarrubias replaced Laura Novoa as a permanent Board member in April 1999.
(3) Francisco Pérez replaced Luis Felipe Lehuedé as a permanent Board Member in July 1998.

ITEM 11: Compensation of Directors and Officers

For the year ended December 31, 1998, the aggregate amount of compensation paid by the Company to all directors and executive officers was Ch$3,285 million (US$7.0 million).

In each year, the Board of Directors makes a proposal regarding their compensation to the shareholders, who generally approve it during the annual general shareholders meeting. In 1998, total compensation paid by the Company and its subsidiaries to each director of the Company for services rendered was as follows:

Director	Attendance meeting fee	Net income participation	Subtotal	Expense reimbursement	Total
	(thousands of Ch$)				
Guillermo Luksic	Ch$35,129	Ch$107,414	Ch$142,543	Ch$28,269	Ch$170,812
Thomas Fürst	17,565	107,414	124,979	12,594	137,573
Johannes Bauer	17,565	107,414	124,979	16,890	141,869
Peter Hellich	17,565	107,414	124,979	12,625	137,604
Felipe Lamarca	17,565	107,414	124,979	0	124,979
Luis Felipe Lehuedé (1)	8,788	98,463	107,251	0	107,251
Andrónico Luksic	17,565	107,414	124,979	0	124,979
Manuel José Noguera	17,565	107,414	124,979	0	124,979
Laura Novoa	17,565	107,414	124,979	0	124,979
Francisco Pérez (1)	8,776	0	8,776	1,742	10,518
Fernando Silva	0	8,951	8,951	0	8,951

(1) Francisco Pérez replaced Luis Felipe Lehuedé as a permanent Board member in July 1998.

The Company does not disclose to its shareholders or otherwise make public information as to the compensation of its individual executive officers.

The Company does not maintain any pension or retirement programs for its directors or executive officers. See "—Item 1: Description of Business—Employees".

ITEM 12: Options to Purchase Securities from Registrant or Subsidiaries

Not applicable.

ITEM 13: Interest of Management in Certain Transactions

In the ordinary course of its business, the Company engages in a variety of transactions with affiliates of the Luksic Group and the Schörghuber Group, the beneficial owners of Inversiones y Rentas, as well as with other shareholders of the Company.

The Company produces, bottles and distributes Paulaner beer under license from Paulaner Brauerei AG, which is controlled by the Schörghuber Group. The license, granted in 1990, permits the Company to sell Paulaner beer produced by the Company in other Latin American countries with the consent of the licensor and had an initial term of ten years

beginning in May 1990 and originally was automatically renewable for successive ten-year periods. The agreement was amended in 1995 to provide for the Company's exclusive production in Chile of the super-premium beer under the Paulaner label and the Company's exclusive distribution in Chile of a variety of additional imported Paulaner products. The amended contract has a term of five years, beginning in May 1995, and is renewable for successive five-year periods beginning in the year 2000.

The Company also has entered into a technical service agreement with Paulaner-Salvator-Thomasbräu AG (now Paulaner Brauerei AG) pursuant to which Paulaner Brauerei AG provides the Company with "know-how" for the production of beer and assistance in the selection and development of raw materials and the modernization of plant installations. This agreement was signed in June 1989. The initial term expired in May 1994, and the agreement has since been renewed annually according to the contract terms. See "—Item 1: Description of Business—Research and Development".

Article 89 of the Chilean Companies Act requires that the Company's transactions with related parties be on a market or "arms-length" basis. The Company believes that it has complied with the requirements of Article 89 in all transactions with related parties.

For additional information concerning the Company's transactions with related parties, see Note 17 to the Consolidated Financial Statements.

PART II

ITEM 14: Description of Securities to be Registered

Not applicable.

PART III

ITEM 15: Default Upon Senior Securities

Not applicable.

ITEM 16: Changes in Securities and Changes in Security for Registered Securities

Not applicable.

PART IV

ITEM 17: Financial Statements

The Company has responded to Item 18 in lieu of responding to this item.

ITEM 18: Financial Statements

See Item 19(a) for a list of financial statements under Item 18.

ITEM 19: Financial Statements and Exhibits

(a) Index to Financial Statements and Schedules (Click below)

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Ch$ - Chilean pesos
ThCh$ - Thousands of Chilean pesos
US$ - United States dollars
DM - German marks
UF - A UF is a daily indexed, peso-denominated unit. The UF value is set daily in advance based on the previous month's inflation rate.

(b) Index to Exhibits

2.1 Investment Agreement dated as of December 14, 1995, among Anheuser-Busch International Holdings, Inc., Compañía Cervecerías Unidas S.A., and Compañía Cervecerías Unidas Argentina S.A., Schedule 5.3 and Exhibit F.*

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* Confidential treatment has been granted in respect of certain portions of the filed schedule and exhibit. This contract was previously filed as an exhibit to the Company's Annual Report on Form 20-F for the year ended December 31, 1995. The filed schedule and exhibit to the contract are being refiled, pursuant to an agreement with the Commission, to include certain information previously provided confidential treatment.

Signatures

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized

Compañía Cervecerías Unidas S.A.
(United Breweries Company, Inc.)

Patricio Jottar
Chief Executive Officer

Date: June , 1999

Index to Exhibits

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COMPAÑIA CERVECERIAS UNIDAS S.A
AND SUBSIDIARIES

December 31, 1998

Consolidated Financial Statements

CONTENTS

Report of independent accountants
Audited financial statements:
Consolidated balance sheet at December 31, 1997 and 1998
Consolidated statement of income for the years ended December 31, 1996, 1997 and 1998
Consolidated statement of cash flows for the years ended December 31, 1996, 1997 and 1998
Notes to the consolidated financial statements

Ch$	-	Chilean pesos
ThCh$	-	Thousands of Chilean pesos
US$	-	United States dollars
UF	-	A UF is a daily indexed, peso - denominated monetary unit. The UF rate is set daily in advance based on the previous month's inflation rate.

Price Waterhouse

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
Compañía Cervecerías Unidas S.A.
(A subsidiary of Inversiones y Rentas S.A.)

1 We have audited the accompanying consolidated balance sheet of Compañía Cervecerías Unidas S.A. and its subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of income and of cash flows for each of the three years in the period ended December 31, 1998, expressed in constant Chilean pesos. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

2 We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3 As described in Note 1, the accompanying consolidated financial statements have been restated to reflect the effects of changes in the purchasing power of the Chilean peso on the Company's financial position and results of operations. Furthermore, the financial statements as of December 31, 1996 and 1997 and for the years then ended have been restated in terms of constant Chilean pesos of December 31, 1998 purchasing power.

4 In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Compañía Cervecerías Unidas S.A. and its subsidiaries at December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with accounting principles generally accepted in Chile.

5 Accounting principles generally accepted in Chile vary in certain important respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of consolidated net income expressed in constant Chilean pesos for each of the three years in the period ended December 31, 1998 and the determination of consolidated shareholders' equity, also expressed in constant Chilean pesos, at December 31, 1996, 1997 and 1998 to the extent summarized in Note 24 to the consolidated financial statements.

Santiago, Chile
January 25, 1999

COMPAÑIA CERVECERIAS UNIDAS S.A. AND SUBSIDIARIES
(A subsidiary of Inversiones y Rentas S.A.)

CONSOLIDATED BALANCE SHEET

Adjusted for general price-level changes and expressed
in thousands of constant Chilean pesos of December 31, 1998

ASSETS	As of December 31, 1997	1998
	ThCh$	ThCh$
CURRENT ASSETS		
Cash	5,198,845	5,781,793
Time deposits and marketable securities (Note 3)	75,522,738	79,081,632
Accounts receivable - trade and other (Note 4)	57,104,155	59,491,438
Accounts receivable from related companies (Note 17)	1,603,688	1,166,511
Inventories (Note 6)	33,043,900	36,629,446
Prepaid expenses	5,864,119	5,423,649
Prepaid taxes	3,103,884	-
Other current assets (Note 7)	27,490,786	29,918,465
Total current assets	208,932,115	217,492,934
PROPERTY, PLANT AND EQUIPMENT, net (Note 8)	276,000,208	287,164,389
OTHER ASSETS (Note 9)	50,655,578	62,726,205
Total assets	535,587,901	567,383,528

LIABILITIES AND SHAREHOLDERS' EQUITY	1997	1998
CURRENT LIABILITIES		
Short-term borrowings (Note 11)	17,879,844	14,293,722
Current portion of long-term debt (Note 12)	7,018,386	6,988,819
Dividends payable	10,323,623	10,309,514
Accounts payable	27,720,895	27,755,968
Notes payable	2,385,218	1,017,833
Other payables	2,204,667	1,681,348
Accounts payable to related companies (Note 17)	1,219,745	736,146
Accrued expenses (Note 14)	13,703,908	13,589,867
Taxes and social security charges payable	7,251,080	5,956,027
Other current liabilities	122,158	4,445
Total current liabilities	89,829,524	82,333,689
LONG-TERM LIABILITIES		
Long-term debt (Note 12)	72,620,486	73,907,979
Accrued expenses (Note 14)	2,757,119	2,565,517
Deferred income taxes (Note 15)	6,163,626	7,703,004
Deposits on bottles and containers	17,285,539	18,105,756
Total long-term liabilities	98,826,770	102,282,256
Total liabilities	188,656,294	184,615,945
MINORITY INTEREST	42,086,383	49,163,736
COMMITMENTS AND CONTINGENCIES (Note 19)	-	-
SHAREHOLDERS' EQUITY (Note 16)		
Common Stock (310,829,080 and 313.929.080 shares with no par value authorized and outstanding, respectively)	132,772,552	138,731,580
Share premium	8,882,498	10,019,236
Other reserves	3,038,454	4,771,706
Retained earnings	160,151,720	180,081,325
Total shareholders' equity	304,845,224	333,603,847
Total liabilities and shareholders' equity	535,587,901	567,383,528

The accompanying Notes 1 to 24 form an integral part of these consolidated financial statements.

COMPAÑIA CERVECERIAS UNIDAS S.A. AND SUBSIDIARIES
(A subsidiary of Inversiones y Rentas S.A.)

CONSOLIDATED STATEMENT OF INCOME

Adjusted for general price-level changes and expressed
in thousands of constant Chilean pesos of December 31, 1998

	For the years ended December 31,		
	1996	1997	1998
	ThCh$	ThCh$	ThCh$
OPERATING RESULTS			
Net sales (Note 23)	252,019,387	272,477,420	280,111,046
Cost of sales	(122,694,272)	(126,199,550)	(127,643,275)
Gross margin	129,325,115	146,277,870	152,467,771
Selling and administrative expenses (Note 22)	(98,365,870)	(103,075,919)	(107,849,449)
Operating income	30,959,245	43,201,951	44,618,322
NON-OPERATING RESULTS			
Non-operating income (Note 21)	7,630,501	18,139,003	20,438,566
Non-operating expenses (Note 22)	(12,021,504)	(11,944,007)	(15,625,667)
Price-level restatement (Note 24)	(431,758)	(392,345)	(8,781)
Income before income tax and minority interest	26,136,484	49,004,602	49,422,440
Income tax (Note 15)	(2,570,104)	(4,303,058)	(4,643,565)
Minority interest	(3,417,051)	(5,704,017)	(5,463,521)
NET INCOME	20,149,329	38,997,527	39,315,354
	=========	=========	=========

The accompanying Notes 1 to 24 form an integral part of these consolidated financial statements.

COMPAÑIA CERVECERIAS UNIDAS S.A. AND SUBSIDIARIES
(A subsidiary of Inversiones y Rentas S.A.)

CONSOLIDATED STATEMENT OF CASH FLOWS

Adjusted for general price-level changes and expressed in thousands of constant Chilean pesos of December 31, 1998

	For the years ended December 31,		
	1996	1997	1998
	ThCh$	ThCh$	ThCh$
CASH FLOWS FROM OPERATING ACTIVITIES			
NET INCOME	20,149,329	38,997,527	39,315,354
Loss (gain) on sale of land and properties held for sale	31,097	(4,614,568)	(2,086,489)
Gains on sales of investments	(80,743)	(573,467)	(396,672)
Losses on sales of investments	2,866	295,825	-
Gains on sale of other assets	-	(62,299)	(57,544)
CHARGES (CREDITS) TO INCOME NOT REPRESENTING CASH FLOWS			
Depreciation	26,267,214	28,256,229	29,634,893
Amortization of goodwill	2,582,625	2,590,489	1,143,056
Amortization of negative goodwill	-	(25,978)	(26,777)
Amortization of other intangibles	193,685	225,463	383,687
Write-offs of glass bottles, consumption of spare parts and provisions	5,140,707	7,977,898	6,885,990
Equity in net income of affiliated companies	(2,132,453)	(2,142,311)	(880,004)
Price-level restatement	431,758	392,345	8,781
Other	2,468,217	172,819	350,504
CHANGES IN ASSETS AFFECTING CASH FLOWS:			
Decrease (increase) in accounts and notes receivable	11,253,524	(7,062,407)	(2,387,000)
Increase in inventories	(2,656,544)	(1,912,095)	(4,881,747)
Increase in other assets	(2,815,431)	(2,750,787)	(3,753,091)
CHANGES IN LIABILITIES AFFECTING CASH FLOWS:			
Decrease in accounts payable affecting operating results	(53,330)	(2,186,585)	(5,352,413)
Increase (decrease) in interest payable	950,695	(30,171)	(50,122)
(Decrease) increase in income tax payable	(697,813)	691,363	567,517
(Decrease) increase in accounts payable affecting non-operating results	(6,708,132)	139,209	(533,000)
Increase in value added tax	3,117,331	4,863,144	970,090
MINORITY INTEREST	3,417,051	5,704,017	5,463,521
Net cash provided by operating activities	60,861,653	68,945,660	64,318,534

CONSOLIDATED STATEMENT OF CASH FLOWS

Adjusted for general price-level changes and expressed in thousands of constant Chilean pesos of December 31, 1998

	For the years ended December 31,		
	1996	1997	1998
	ThCh$	ThCh$	ThCh$
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common shares	22,320,233	56,409,716	11,889,736
Payment of expenses relating to issuance of common shares	(1,283,652)	(67,825)	(67,560)
Loans obtained	96,282,729	27,589,125	16,107,479
Dividends paid	(11,840,727)	(11,930,672)	(20,874,967)
Payments of loans	(93,984,681)	(32,363,326)	(17,730,776)
Payments of bonds	(3,664,097)	(3,834,899)	(3,991,047)
Other	1,461,151	-	-
Net cash provided by financing activities	9,290,956	35,802,119	(14,667,135)
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Proceeds from sale of property, plant and equipment	1,119,146	4,193,504	5,146,804
Proceeds from sale of investments in related companies	106,445	233,525	-
Proceeds from sale of other investments	10,592,773	1,508,715	172,942,845
Capital expenditures	(60,761,884)	(48,022,636)	(40,725,736)
Investments in related companies	-	(4,064,059)	(6,446,772)
Investments in financial instruments	(13,152,739)	(42,101,932)	(176,008,092)
Increase in accounts receivable from related companies	-	(132,084)	-
Other	(4,639,176)	161,043	(2,846,463)
Net cash used in investment activities	(66,735,435)	(88,223,924)	(47,937,414)
Net cash flow for the year	3,417,174	16,523,855	1,713,985
PRICE-LEVEL RESTATEMENT OF CASH AND CASH EQUIVALENTS	(1,109,250)	(1,885,515)	(927,636)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,307,924	14,638,340	786,349
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	35,347,709	37,655,633	52,293,973
CASH AND CASH EQUIVALENTS AT END OF YEAR	37,655,633	52,293,973	53,080,322

The accompanying Notes 1 to 24 form an integral part of these consolidated financial statements.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Compañía Cervecerías Unidas S.A. is the largest producer, bottler, and distributor of beer in Chile. CCU's line of beers includes a full range of super premium, premium, medium priced, and popular priced brands which are primarily marketed under eight different brand names and two brand extensions. The Company has four beer production facilities located throughout Chile, and has a nationwide production and distribution network. In addition to its brewing and bottling facilities, CCU owns and operates factories for the production of malt, silos for the storage of barley and malt, and a plastic container and crate production factory.

In 1995, CCU acquired two breweries in Argentina, Compañía Industrial Cervecera S.A. ("CICSA") located in Salta and Cervecería Santa Fe S.A. ("CSF"), established in Santa Fe, 450 kilometers northwest of Buenos Aires. CICSA's results were consolidated effective January 1, 1995 and the results for CSF were consolidated as of September 1, 1995. These two subsidiaries make the Company the second largest producer in the Argentine beer market. The Company has two beer production facilities in Argentina, one in Salta and the other one in Santa Fe, and one mineral water production plant in Rosario de la Frontera, Salta province. As from January 1, 1998 the operations of CSF were incorporated into CICSA. On December 15, 1998 CCU participated in a capital increase in a proportion less than its percentage shareholding, resulting in a decline in ownership to 91.79% of CICSA.

In November 1994, CCU created a joint venture with Buenos Aires Embotelladora S.A. ("BAESA"), the exclusive PepsiCo. Inc. ("PepsiCo") bottler in Chile, for the production, bottling, and marketing of all soft drink and mineral water products previously sold by the two separate and competing entities. The newly formed company, called Embotelladoras Chilenas Unidas S.A. ("ECUSA") is owned 55% by the Company and 45% by BAESA. As a result of the ECUSA joint venture, ECUSA is now the exclusive producer, bottler, and distributor in Chile of CCU's proprietary brands and those brands produced under license from PepsiCo, C.S. Beverages Limited, a subsidiary of Cadbury Schweppes PLC, Canada Dry Corporation Ltd., and Watt's Alimentos S.A., as well as Lipton Ice Tea Products. ECUSA is a subsidiary of CCU and since November 1994 its results have been included in the Company's consolidated financial statements, in accordance with generally accepted accounting principles in Chile. ECUSA's soft drink and nectar products are produced in three facilities located throughout Chile, and its mineral water is produced in two bottling plants in the central region of Chile. ECUSA operates its own distribution system in the central and certain areas of the south of Chile and distributes its products through the Company's distribution system in the northern and southern areas of the country.

In October 1994, the Company acquired a 48.4% interest in Viña San Pedro S.A. ("VSP"), Chile's third largest winery. During May and June 1995, CCU participated in a capital increase by VSP, increasing its ownership interest to 50.1% and accordingly VSP's results have been included in the consolidated financial statements of CCU since April 1, 1995. During the year 1997, CCU participated in a capital increase by VSP, increasing its ownership interest to 51.24%. VSP produces and markets a full range of wine products for both the domestic and export markets. Wines are produced at VSP's vineyard, located in Molina, 200 kilometers south of Santiago.

A summary of significant accounting policies is set forth below:

a) Bases for the preparation of consolidated financial statements

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Chile ("Chilean GAAP").

The consolidated financial statements include the accounts of Compañía Cervecerías Unidas S.A. (the "Parent Company") and subsidiaries (companies in which the Parent Company holds a direct or indirect ownership of more than 50%). The Parent Company and its subsidiaries are referred to herein as the "Company" or “CCU”.

All intercompany accounts and transactions have been eliminated in consolidation. The participation of minority shareholders has been given effect to in the consolidated financial statements under Minority interest.

The Company has issued its audited statutory consolidated financial statements in Spanish and in conformity with accounting principles generally accepted in Chile, which include certain notes and additional information required by the Chilean Superintendency of Securities and Insurance for statutory purposes. Management believes that these additional notes and information are not essential for the complete understanding of the consolidated financial statements and accordingly these notes and additional information have been excluded from the accompanying financial statements.

b) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c) Price-level restatements

The financial statements, which are expressed in Chilean pesos, have been restated to reflect the effects of variations in the purchasing power of the local currency during each year. For this purpose, and in conformity with current Chilean regulations, non-monetary assets and liabilities and equity accounts have been restated by charges or credits to income. Furthermore, the income and expense accounts have been restated in terms of year-end constant pesos. In accordance with Chilean tax regulations and accounting practices, the restatements were calculated based on the official Consumer Price Index of the National Institute of Statistics, applied one month in arrears, which was 6.6%, 6.3% and 4.3% for the years ended November 30, 1996, 1997 and 1998, respectively. This index is considered by the business community, the accounting profession and the Chilean government to be the index which most closely complies with the technical requirement to reflect the variation in the general level of prices in the country and, consequently, is widely used for financial reporting purposes in Chile. For comparative purposes, the consolidated financial statements as of December 31, 1996 and 1997 and the amounts disclosed in the related footnotes have been restated in terms of Chilean pesos of December 31, 1998 purchasing power. The above-mentioned price-level restatements do not purport to present appraisal or replacement values and are only intended to restate all non-monetary financial statement components in terms of local currency of a single purchasing power and to include in the net result for each year the gain or loss in purchasing power arising from the holding of assets and liabilities exposed to the effects of inflation.

d) Foreign currency

Balances in foreign currency included in the consolidated balance sheet and detailed in Note 5 have been translated into Chilean pesos at the Observed Exchange Rates determined by the Central Bank of Chile in effect at each year end (historical rates of Ch$ 424.87 per US$ 1.00 in 1996, Ch$ 439.18 per US$ 1.00 in 1997 and Ch$ 472.41 per US$ 1.00 in 1998).

e) Time deposits and marketable securities

Time deposits are reported at cost plus accrued monetary correction and interest at each year end.

Marketable securities include shares owned by the Company which are reported at the lower of their historical cost plus price-level restatements ("restated cost") or market value of the shares portfolio and mutual fund shares which are reported at their year end quoted values.

f) Allowance for doubtful accounts receivable

The Company records an allowance for doubtful accounts receivable on the basis of an aging analysis. The allowance is netted against Accounts receivable - trade and other.

g) Inventories

This caption includes inventories which the Company estimates to have a turnover period of one year or less.

Inventories of finished and in process goods, raw materials, and supplies are stated at replacement cost, as defined in the Income Tax Law, considering only the cost of raw materials added to the products. The resulting value of the inventories does not exceed their estimated net realizable values.

h) Prepaid expenses

Prepaid expenses are shown at restated cost and include prepayments for advertising, insurance premiums, computer maintenance services and others. They are amortized to income over the period benefited by the prepaid expense.

i) Other current assets

At December 31, 1997 and 1998, these assets include investments in debt securities issued by the Central Bank of Chile and other institutions, acquired under resale agreements. Investments under this caption are stated at cost plus monetary correction and accrued interest. Also included is the short-term portion of bond discount arising from bonds issued by the Company during 1994, which are being amortized over the term of the bonds.

j) Property, plant and equipment

Property, plant and equipment are shown at restated cost. Depreciation for each year has been calculated by the straight-line method, based on the estimated useful lives assigned to the assets.

This caption also includes the net remaining increment arising from the technical appraisal of property, plant and equipment carried out during 1979, in conformity with instructions issued by the Chilean Superintendency of Securities and Insurance.

In addition, this value was increased by the technical appraisal of assets carried out in the foreign subsidiaries which were consolidated for the first time in 1995.

At December 31, 1997 and 1998 certain property is reported under Other assets because it is held for sale.

k) Bottles and containers

At December 31, 1997 and 1998 bottles and containers are reported at restated cost, net of write-offs due to breakage and allowances. Depreciation of glass bottles, pallets, and plastic boxes is calculated on the restated values based on the estimated useful lives assigned to the respective assets.

Deposits received on bottles and containers in circulation are classified as long-term liabilities. These deposits are not subject to price-level restatement.

l) Investments in related companies

This caption includes investments in unconsolidated related companies, where the Company has the ability to exercise significant influence over the operating and financial policies of the investee, which under Chilean GAAP generally is presumed to occur when the investor owns between 10% and 50% of the shares. Such investments are valued by the equity method. In the case of the Company, the equity method was used to account for the investment in Southern Breweries Establishment (50% ownership interest) in 1996, 1997 and 1998.

m) Goodwill and negative goodwill

Under Chilean GAAP, goodwill arises from the excess of the purchase price of companies acquired over their net book value; negative goodwill arises when net book value exceeds the purchase price of companies acquired. Goodwill and negative goodwill also arise from the purchase of investments accounted for by the equity method. Goodwill and negative goodwill are normally amortized over a maximum period of 20 years (10 years in 1997) considering the expected period of return of the investments. Chilean GAAP also provides that the amortization of goodwill and negative goodwill may be accelerated if the proportional net income or loss of the investee company exceeds the respective straight-line amortization amount.

n) Investments in other companies

This caption includes investments in quoted shares with an average trading value below 400 UFs in the last quarter of each year. In addition, this caption includes investments in unlisted shares and partnership interests in other companies where the Company does not have the ability to exercise significant influence over the operating and financial policies of the investee.

Investments in unlisted shares and partnership interests in other companies are reported at each year end at restated costs. Income from these investments is recognized on a cash basis.

o) Translation of foreign currency financial statements

In 1998, the investments in Southern Breweries Establishment and the Argentine subsidiaries were recorded in accordance with Technical Bulletin 64 of the Chilean Institute of Accountants. Under this pronouncement, Croatia and Argentina were considered to have unstable economies because the average inflation rate for the past three years exceeded 10% per annum or inflation exceded 10% in the most recent years. As a result, no effect was given to price-level restatements based on inflation in those countries and the US Dollar was considered to be the functional currency of these operations. Accordingly, the financial statements of Southern Breweries Establishment and the subsidiaries in Argentina for 1998 were prepared in accordance with local GAAP except for the application of monetary correction and then remeasured into U.S. dollars as follows:

1. Monetary assets and liabilities at the closing exchange rate for the period.

2. All other assets and liabilities and shareholders' equity are expressed in historical U.S. dollars.

3. Income and expense accounts at average rates during the period.

4. The resulting exchange adjustments were included in the Cumulative translation adjustment account.

The resulting U.S. dollar amounts were then translated to Chilean pesos at the Observed Exchange Rate of the U.S. dollar in relation to the Chilean peso at the balance sheet date. The net equity in the foreign subsidiaries in Chilean pesos was compared to the investment valued by the equity method at the beginning of the year, as adjusted for price-level changes in Chile during the year. Any difference between the Company's participation in the equity of the subsidiaries and the investment therein as adjusted for Chilean inflation arises from exchange adjustments, which were included in the Cumulative translation adjustment account in the equity section of the balance sheet under Chilean GAAP.

During 1996 and 1997, foreign investments are recorded in accordance with Technical Bulletin 51 of the Chilean Institute of Accountants. Under this pronouncement, Croatia and Argentina were also considered to have unstable economies but the financial statements of Southern Breweries Establishment and the Argentine subsidiaries were remeasured as if the functional currency were the Chilean peso (See Note 2).

p) Other assets

At December 31, 1996 and 1997, other assets include land and buildings held for sale, which have been adjusted to their estimated realizable values and trademarks, which have been valued at restated cost. Other assets also include long-term deferred interest relating to the bonds issued by the Company during 1994.

q) Long-term severance indemnities

The Company and most of its subsidiaries have agreed with their personnel to the payment of long-term severance indemnities. The accrued liability covering this obligation is reported under Long-term liabilities and has been calculated each year based on the present value of the obligation, assuming an average employee tenure of eight years and a 7% discount rate (see Note 14).

r) Deferred income taxes

Deferred income taxes have been recorded primarily by the Parent Company, based on non-recurring timing differences arising between the recognition of income and expense items for accounting and tax purposes. In general, the subsidiaries have not recognized deferred taxes, as they have significant accumulated tax losses (see Note 15).

s) Employee vacations

Vacations are accrued as a liability when earned by employees.

t) Cash equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, including time deposits, marketable securities and securities purchased under resale agreements.

Cash flows from operating activities include all those cash flows related to the primary operating activities of the Company and also include interest paid, interest income and, in general, all those flows that are not defined as investing or financing activities. The concept of operating used in this statement is broader than the concept of operating income used in the statement of income.

The balance of cash and cash equivalents is as follows:

	At December 31,	
	1997	1998
	ThCh$	ThCh$
Cash	5,198,845	5,781,793
Time deposits	19,122,509	19,670,906
Mutual fund shares (money market funds)	761,792	12,005
Securities purchased under resale agreements (Note 7)	27,210,827	27,615,618
	52,293,973	53,080,322
	========	========

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLE

During the years 1996, 1997 and 1998, the Company made the following changes in accounting principles:

a) As from January 1, 1998, and in accordance with the Technical Bulletin 59 issued by the Chilean Institute of Accountants, the amortization period of positive and negative goodwill arising on investments in subsidiaries and equity method investees has been revised from 10 to 20 years. This change has reduced the 1998 charge for amortization by ThCh$ 1,426,957.

b) At December 31, 1998, the Company applied Technical Bulletin 64 ("BT 64") issued by the Chilean Institute of Accountants which replaced Technical Bulletin 51. The new pronouncement was applied on a retroactive basis to January 1, 1998. It changes the method used for the translation of financial statements and the valuation of investments in foreign subsidiaries and investees and indicates whether the functional currency should be the Chilean peso, the U.S. dollar or the foreign currency.

   Under BT 64, the difference between the investment's equity value arising from the financial statements remeasured as explained in Note 1 o) and the net equity value at the beginning of the year restated by Chilean inflation, plus the proportional share of the investment's net income for the year, is recorded in the account "Cumulative translation adjustment" in shareholder's equity. Through 1997, such investments were remeasured in Chilean pesos and translation adjustments were charged directly to the results of operations.

   In addition, under BT 64, exchange differences (net of Chilean inflation) arising from obligations in foreign currency that qualify as foreign currency hedges of the foreign investments are also recorded in the account "Cumulative translation adjustment". Until 1997, such exchange differences were charged to income.

   The effect of this change was an increase in net equity of approximately ThCh$ 2,165,000 at December 31, 1998 and a reduced charge to income for the year of approximately ThCh$ 432,000.

   The gain on translation included in the Cumulative translation account in shareholders' equity is detailed as follows:

   Compañía Cervecerías Unidas Argentina S.A.:

	M$
Translation gain on investment in CCU Argentina at the closing rate	1,921,234
Translation of bank loan designated as hedge at closing rate	(1,075,895)
Net translation gain	845,339

   Southern Breweries Establishment:

	M$
Translation gain on investment in Southern Breweries Establishment at the closing rate	887,913
Gain on translation included in the Cumulative translation adjustment account	1,733,252

c) In consideration of Technical Bulletin 55 issued by the Chilean Institute of Accountants, as from January 1, 1998 the Company's subsidiary Viña San Pedro S.A. commenced amortizing its trademarks. This change resulted in an increased charge to income of M$ 161,642 in 1998.

NOTE 3 - TIME DEPOSITS AND MARKETABLE SECURITIES

Time deposits and marketable securities are summarized as follows:

	1997	1998
	ThCh$	ThCh$
Time deposits	74,480,441	78,829,149
Shares	280,505	240,478
Mutual fund shares	761,792	12,005
Total	75,522,738	79,081,632
	========	========

NOTE 4 - ACCOUNTS RECEIVABLE - TRADE AND OTHER

Accounts receivable are summarized as follows:

	1997	1998
	ThCh$	ThCh$
Trade accounts receivable	57,228,754	58,565,115
Other accounts receivable	2,708,083	4,802,586
Advances to suppliers	2,499,047	1,872,302
Allowance for doubtful accounts	(5,331,729)	(5,748,565)
Total	57,104,155	59,491,438
	========	========

NOTE 5 - FOREIGN CURRENCY

Assets and liabilities denominated in or exposed to the effects of foreign currency are included in the consolidated financial statements and translated into Chilean pesos as described in Note 1 d) and o). They are summarized as follows:

	1997	1998
	ThCh$	ThCh$
Assets		
Current assets	28,073,565	24,805,199
Property, plant and equipment	-	61,195,102
Other assets	13,064,245	48,093,273
Total	41,137,810	134,093,574
	========	=========
Liabilities		
Current liabilities	29,663,275	10,682,324
Long-term liabilities	35,203,346	38,819,865
Total	64,866,621	49,502,189
	========	=========

The 1998 amounts detailed above include the non-monetary assets and liabilities of investments in foreign subsidiaries and investees (Compañía Cervecerías Unidas Argentina S.A. and subsidiaries) expressed in US dollars in conformity with the application of Technical Bulletin 64 as described in Note 1 o).

NOTE 6 - INVENTORIES

Inventories are summarized as follows:

	1997	1998
	ThCh$	ThCh$
Finished goods	4,163,127	4,178,723
Production in process and semi-manufactured goods	1,808,420	1,027,202
Raw materials	20,309,338	21,947,271
Raw materials in transit	923,809	403,652
Supplies	5,435,341	7,200,138
Wine in third party cellars	732,557	963,498
Grape crop development costs	734,853	1,436,308
Obsolescence provisions	(1,063,545)	(527,346)
Total	33,043,900	36,629,446
	========	========

NOTE 7 - OTHER CURRENT ASSETS

Other current assets consisted of the following:

	1997	1998
	ThCh$	ThCh$
Securities purchased under resale agreements:		
Readjustable Promissory Notes - Central Bank of Chile (1)	27,247,768	29,161,629
Bond discount (Note 13)	52,118	52,055
Deferred income taxes (Note 15)	104,655	690,938
Other	86,245	13,843
Total	27,490,786	29,918,465
	========	========

(1) Readjustable Promissory Notes that mature in January, February, July and December 1999 (January 1998 for 1997 balances)

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net, is summarized as follows:

	1997	1998
	ThCh$	ThCh$
Land and buildings	63,101,074	66,411,902
Vineyards	3,954,776	5,066,613
Machinery and equipment	170,729,412	190,664,311
Increase arising from technical appraisal of fixed assets	12,290,408	12,159,371
Bottles and containers	85,350,391	91,049,581
Construction in progress	25,882,046	18,128,341
Promotional assets	25,870,068	32,463,403
Fixed assets in transit	1,154,873	3,318,972
Fixtures and fittings	28,895,345	30,053,035
Other fixed assets	907,290	1,224,472
Accumulated depreciation	(142,135,475)	(163,375,612)
Total net	276,000,208	287,164,389
	=========	=========

Estimated useful lives of assets are as follows:

	Years
Buildings	25 - 100
Vineyards	20 - 30
Machinery and equipment	5 - 20
Bottles and containers	4 - 8
Other fixed assets	10

NOTE 9 - OTHER ASSETS

	1997	1998
	ThCh$	ThCh$
Accounts receivable from related companies (Note 17)	15,032,658	14,940,863
Goodwill on investments (net)	19,359,481	19,815,090
Negative goodwill on investment in Compañía Industrial Cervecera S.A.(net)	(504,406)	(493,426)
Land and buildings held for sale	3,354,775	4,037,858
Investments in affiliated companies	8,018,796	9,790,991
Prepaid expenses	839,040	2,143,988
Deferred interest on bonds (Note 13)	713,980	661,065
Investments in other companies	194,803	5,236,593
Trademarks	3,347,981	5,913,794
Other	298,470	679,389
Total	50,655,578	62,726,205

========	========

Investments in affiliated companies are detailed as follows:

	1997	1998
	ThCh$	ThCh$
Southern Breweries Establishment (1)	7,968,157	9,738,205
Other	50,639	52,786
Total	8,018,796	9,790,991
	=======	========

(1) The Company's ownership interest in Southern Breweries Establishment is 50%. Its primary objective is to maintain an investment in Karlovacka Pivovara dd., a brewery operating in Croatia. Southern Breweries Establishment had an ownership interest of 68.80% in Karlovacka Pivovara dd. at December 31, 1997 and 1998.

The Company acquired its investment in Southern Breweries Establishment in September 1994, resulting in Goodwill amounting to ThCh$ 179,614 which is being amortized over a period of 20 years beginning in 1998 (10 years previously).

Goodwill on investments is detailed as follows:

	1997	1998
	ThCh$	ThCh$
Viña San Pedro S.A.	4,422,501	4,237,908
Compañía Industrial Cervecera S.A.	14,807,284	14,401,311
Other	129,696	1,175,871
Total	19,359,481	19,815,090
	========	========

Purchases of companies:

During 1995 the Company acquired control of Viña San Pedro S.A. in Chile and Compañía Industrial Cervecera S.A. and Cervecería Santa Fe S.A. in Argentina. The purchases were made as follows:

a) During June 1995 the Company increased its participation in Viña San Pedro S.A. from 48.3% to 50.1% by paying ThCh$ 633,500 for a 1.72 % ownership interest.

b) In March 1995, Compañía Cervecerías Unidas Argentina S.A. acquired 62.71% of Compañía Industrial Cervecera S.A. for ThCh$ 15,544,695 and in September 1995 acquired 98.77.% of Cervecería Santa Fe S.A. for ThCh$ 21,001,074.

During 1997, the Company increased its participation in Viña San Pedro S.A. from 50.10% to 51.24% by paying ThCh$ 465.7682 for a 1.14% ownership interest.

Additionally, on June 24, 1997 Compañía Cervecerías Unidas Argentina S.A. increased its participation in Compañía Industrial Cervecera S.A. from 62.71% to 94.62% by paying ThCh$ 3,721,274, generating a negative goodwill of ThCh$ 505,686. During August and September, 1997 Compañía Cervecerías Unidas Argentina S.A. increased its participation in Compañía Industrial Cervecera S.A. from 94.62% to 97.17% by paying ThCh$ 293,203, generating a negative goodwill of ThCh$ 23,680.

On September, 1997 Compañía Cervecerías Unidas Argentina S.A. increased its participation in Cervecería Santa Fe S.A. from 95.55% to 95.56% by paying ThCh$ 35,449, generating a goodwill of ThCh$ 34,045.

On December 15, 1998, Compañías Cervecerías Unidas Argentina S.A. increased its capital. Compañía Cervecerías Unidas S.A. participated in a proportion less than its previous shareholding, which resulted in diminution of its interest to 91.79%. This resulted in a gain of ThCh$ 527,068 (see Note 21).

NOTE 10 - JOINT VENTURE ASSOCIATION AGREEMENT

On November 2, 1994, Buenos Aires Embotelladora S.A. (BAESA) and the Company signed an Association Agreement to form a joint venture, with both companies contributing the assets being used in their respective soft drinks and mineral water bottling and distribution businesses in Chile. The agreement was made effective as of November 1, 1994.

The joint venture was formed by the Company contributing net assets with a net book value of ThCh$ 30,528,058 in exchange for 55% of the outstanding shares of Embotelladoras Chilenas Unidas S.A. (which previously was a wholly-owned subsidiary of BAESA), a cash payment from BAESA to the Company of ThCh$ 5,290,112 (US$ 10,000,000) and a receivable from BAESA of ThCh$ 21,155,720 (US$ 40,000,000) which is payable in annual installments of approximately ThCh$ 5,288,930 plus accrued interest during the years 1995 through 1998. On June 30, 1997, the total remaining outstanding indebtedness of approximately US$ 28.5 million was rescheduled. Under the new terms, between 1997 and 1999, the yearly interest that accrues on the indebtedness at a rate of 9.375% and any outstanding obligations derived from the most recent rescheduling will be paid out of BAESA's share of ECUSA's annual dividends. After these payments, any excess (or deficit) of the total dividends will be used to reduce (or increase) the principal amount of the indebtedness. In 2000, BAESA will pay any interest accrued during this period and will amortize the principal in order to reduce it to US$ 20 million, which will be payable in two years. In 2002, BAESA will pay the remaining principal and interest to the Company. In the case of a default by BAESA under the agreement, BAESA's indebtedness to the Company is secured by a pledge of 33.75% of the outstanding shares of ECUSA which are currently owned by BAESA.

The book value of the pledged ECUSA shares exceeds the amount owed to the Company by BAESA. As of December 31, 1998, BAESA's total indebtedness including accrued interests to the Company was approximately US$ 25,457 million.

Although the Company owns 55% of the shares of the joint venture and will receive 55% of all dividends and has four of a total of seven members on the Board of Directors, mutual consent is required for all significant operating and management decisions.

Both the Company and BAESA have transferred to Embotelladoras Chilenas Unidas S.A. all of the licenses, trademarks, brand names and contracts that allow the joint venture to produce, sell and distribute Pepsi Co. and Cadbury Schweppes brand soft drinks previously sold by BAESA and soft drinks and mineral water previously sold by the Company under various labels.

NOTE 11 - SHORT-TERM BORROWINGS

Short-term borrowings relate to bank loans obtained principally to finance imports which are denominated in the following currencies:

	1997	1998
	ThCh$	ThCh$
United States dollars	13,879,428	4,285,349
Other foreign currencies	640,141	1,989,233
UFs	3,360,253	8,019,140
Pesos not indexed	22	-
Total	17,879,844	14,293,722

The annual average rate of interest in 1998 on the above loans was approximately 9.34% (7.46% in 1997).

NOTE 12 - LONG-TERM DEBT

Long-term debt is comprised of:

	1997	1998
	ThCh$	ThCh$
Loans payable (generally in quarterly and semi-annual installments)	41,224,033	46,619,911
Bonds payable (Note 13)	37,473,552	33,336,585
Other long-term obligations	941,287	940,302
Total	79,638,872	80,896,798
Less: Current portion	(7,018,386)	(6,988,819)
Long-term portion	72,620,486	73,907,979

Scheduled maturities at December 31, 1998 are follows:

Maturing during the years	Bonds payable	Loans payable	Other	Total
	ThCh$	ThCh$	ThCh$	ThCh$
1999	4,782,964	2,136,837	69,018	6,988,819
2000	4,376,764	9,410,055	58,986	13,845,805
2001	4,584,099	11,960,795	148,229	16,693,123
2002	1,187,069	11,679,258	91,998	12,958,325
2003	1,187,069	11,432,966	200,428	12,820,463
2004 to 2008	4,222,050	-	371,643	4,593,693
2009 to 2013	8,062,279	-	-	8,062,279
2014 to 2015	4,934,291	-	-	4,934,291
Total	33,336,585	46,619,911	940,302	80,896,798

The details of loans payable at December 31, 1998 are as follows:

Bank	Currency	Short-term	Long-term	Total at December 31, 1998	Annual interest rate
		ThCh$	ThCh$	ThCh$	%
Banco BICE	UF	136,594	346,011	482,605	17.10
Citibank	US$	327,733	35,430,750	35,758,483	(1)
Banco Creditstanstalt	US$	12,590	-	12,590	5.32
Banco de A. Edwards	UF	488,277	1,808,885	2,297,162	9.53
Banco Dresdner	US$	9,512	397,882	407,394	6.47
Banco del Estado de Chile	UF	177,746	4,065,063	4,242,809	14.35
Banco Sudameris	US$	107,624	231,481	339,105	6.80
Banco Santander	UF	438,617	1,275,170	1,713,787	9.53
Banco Sudameris	UF	237,632	-	237,632	9.50
Banco Sudameris	FrF	200,512	927,832	1,128,344	4.98
Total		2,136,837	44,483,074	46,619,911	

The details of loans payable at December 31, 1997 are as follows:

Bank	Currency	Short-term	Long-term	Total at December 31, 1997	Annual interest rate
		ThCh$	ThCh$	ThCh$	%
Banco BICE	UF	126,910	461,905	588,815	7.35
Citibank	US$	363,876	34,354,856	34,718,732	(1)
Banco Creditstanstalt	US$	88,030	11,905	99,935	5.32
Banco de A. Edwards	UF	488,397	2,298,103	2,786,500	8.77
Banco de Crédito Argentino	US$	40,490	4,319	44,809	5.19
Banco Francés	US$	188,078	-	188,078	5.29
Banco Santander	UF	438,833	1,714,494	2,153,327	8.77
Ban Sud	US$	119,028	-	119,028	6.47
Barclays Bank	US$	1,016	-	1,016	7.74
Banco Sudameris	UF	237,424	-	237,424	7.74
Banco Sudameris	US$	86,198	200,171	286,369	5.58
Total		2,178,280	39,045,753	41,224,033	

(1) Libor + 0.40 for the first 5 years and Libor + 0.45 for the last 2 years.

NOTE 13 - BONDS PAYABLE

a) Series B Bonds

Corresponds to an issue of 1,500 bonds of UF 1,000 each, with a ten year term. The principal is payable in semi-annual installments, with a two year grace period. Interest is payable every six months in arrears at a rate of 6.5% per annum. At December 31, 1998 the Company had made ten payments of principal, as stipulated in the placement deed. The last installment is payable on July 31, 2001.

b) Series C and D Bonds

The Series C and D Bonds consist of an issue of 120 bonds for a total of UF 1,200,000 and 70 bonds for a total of UF 700,000 with 21 and 12 year terms, respectively. For both series the principal is payable in semi-annual installments beginning on March 31, 1995. Interest is payable semi-annually in arrears at a rate of 6% per annum calculated over 360 days, with payments on March 31 and September 30 of each year. At December 31, 1998 the Company had made eight payments of principal, as stipulated in the placement deed. The last installments are due on September 30, 2015 and 2006, respectively.

These issues were placed at a discount of ThCh$ 727,796 (historical) which was deferred over the term of the bonds. At December 31, 1998, ThCh$ 52,055 (ThCh$ 52,118 in 1997) are presented in Other current assets and ThCh$ 661,065 (ThCh$ 713,980 in 1997) in Other Assets.

The series B, C and D Bonds have the following covenants:

i) The Company is required to maintain a ratio of total liabilities to equity of two to one at December 31, 1995 and thereafter.

ii) Current assets must exceed current liabilities during the term of the obligations.

iii) The Company must maintain a minimum ratio of 1.30 of its unpledged assets over its unsecured current liabilities.

iv) The Company must maintain unpledged assets of not less than 30% of liabilities.

v) The Company must not make any new investments which exceed 15% of total assets in companies not classified by the Risk Classification Committee or which are classified as D or E investments by the Committee.

Bonds payable are reported in the financial statements as follows:

	1997	1998
	ThCh$	ThCh$
Short-term		
Principal	4,004,116	4,182,087
Accrued interest	694,255	600,877
Total	4,698,371	4,782,964
Long-term		
Principal	32,775,181	28,553,621
Total	37,473,552	33,336,585

========	========

NOTE 14 - ACCRUED EXPENSES

The detail of accrued expenses at each year-end is as follows:

Short-term	1997	1998
	ThCh$	ThCh$
Salaries payable	146,601	242,659
Compulsory profit sharing benefits to employees	959,505	1,016,865
Advertising expenses	2,947,636	2,111,372
Fees	376,315	78,622
Directors' profit sharing (Note 20)	974,938	982,884
Provision for vacation expenses	2,869,492	2,935,339
Provision for service indemnities	115,439	763,891
Forward exchange contracts	179,703	140,865
Other accrued expenses	5,134,279	5,317,370
Total	13,703,908	13,589,867

Long-term	1997	1998
Provision for service indemnities	2,612,099	2,431,244
Other provisions:		
Provision for lawsuits	145,020	134,273
Total	2,757,119	2,565,517

NOTE 15 - TAXES

a) The Company has income tax liabilities at December 31, 1998 amounting to ThCh$ 3,889,060 (ThCh$ 2,767,548 in 1997) and other taxes of ThCh$ 25,424 (ThCh$ 52,885 in 1997). Most of the income tax that would have been payable on 1997 and 1998 results of operations has been eliminated by the application of tax loss carryforwards which arose in prior years. At December 31, 1998 the Company had tax loss carryforwards in Chile amounting to ThCh$ 12,557,629 (ThCh$ 34,449,664 in 1997) which were available to apply against tax liabilities in future years. No expiration date is prescribed by Chilean law for tax loss carryforwards.

b) Balances recorded for deferred income taxes at each year end arise from the following sources:

	1997		1998	
	Short-term	Long-term	Short-term	Long-term
	ThCh$	ThCh$	ThCh$	ThCh$
Assets				
Depreciation	104,655	-	-	-
Provisions	-	-	690,938	267,775
Subtotal assets	104,655	-	690,938	267,775
Liabilities				
Depreciation	-	(8,185,819)	-	(9,779,059)
Employee severance indemnities	-	(99,044)	-	(108,275)
Goodwill and negative goodwill (net)	-	33,181	-	33,181
Market value adjustment of other investments	-	156,470	-	(46,511)
Allowance for losses on property, plant and equipment and containers	-	1,938,466	-	2,171,149
Rights and trademarks	-	26,511	-	26,511
Provisions	-	(33,391)	-	-
Subtotal liabilities	-	(6,163,626)	-	(7,703,004)
Net assets (liabilities)	104,655	(6,163,626)	690,938	(7,435,229)

The income tax provision during the years 1996, 1997 and 1998 is summarized as follows:

	1996	1997	1998
	ThCh$	ThCh$	ThCh$
Deferred income tax provision	(928,362)	(1,482,625)	(729,081)
Current tax provision	(1,641,742)	(2,820,433)	(3,914,484)
	(2,570,104)	(4,303,058)	(4,643,565)

As from January 1, 1999, the Company must apply Technical Bulletin 60 of the Chilean Institute of Accountants concerning deferred taxes. This requires the recording of deferred taxes for all temporary differences, whether recurring or not. As a result of the foregoing, even though the new regulations will have no immediate effect on equity, future results will include, apart from the effects of new differences generated by deferred taxes as from that date, the effects of unrecorded differences at year end which will be reflected in the years in which the corresponding tax liabilities become due.

The application of Technical Bulletin 60 in the year ended December 31, 1998 would have resulted in an increase in the provision for income tax of ThCh$ 1,549,577.

NOTE 16 - SHAREHOLDERS' EQUITY

The changes in the Shareholders' equity accounts during 1996, 1997 and 1998 were as follows:

		Other reserves					Retained earnings		
	Number of shares	Common stock	Share Premium	Surplus on technical appraisal of fixed assets	Other	Cumulative translation adjustment	Retained earnings	Net income for the year	Total
		ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Balances at December 31 1995 (historical)	261,394,438	50,462,731	7,515,543	2,577,787	(6,930)	-	87,241,674	20,112,775	167,903,580
Transfer of remaining 1995 income	-	-	-	-	-	-	20,112,775	(20,112,775)	-
Final dividend of Ch$ 19.38 per share	-	-	-	-	-	-	(5,065,213)	-	(5,065,213)
Price-level restatement	-	3,330,540	496,026	170,133	(457)	-	6,847,329	-	10,843,571
Capital increase	14,912,393	18,973,943	-	-	-	-	-	-	18,973,943
Interim dividend of Ch$ 10.55 per share	-	-	-	-	-	-	-	(2,915,037)	(2,915,037)
Net income for the year	-	-	-	-	-	-	-	18,173,686	18,173,686
Balances at December 31, 1996	276,306,831	72,767,214	8,011,569	2,747,920	(7,387)	-	109,136,565	15,258,649	207,914,530
Balances at December 31, 1996 restated in constant December 31, 1998 pesos	-	80,677,665	8,882,498	3,046,644	(8,190)	-	121,000,691	16,917,402	230,516,710
Balances at December 31, 1996 (historical)	276,306,831	72,767,214	8,011,569	2,747,920	(7,387)	-	109,136,565	15,258,649	207,914,530
Additional interim dividend of Ch$ 10.55 per share (from 1996 income)	-	-	-	-	-	-	-	(355,723)	(355,723)
Transfer of remaining 1996 Income	-	-	-	-	-	-	14,902,926	(14,902,926)	-
Final dividend of Ch$ 18.76 per share	-	-	-	-	-	-	(5,816,083)	-	(5,816,083)
Price-level restatement	-	7,291,289	504,728	173,119	(465)	-	7,571,635	-	15,540,306
Capital increase	34,522,249	47,240,205	-	-	-	-	-	-	47,240,205
Interim dividend of Ch$ 31.00 per share	-	-	-	-	-	-	-	(9,635,702)	(9,635,702)
Net income for the year	-	-	-	-	-	-	-	37,389,767	37,389,767
Balances at December 31, 1997	310,829,080	127,298,708	8,516,297	2,921,039	(7,852)	-	125,795,043	27,754,065	292,277,300
Balances at December 31, 1997 restated in constant December 31, 1998 pesos	310,829,080	132,772,552	8,882,498	3,046,644	(8,190)	-	131,204,230	28,947,490	304,845,224
Balances at December 31, 1997 (historical)	310,829,080	127,298,708	8,516,297	2,921,039	(7,852)	-	125,795,043	27,754,065	292,277,300
Transfer of remaining 1997 income	-	-	-	-	-	-	27,754,065	(27,754,065)	-
Final dividend of Ch$ 29.15 per share	-	-	-	-	-	-	(9,059,182)	-	(9,059,182)
Price-level restatement	-	5,630,508	396,240	125,605	(338)	-	6,321,776	-	12,473,791
Capital increase	3,100,000	5,802,364	1,106,699	-	-	-	-	-	6,909,063
Interim dividend of Ch$ 32.00 per share	-	-	-	-	-	-	-	(10,045,731)	(10,045,731)
Translation adjustment for the year (Note 2)	-	-	-	-	-	1,733,252	-	-	1,733,252
Net income for the year	-	-	-	-	-	-	-	39,315,354	39,315,354
Balances at December 31, 1998	313,929,080	138,731,580	10,019,236	3,046,644	(8,190)	1,733,252	150,811,702	29,269,623	333,603,847

a) As established by law, the restatement increment of capital, calculated on the basis of the variation in the Consumer Price Index, has been included in the Common Stock account which, at December 31, 1998 aggregated ThCh$ 138,731,580 and consisted of 313,929,080 shares with no par value.

b) The Board of Directors' meeting held on December 14, 1998 agreed to distribute an interim dividend of Ch$ 32.00 per share for a total of ThCh$ 10,045,731 (historical).

c) The Board of Directors' meeting held on April 28, 1998 agreed to distribute a final dividend of Ch$ 29.15 per share for a total of ThCh$ 9,059,182 (historical).

d) The Board of Directors' meeting held on December 2, 1997 agreed to distribute an interim dividend of Ch$ 31.00 per share for a total of ThCh$ 9,635,702 (historical).

e) The Ordinary Shareholders' Meeting held on April 29, 1997 agreed to distribute a final dividend of Ch$ 18.76 per share for a total of ThCh$ 5,816,083 (historical). It was also agreed to change the dividend policy and to distribute annually a dividend of 50% of the net income for the years 1997 and 1998. The previous policy consisted of distributing an annual dividend equivalent to 40% of net income.

f) The Board of Directors' Meeting held on December 23, 1997 agreed to distribute an interim dividend of Ch$ 10.55 per share on 276,306,831 shares for a total of ThCh$ 2,915,037 (historical) which was payable on January 27, 1998. An additional interim dividend of ThCh$ 355,723 (historical) was also paid from net income for 1997 on all additional shares acquired by shareholders from the Company during the period from January 1 to January 21, 1997.

g) The Ordinary Shareholders' Meeting held on April 26, 1996 agreed to distribute a final dividend of Ch$ 19.38 per share for a total of ThCh$ 5,065,213 (historical).

h) At an Extraordinary Shareholders' Meeting held on October 24, 1996, the shareholders agreed to increase the capital of the Company by ThCh$ 97,976,000 (historical), through the issuance of 57,108,434 shares with no par value, establishing October 24, 1999 as the maximum term to subscribe the issued shares. At December 31, 1996, 14,912,393 shares of this issue had been sold for ThCh$ 21,400,030 (ThCh$ 20,131,732 historical) and are presented in shareholders' equity net of expenses incurred in the offering amounting to ThCh$ 1,230,729 (ThCh$ 1,157,789 historical). In 1997, 34,522,249 shares of this issue were sold for ThCh$ 50,012,188 (ThCh$ 47,301,610 historical) and are presented in shareholders' equity net of expenses incurred in the offering amounting to ThCh$ 65,029 (ThCh$ 61,405 historical). In 1998, 3,100,000 shares of this issue were sold for ThCh$ 7,163,325 (ThCh$ 6,975,000 historical), generating a share premium of ThCh$ 1,172,636 (ThCh$ 1,106,699 historical). Total expenses relating to this placement amounted to ThCh$ 67,560 (ThCh$ 65,937 historical). The stock issuance expenses are shown deducted in the movement of shareholders' equity.

NOTE 17 - ACCOUNTS WITH RELATED COMPANIES

The consolidated balance sheet at December 31, 1997 and 1998 includes the following accounts with related companies:

Entity	1997 Receivable	1997 Payable	1998 Receivable	1998 Payable
	ThCh$	ThCh$	ThCh$	ThCh$
Compañía de Petróleos de Chile S.A.	-	17,162	-	1,891
Confia Tour Ltda.	-	256,862	-	-
Alusa S.A.	-	1,320	-	-
Polymer S.A.	-	237	-	-
Industrias Combinadas Gaio, Peirano S.A.	-	3,254	-	3,120
Cotelsa S.A.	-	2,202	-	1,123
Hoteles Carrera S.A.	-	7,094	1,210	3,325
Nieto S.A.	7,651	-	-	-
Inversiones PFI Chile Ltda.	371,925	57,551	175,001	34,967
Southern Breweries Establishment	1,842,482	-	2,241,457	-
Lanzville Investments Establishment	125,930	-	138,277	-
Anheuser - Busch International Holdings, Inc.	3,429	823,657	18,617	663,342
Banco Santiago	434	-	527	-
Banco Tornquist	225	-	5,161	-
Inmobiliaria del Norte S.A.	-	1,708	-	1,667
VTR Transradio Chilena S.A.	-	10,470	-	-
Alupack S.A.	-	10,838	-	16,018
Editorial Trineo S.A.	-	20,501	-	10,693
Lucchetti S.A.	149	-	154	-
Buenos Aires Embotelladora S.A.	14,019,572	-	13,370,755	-
Inversiones Punch Ltda.	-	6,889	-	-
Karlovacka Pivovara dd.	264,549	-	149,643	-
Paulaner Brauerei A.G.	-	-	6,572	-
Total	16,636,346	1,219,745	16,107,374	736,146

The balances receivable at December 31, 1997 and 1998 are included in the financial statements as follows:

	1997	1998
	ThCh$	ThCh$
Current assets		
Accounts receivable	1,603,688	1,166,511
Other assets		
Accounts receivable from related companies (Note 9)	15,032,658	14,940,863
Total	16,636,346	16,107,374

NOTE 18 - TRANSACTIONS WITH RELATED COMPANIES

The principal transactions with related parties are detailed below:

Company	Relationship	Transaction	Amounts 1996	1997	1998
			ThCh$	ThCh$	ThCh$
Alupack S.A.	Affiliate	Purchase of materials	65,494	120,632	105,860
Banco Santiago (formerly Banco O'Higgins)	Affiliate	Interest on long-term debt	166,105	87,742	-
		Time deposits on investments	3,228,425	17,262,820	6,513,075
		Loans obtained	320,319	458,065	
		Long-term loans paid	-	5,713,742	-
Turismo Confia Tour Ltda. (1)	Affiliate	Purchase of passenger tickets	328,582	544,007	-
Editorial Trineo S.A.	Affiliate	Purchase of materials	-	168,227	55,833
Hoteles Carrera S.A.	Affiliate	Services received (expense)	305	20,486	25,422
Inmobiliaria del Norte S.A.	Affiliate	Services received (expense)	21,174	20,753	19,576
Industrias Combinadas Gaio, Peirano S.A.	Shareholder	Purchase of raw materials	112,545	77,488	-
Karlovacka Pivovara dd.	Affiliate	Services rendered (income)	158,824	246,519	217,046
Lanzville Investments Establishment	Affiliate	Advances on current account	42,704	22,986	-
F.H.I. Finance Holding International B.V. (Paulaner Overseas Breweries B.V.)	Affiliate	License agreement and technical services	92,137	84,272	77,163
Inversiones PFI Chile Ltda.	Affiliate	Purchase of raw materials	5,283,449	3,783,259	2,815,586
		Purchase of equipment	742,368	168,492	151,522
		Share of expenses	1,093,406	1,280,172	1,180,847
		Reimbursement of advertising expenses	1,150,965	832,809	-
Buenos Aires Embotelladoras S.A.	Minority interest	Expenses incurred for Baesa's account	148,838	46,031	26,749
		Purchase of finished products	391,953	-	-
Southern Breweries Establishment	Equity investee	Advances on current account	(169,842)	207,659	216,362
Compañía de Petróleos de Chile S.A.	Affiliate	Purchase of raw materials	-		23,723
	7,628				
Anheuser Busch Lad Corporation	Affiliate	Technical assistance (expense)	-	41,226	28,164
Anheuser Busch Inc.	Affiliate	Royalty for Budweiser (expense)	-	429,939	634,324
		Purchase of raw materials and beer	-	2,793,953	1,637,953
Cotelsa S.A.	Affiliate	Sales of pallets	13,738	17,463	15,825
VTR Transradio Chilena S.A. (1)	Affiliate	Purchase of services	131,766	115,960	-
Radiodifusión y Sonido S.A.	Affiliate	Publicity (expense)	17,473	19,094	22,762

(1) As from 1998 a non-related party.

NOTE 19 - COMMITMENTS AND CONTINGENCIES

a) At December 31, 1998, Viña San Pedro S.A. had granted mortgages and pledges over certain of its property and equipment with a book value amounting to ThCh$ 13,096,816 to guarantee obligations aggregating ThCh$ 25,728,082 .

b) At December 31, 1998, Compañía Industrial Cervecera S.A. had granted mortgages and pledges over certain of its property and equipment with a book value amounting to ThCh$ 1,402,458 (ThCh$ 1,579,559 in 1997) to guarantee obligations aggregating ThCh$ 12,590.

c) On October 25, 1996, the Company subscribed a syndicated loan amounting to US$ 75,000,000, with a term of 7 years, with fourteen foreign banks headed by Citibank, New York.

   This loan requires that the Company comply with the following financial ratios:

   - To maintain an interest coverage ratio of at least 2.25 measured quarterly on an individual Parent Company and consolidated basis, and based on a moving average for the last four quarters. The interest coverage ratio is based on EBIT (earnings before interest expense and taxes) divided by interest expense.

   - To maintain its leverage ratio at no more than 0.60 measured quarterly on an individual Parent Company and consolidated basis. The leverage ratio is based on total debt divided by the sum of total debt, shareholders' equity and minority interest.

   - To maintain as shareholders' equity the equivalent to the prior year required shareholders' equity, restated by the Consumer Price Index (CPI) plus 25% of earnings, if they are positive. The required shareholders' equity for 1996 amounted to M$ 134.323.000 (historical), measured in Chilean pesos.

d) On December 14, 1995, Buenos Aires Embotelladores S.A. ("BAESA") and Compañía Cervecerías Unidas Argentina S.A. signed a distribution contract giving BAESA an exclusive contract to distribute Budweiser and Schneider beers in the city and province of Buenos Aires.

   The distribution contract establishes amounts by which Compañía Cervecerías Unidas Argentina S.A. must indemnify BAESA in case that the latter does not obtain the minimum earnings set forth in the contract. The maximum amount that could be payable in any year is US$ 1.4 million.

e) An investment agreement signed on December 14, 1995 between the Company, Compañía Cervecerías Unidas Argentina S.A. and Anheuser-Busch International Holdings, Inc., includes an option that allows Anheuser-Busch to increase its shareholding in Compañía Cervecerías Unidas Argentina S.A., to 20% under certain conditions. Anheuser-Busch had an ownership interest in the Argentine subsidiary of 8.21% at December 31, 1998.

NOTE 20 - REMUNERATION OF DIRECTORS

During 1998, the Directors of the Parent Company and its subsidiaries received ThCh$ 523,191 (ThCh$ 505,263 in 1996 and ThCh$ 469,403 in 1997) in respect of fees for attendance at Board meetings and reimbursement of expenses, which have been included in the consolidated statement of income under Selling and administrative expenses. In addition, in 1998 an accrual was recorded in the amount of ThCh$ 982,884 corresponding to the Directors' participation in net income for 1998 (ThCh$ 403,408 in 1996 and ThCh$ 974,938 in 1997). The participation in earnings is approved each year at the Annual Shareholders' Meeting.

NOTE 21 - NON-OPERATING INCOME

Non-operating income is summarized as follows:

	1996	1997	1998
	ThCh$	ThCh$	ThCh$
Interest earned from investments in banks and other financial institutions	3,184,629	8,301,565	11,577,355
Equity in net income of affiliated companies	2,132,453	2,142,311	880,004
Amortization of negative goodwill	-	25,978	26,777
Gain on sale of properties held for sale and other assets	-	4,717,942	3,569,940
Rent	174,884	213,917	204,460
Dividends received	63,651	55,686	72,043
Reversal of provision for lawsuits	-	461,352	-
Fee from granting extension of due date of loan payable by BAESA	-	245,956	-
Recovery of severance indemnities	574,819	-	-
Insurance recoveries	413,609	64,895	13,599
Gain from non-participation in capital increase of Argentine subsidiary	91,225	-	527,068
Reversal of provision after sale of land and properties held for sale	-	-	1,052,386
Adjustment to income tax	-	16,405	493,891
Sales of glass	-	530,451	445,585
Other	995,231	1,362,545	1,575,458
Total for the year	7,630,501	18,139,003	20,438,566
	=======	========	========

NOTE 22 - SELLING AND ADMINISTRATIVE AND NON-OPERATING EXPENSES

The following items are included under the Selling and administrative expenses caption:

	1996	1997	1998
	ThCh$	ThCh$	ThCh$
Salaries	34,966,310	34,617,821	36,383,286
Advertising and promotion expenses	32,457,073	34,078,724	34,190,306
Transportation	7,951,641	7,808,773	8,698,672
Maintenance and general expenses	10,225,533	10,187,801	9,154,542
Services purchased	6,662,754	7,724,415	8,675,951
Electricity	713,375	731,963	679,427
Other	5,389,184	7,926,422	10,067,265
Total for the year	98,365,870	103,075,919	107,849,449

The following items are included under the Non-operating expenses caption:

	1996	1997	1998
	ThCh$	ThCh$	ThCh$
Interest expense	7,995,408	7,038,605	7,428,977
Amortization of goodwill	2,582,625	2,590,489	1,143,056
Amortization of intangible assets	193,685	229,417	17,638
Adjustment to market value of other investments	12,148	673	32,808
Accrued loss from litigation	17,269	290,271	-
Write-off of property, plant and equipment due to obsolescence and closings of plants	355,662	805,866	-
Provision for loss of property, plant and equipment	-	-	1,729,961
Sale of Bahia Blanca Plant (Argentina)	-	-	1,808,186
Provision for severance indemnities	-	29,155	854,963
Provision for contingencies	-	111,627	512,330
Other	864,707	847,904	2,097,748
Total for the year	12,021,504	11,944,007	15,625,667

NOTE 23 - SEGMENT INFORMATION

During 1998, the Company adopted the disclosure requirements of FAS 131 (Disclosures about Segments of an Enterprise and Related Information) which requires that segment information be disclosed using a "management approach". Under this pronouncement segments are determined using the information that the chief operating decision maker uses to manage the business. Information for prior years (1997 and 1996) has been restated to conform to the manner in which information is shown for 1998.

	1996						
	Beer-Chile	Beer-Argentina	Soft Drinks and Mineral Waters	Wine	Other	Eliminations	Consolidated
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Sales to unaffiliated companies	113,794,334	24,867,526	92,717,984	20,023,947	615,596	-	252,019,387
Intersegment sales	-	-	-	-	10,295,652	(10,295,652)	-
Total revenue	113,794,334	24,867,526	92,717,984	20,023,947	10,911,248	(10,295,652)	252,019,387
Operating profit	24,178,530	(456,693)	7,119,844	441,657	(324,093)	-	30,959,245
Equity in net income of affiliated companies							2,132,453
Other income (general corporate income)							2,313,419
Interest expense (net)							(4,810,779)
Other expenses (general corporate expenses)							(4,026,096)
Price-level restatement							(431,758)
Income from continuing operations before income tax and minority interest							26,136,484
Identifiable assets at December 31	183,242,780	47,417,897	100,108,325	24,381,982	13,275,604	-	368,426,588
Cash and cash equivalents							37,655,633
Investments in affiliated and other companies							6,608,889
Goodwill							21,604,927
Corporate assets							26,525,833
Total consolidated assets							460,821,870
Sales of each segment include:							
Beer	110,875,567	24,328,277					
By-products	663,404	94,696					
Carbonated drinks			78,272,243				
Nectars			1,634,188				
Powdered mix			409,647				
Mineral Water			11,585,189				
Wine				19,888,680			
By-products				47,519			
Other products	2,255,363	444,553	816,717	87,748			
Total	113,794,334	24,867,526	92,717,984	20,023,947			

	1997						
	Beer-Chile	Beer-Argentina	Soft Drinks and Mineral Waters	Wine	Other	Eliminations	Consolidated
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Sales to unaffiliated companies	117,972,250	35,213,027	90,698,556	28,236,503	357,084	-	272,477,420
Intersegment sales	-	-	-	-	8,284,368	(8,284,368)	-
Total revenue	117,972,250	35,213,027	90,698,556	28,236,503	8,641,452	(8,284,368)	272,477,420
Operating profit	29,877,528	419,979	10,871,554	2,566,468	(533,578)	-	43,201,951
Equity in net income of affiliated companies							2,142,311
Other income (general corporate income)							7,695,127
Interest income (net)							1,262,960
Other expenses (general corporate expenses)							(4,905,402)
Price-level restatement							(392,345)
Income from continuing operations before income tax and minority interest							49,004,602
Identifiable assets at December 31	176,416,369	59,811,227	104,247,737	32,962,188	12,858,479	-	386,296,000
Cash and cash equivalents							52,293,973
Investments in affiliated and other companies							8,018,796
Goodwill							19,359,481
Negative goodwill							(504,406)
Corporate assets							70,124,057
Total consolidated assets							535,587,901
Sales of each segment include:							
Beer	115,476,728	33,990,252					
By-products	648,307	97,757					
Carbonated drinks			74,845,569				
Nectars			1,916,977				
Powdered mix			289,838				
Mineral Water			12,975,904				
Wine				26,836,802			
By-products				-			
Other products	1,847,215	1,125,018	670,268	1,399,701			
Total	117,972,250	35,213,027	90,698,556	28,236,503			

	1998						
	Beer-Chile	Beer-Argentina	Soft Drinks and Mineral Waters	Wine	Other	Eliminations	Consolidated
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Sales to unaffiliated companies	117,081,260	37,745,591	88,062,714	36,824,634	396,847	-	280,111,046
Intersegment sales	-	-	-	-	10,382,832	(10,382,832)	-
Total revenue	117,081,260	37,745,591	88,062,714	36,824,634	10,779,679	(10,382,832)	280,111,046
Operating profit	33,763,117	(2,399,365)	9,052,828	3,244,099	957,643	-	44,618,322
Equity in net income of affiliated companies							880,004
Other income (general corporate income)							7,981,207
Interest expense (net)							4,148,378
Other expenses (general corporate expenses)							(8,196,690)
Price-level restatement							(8,781)
Income from continuing operations before income tax and minority interest							49,422,440
Identifiable assets at December 31	174,466,837	62,955,997	103,437,022	47,826,181	14,676,716	-	403,362,753
Cash and cash equivalents							53,080,322
Investments in affiliated and other companies							9,790,991
Goodwill							19,815,090
Negative goodwill							(493,426)
Corporate assets							81,827,798
Total consolidated assets							567,383,528
Sales of each segment include:							
Beer	115,265,070	35,836,066	-	-			
By-products	539,287	92,570	-	-			
Carbonated drinks	-	-	72,270,182	-			
Nectars	-	-	1,961,882	-			
Powdered mix	-	-	206,393	-			
Mineral Water	-	-	13,110,445	-			
Wine	-	-	-	36,410,773			
By-products	-	-	-	-			
Other products	1,276,903	1,816,955	513,812	413,861			
Total	117,081,260	37,745,591	88,062,714	36,824,634			

The Company operates principally in five segments which comprise the production and sale of beer in Chile and Argentina, soft drinks and mineral water, wine and other activities which include the production and sale of plastic cases and containers. Total revenue by segment includes sales to unaffiliated customers, as reported in the Company's consolidated income statement, and intersegment sales of plastic cases, which are accounted for at invoice price.

Operating profit is total revenue less operating expenses, which include cost of sales and selling and administrative expenses. In computing operating profit, none of the following items has been added or deducted: net interest expense, equity in net income (loss) of affiliated companies, price-level restatement, other income and expenses, minority interest and income taxes.

Identifiable assets by segment are those that are used in operations in each segment, as reported to the chief operating decision maker of the Company.

Depreciation was allocated to each of the segments as follows:

Segment	1996	1997	1998
	ThCh$	ThCh$	ThCh$
Beer-Chile	12,854,240	12,833,249	12,335,960
Beer-Argentina	2,350,865	3,292,046	4,635,815
Soft drinks and mineral water	9,584,676	10,459,010	10,628,515
Wine	753,370	874,597	1,116,380
Other	724,063	797,327	918,223
Total	26,267,214	28,256,229	29,634,893

Capital expenditures for each of the segments were as follows:

Segment	1996	1997	1998
	ThCh$	ThCh$	ThCh$
Beer-Chile	18,962,046	10,252,146	7,397,996
Beer-Argentina	14,795,967	24,374,735	13,405,607
Soft drinks and mineral water	10,877,576	9,159,444	5,918,592
Wine	1,271,822	4,334,630	13,011,425
Other	3,243,961	2,060,623	1,231,018
Total	49,151,372	50,181,578	40,964,638

NOTE 24 - DIFFERENCES BETWEEN CHILEAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Accounting principles generally accepted in Chile vary in certain important respects from the accounting principles generally accepted in the United States. Such differences involve certain methods for measuring the amounts shown on the face of financial statements, as well as additional disclosures required by accounting principles generally accepted in the United States ("US GAAP").

1 Differences in measurement methods

The principal methods applied in the preparation of the accompanying financial statements which have resulted in amounts which differ from those that would have otherwise been determined under accounting principles generally accepted in the United States are as follows:

a) Inflation accounting

The cumulative inflation rate in Chile as measured by the Consumer Price Index for the three year period ended December 31, 1998 was approximately 18%.

Chilean accounting principles require that financial statements be restated to reflect the full effects of loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities. The method, described in Note 1, is based on a model which enables calculation of net inflation gains or losses caused by monetary assets and liabilities exposed to changes in the purchasing power of the local currency, by restating all non-monetary accounts in the financial statements. The model prescribes that the historical cost of such accounts be restated for general price-level changes between the date of origin of each item and the year-end, but allows direct utilization of replacement values for the restatement of inventories, as an alternative to the price-level restatement of those assets, but only if the resulting variation is not material.

The inclusion of price-level adjustments in the accompanying financial statements is considered appropriate under the prolonged inflationary conditions which have affected the Chilean economy in the past. Accordingly, the effect of price-level changes is not eliminated in the reconciliation to US GAAP.

The price-level restatement is determined under Chilean GAAP by restating the following non-monetary assets and liabilities:

	1996	1997	1998
	ThCh$	ThCh$	ThCh$
Restatement of non-monetary accounts based on Consumer Price Index:			
Property, plant and equipment and bottles and containers	16,334,624	16,033,924	9,766,040
Investments in related companies	475,103	28,419	41,548
Investments in other companies and marketable securities	136,442	36,825	24,243
Other assets	4,352,837	7,469,092	4,704,502
Shareholders' equity	(12,022,365)	(16,208,540)	(12,473,791)
Net adjustment of assets and liabilities denominated in foreign currency	(3,665,694)	(1,046,217)	2,445,533
Adjustment of inventories to replacement cost	1,396,945	1,338,523	1,166,338
Increase in liabilities denominated in UFs due to indexation	(5,943,114)	(5,990,283)	(4,128,721)
Net restatements of income and expense accounts in terms of year end constant pesos	(1,496,536)	(2,054,088)	(1,554,473)
Price-level restatement gain (loss)	(431,758)	(392,345)	(8,781)
	========	========	========

b) Revaluations of property, plant and equipment

As mentioned in Note 1 j), certain property, plant and equipment are reported in the financial statements at amounts determined in accordance with a technical appraisal carried out in 1979. The revaluation of property, plant and equipment is an accounting principle that is not generally accepted in the United States. The effects of the reversal of this revaluation, as well as of the related accumulated depreciation and depreciation charge for the year is shown in paragraph 1 m) below.

c) Inventory valuation

As indicated in Note 1 g), finished and in process products are reported in the financial statements at the replacement cost of the raw materials included therein and therefore exclude labor and overhead. The practice of excluding labor and overhead is contrary to the accounting principles generally accepted in the United States. The adjustments required to conform with US GAAP at each year end are shown in paragraph 1 m) below.

d) Revaluation of land held for sale

Net income reported in the Chilean GAAP financial statements for the year ended December 31, 1991 included the effects of the reversal of a valuation allowance recorded in prior years to write-down the carrying value of land held for sale to estimated market value (Note 1 p). This reversal was not in conformity with accounting principles generally accepted in the United States and was therefore reflected in the reconciliation of net income to US GAAP for that year. The effect on the reconciliation of Shareholders' equity is set forth under paragraph 1 m) below. The US GAAP adjustment will be reversed when the land is actually sold.

e) Income tax

Under Chilean GAAP, a provision is made to reflect the interperiod allocation of income taxes resulting from differences between the periods in which transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income. The method is primarily focused on the results of operations.

Accounting for deferred income taxes under US GAAP is prescribed by Statement of Financial Accounting Standards No. 109 (FAS 109). The objectives of FAS 109 are to (1) recognize the amount of income taxes payable or refundable in the current year and (2) provide for potential future taxes arising from differences between the amounts shown for assets and liabilities in the balance sheet and the tax basis of those assets and liabilities at the balance sheet date. The deferred tax is calculated using enacted future tax rates and regulations and is adjusted if those future tax rates and regulations are changed. In general, the change in the deferred tax asset or liability from one balance sheet date to the next represents the deferred income tax expense (or benefit) for the year. The method is described as the liability method and is focused on the balance sheet.

The effect of applying FAS 109 for US GAAP purposes is included in paragraph 1 m) below and certain disclosures required under FAS 109 are set forth under paragraph 3 b) below.

f) Joint venture

As indicated in Note 10, the Company owns 55% of the shares of the ECUSA joint venture and will receive 55% of all dividends declared. Accordingly, this investment is consolidated under Chilean GAAP. However, as mutual consent is required for all significant operating and management decisions, under US GAAP this investment should be recorded based on the equity method and not consolidated. The effects of deconsolidating the joint venture is shown in paragraph 2 below.

In accordance with US GAAP, accounting for investments by the equity method requires that the earnings or losses of an investee and the financial position of an investee be determined in accordance with US GAAP. Thus, in determining the difference between cost of an investment and the underlying equity in investee net assets, it is first necessary to adjust the investee's financial statements to eliminate any material variances from US GAAP. In the case of the Company's investment in ECUSA, which under US GAAP should be recorded based on the equity method as discussed above, the only significant difference between Chilean and US GAAP relates to accounting for deferred income taxes.

The adjustment required to comply with FAS 109 by ECUSA has been given effect in paragraph 1 m) below.

g) Investment securities

Under Chilean GAAP, investment securities held by the Company which are publicly traded are carried at the lower of cost or market value.

Under FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", investment securities, which include debt and certain equity securities, are accounted for as follows:

- Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are reported at amortized cost.

- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses included in earnings.

- Debt and equity securities not classified as either held-to-maturity or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.

The effect of the difference between Chilean GAAP and U.S. GAAP in accounting for investment securities is indicated in paragraph 1 m) below.

h) Goodwill

Under Chilean GAAP, the difference between the cost and net book value of an acquired company at the acquisition date is recorded as goodwill (positive or negative), which is then amortized to income over a maximum period of twenty years (ten years until December 31, 1997). Under US GAAP, the cost of acquiring a company should be assigned to the tangible and identified intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. An excess of cost over the fair value of net assets acquired should be recorded as goodwill, which may then be amortized over a period not exceeding 40 years.

If an excess of acquired net assets over cost arises, the excess should be allocated to reduce proportionately the values assigned to non-current assets (except long-term investments in marketable securities) in determining their fair values. If the allocation reduces the non-current assets to zero value, the remainder of the excess over cost (negative goodwill) should be classified as a deferred credit and amortized systematically to income over the period estimated to be benefited, but not in excess of 40 years.

Under Chilean GAAP, when an investment accounted for by the equity method is acquired, the proportionate net book value of the investee company is recorded as an investment and the difference between the cost of the investment and the proportionate net book value of the investee is recorded as goodwill. The goodwill is then amortized to income over a maximum period of twenty years (ten years up to December 31, 1997). The investment account is adjusted to recognize the investor's share of the earnings or losses of the investee subsequent to the date of the purchase.

Under US GAAP, the carrying amount of an investment under the equity method is initially recorded at cost and shown as a single amount in the balance sheet of the investor. It is adjusted to recognize the investor's share of the earnings or losses of the investee subsequent to the date of investment. The amount of the increase or decrease is included in the determination of net income by the investor. It reflects adjustments similar to those made in preparing consolidated statements, including adjustments to eliminate intercompany gains and losses and to account for the differences, if any, between the investor's cost and the underlying equity in net assets of the investee at the date of investment. The investment is also adjusted to reflect the investor's share of changes in the investee capital accounts.

The effects of the differences between Chilean and US GAAP in accounting for goodwill and negative goodwill on the equity investments in Viña San Pedro S.A. and Southern Breweries Establishment and on the purchases of majority ownership interests in Compañía Industrial Cervecera S.A. and Cervecería Santa Fe S.A. are shown in paragraph 1 m) below.

With respect to the purchases of the assets and liabilities of Compañía Industrial Cervecera S.A. and Cervecería Santa Fe S.A., in each case the purchase price exceeded the fair value of assets acquired and liabilities assumed on the dates of acquisition. Assets and liabilities were adjusted for US GAAP purposes in 1995 to the respective fair values as follows:

	ThCh$
Increase (decrease) in assets (liabilities) to conform to fair value:	
Increase in inventories	758,500
Decrease in deferred tax liabilities	1,324,544
Decrease in goodwill	2,010,929
Increase in minority interest	72,115

i) Classification of income and expenses

Under Chilean GAAP the following income and expenses arising during the years 1996, 1997 and 1998 are classified as Non-operating income and expenses whereas under US GAAP they would be classified as Operating expenses:

	1996	1997	1998
	ThCh$	ThCh$	ThCh$
Non-operating income:			
Sale of glass	-	(530,451)	(445,585)
Amortization of negative goodwill	-	(25,978)	(26,777)
	-	(556,429)	(472,362)
	=======	=======	=======
Non-operating expenses:			
Amortization of goodwill	2,582,625	2,590,489	1,143,056
Amortization of intangible assets	193,686	229,417	-
Accrued loss from litigation	17,269	290,271	-
Provision for write-off of property, plant and equipment due to obsolescence and closings of plants	355,662	805,866	1,729,961
Provision for severance indemnities	-	29,155	854,963
Loss on sale of Bahia Blanca plant (Argentina)	-	-	1,808,186
	3,149,242	3,945,198	5,536,166
	=======	=======	========

j) Minimum dividend

As required by the Chilean Companies Act, unless otherwise decided by the unanimous vote of the issued and subscribed shares, an open stock corporation in Chile must distribute a cash dividend in an amount equal to at least 30% of the Company's net income for each year as determined in accordance with Chilean GAAP. Since the payment of the 30% dividend out of each year's income is a legal requirement in Chile, provision has been made in the accompanying US GAAP reconciliation in paragraph 1 m) below to recognize the corresponding decrease in net equity at December 31 of each year.

k) Trademarks

Under Chilean GAAP, beginning in 1998 trademarks should be amortized over a period not exceeding 20 years (in prior years, trademarks were not required to be amortized). Under US GAAP trademarks should be amortized over a period not exceeding 40 years. Accordingly, the difference between Chilean and US GAAP in amortizing trademarks held by Viña San Pedro S.A. is reflected in the reconciliation in paragraph 1 m) below.

l) Comprehensive income

US GAAP (FAS 130) requires that all comprehensive income be reported and displayed in a financial statement. Comprehensive income includes net income and other comprehensive income (revenues, expenses, gains and losses) that under generally accepted accounting principles are excluded from net income. The effect of this new standard is shown in paragraph 1 m).

m) Effects of conforming to US GAAP

The adjustments to reported net income required to conform with accounting principles generally accepted in the United States are as follows (all amounts are expressed in thousands of Chilean pesos of December 31, 1998 purchasing power):

	1996	1997	1998
	ThCh$	ThCh$	ThCh$
Net income as shown in the Chilean GAAP financial statements	20,149,329	38,997,527	39,315,354
Reversal of additional depreciation on revaluation increment of fixed assets (par. 1b)	49,821	5,725	24,277
Inclusion of labor and overhead in inventories (par. 1 c)	(55,556)	182,325	(121,901)
Revaluation of fixed assets sold (par. 1b)	-	488,638	103,078
Adjustment of amortization of goodwill on purchases of equity investments and subsidiaries in Argentina (par. 1h)	1,936,969	1,923,235	473,052
Amortization of trademark for Viña San Pedro S.A. (par. 1k)	(120,562)	(80,376)	103,468
Effect of US GAAP adjustment of Embotelladoras Chilenas Unidas S.A. (par. 1f)	(2,964,945)	963,080	1,139,050
Deferred income taxes (par. 1e)	6,224,828	478,174	(950,215)
Net income according to US GAAP	25,219,884	42,958,328	40,086,163
Other comprehensive income:			
Foreign currency translation adjustments	-	-	1,733,252
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	9,301	(132,007)	1,177,362
Other comprehensive income	9,301	(132,007)	2,910,614
Income tax expense related to items of other comprehensive income	(1,395)	19,802	(176,604)
Comprehensive income according to US GAAP, net of tax (par. 1 l)	25,227,790	42,846,123	42,820,173
	========	========	========

In addition, as described in paragraph 1 i) above, under Chilean GAAP, Non-operating expenses aggregating ThCh$ 3,149,242 in 1996, ThCh$ 3,945,198 in 1997 and ThCh$ 5,536,166 in 1998 and Non-operating income aggregating ThCh$ 556,429 in 1997 and ThCh$ 472,362 in 1998 would be reclassified to Operating expenses under US GAAP. Also, under Chilean GAAP, Non-operating income of ThCh$ 493,891 in 1998 would be reclassified to Income tax under US GAAP.

The adjustments required to conform net equity amounts to the accounting principles generally accepted in the United States are as follows:

	1996	1997	1998
	ThCh$	ThCh$	ThCh$
Net equity as shown in the Chilean GAAP financial statements	230,516,710	304,845,224	333,603,847
Reversal of revaluation of property, plant and equipment (par. 1b)	(7,346,256)	(6,731,770)	(6,628,692)
Reversal of accumulated depreciation on revaluation of property, plant and equipment (par. 1b)	623,312	503,190	527,467
Inclusion of labor and overhead in inventories (par. 1c)	285,441	467,766	345,865
Exclusion of revaluation of land held for sale (par. 1d)	(2,952,288)	(2,952,288)	(2,952,288)
Minimum dividend permitted by law, equivalent to 30% of net income for the year determined in accordance with Chilean GAAP (par. 1j)	(2,812,869)	(1,649,221)	(1,748,875)
Assets (liabilities) from deferred income taxes under FAS 109 (par. 1e)	4,342,098	4,820,272	3,673,651
Investment securities (par. 1g)	9,301	(132,007)	1,177,362
Adjustment of goodwill on equity investments (par. 1h)	3,167,378	5,090,613	5,563,665
Effect of US GAAP adjustment of Embotelladoras Chilenas Unidas S.A. (par. 1 f)	(2,340,130)	(1,377,050)	(238,000)
Amortization of trademark for Viña San Pedro S.A. (par. 1k)	(120,562)	(200,938)	(97,470)
Net equity according to US GAAP	223,372,135	302,683,791	333,226,532
	=========	=========	=========

The following summarizes the changes in Shareholders' equity under U.S. GAAP during the years ended December 31, 1996, 1997 and 1998:

	ThCh$
Balance at January 1, 1996	185,938,943
Reversal of accrued minimum dividend from prior year	3,022,416
Dividend declared	(9,111,722)
Increase in capital	21,036,581
Minimum dividend at year-end required by law	(2,812,871)
Net income for the year	25,219,884
Reversal of gross unrealized gain on investments that are available-for-sale from prior year	69,603
Gross unrealized losses on investments that are available-for-sale at year end	9,301
Balance at December 31, 1996	223,372,135
Reversal of accrued minimum dividend from prior year	2,812,871
Dividend declared	(16,763,901)
Increase in capital	52,094,887
Minimum dividend at year-end required by law	(1,649,221)
Net income for the year	42,958,328
Reversal of gross unrealized losses on investments that are available-for-sale from prior year	(9,301)
Gross unrealized losses on investments that are available-for-sale at year-end	(132,007)
Balance at December 31, 1997	302,683,791
Reversal of accrued minimum dividend from prior year	1,649,221
Dividend declared	(19,385,748)
Increase in capital	7,095,765
Minimum dividend at year-end required by law	(1,748,875)
Net income for the year	40,086,163
Reversal of gross unrealized losses on investments that are available-for-sale from prior year, net of tax	112,205
Gross unrealized gains on investments that are available-for-sale at year-end, net of tax	1,000,758
Cumulative translation adjustment for the year	1,733,252
Balance at December 31, 1998	333,226,532
	=========

The above reconciling items (including the deconsolidation of the ECUSA joint venture) affect the consolidated balance sheets as of December 31, 1997 and 1998 and the income statements for the three years in the period ended December 31, 1998 as follows:

CONSOLIDATED BALANCE SHEET

Adjusted for general price-level changes and expressed in thousands of constant Chilean pesos of December 31, 1998

	As of December 31, 1997				
	Consolidated balance sheet under Chilean GAAP	Adjustments to deconsolidate joint venture	Consolidated balance sheet without joint venture	Other US GAAP adjustments	Consolidated balance sheet under US GAAP
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents (1)	52,293,973	(7,781,754)	44,512,219	-	44,512,219
Time deposits	47,420,934	-	47,420,934	(47,420,934)	-
Marketable securities	280,505	-	280,505	(280,505)	-
Investments available-for-sale	-	-	-	55,506,430	55,506,430
Accounts receivable - trade and other	57,104,155	(12,950,720)	44,153,435	-	44,153,435
Accounts receivable from related companies	1,603,688	1,858,136	3,461,824	-	3,461,824
Inventories	33,043,900	(4,766,908)	28,276,992	467,766	28,744,758
Prepaid expenses	5,864,119	(2,228,216)	3,635,903	-	3,635,903
Prepaid taxes	3,103,884	227,346	3,331,230	-	3,331,230
Other current assets	8,216,957	(53,732)	8,163,225	(8,041,652)	121,573
Total current assets	208,932,115	(25,695,848)	183,236,267	231,105	183,467,372
PROPERTY, PLANT AND EQUIPMENT, net	276,000,208	(57,737,887)	218,262,321	(6,228,580)	212,033,741
OTHER ASSETS	50,655,578	31,912,195	82,567,773	560,337	83,128,110
Total assets	535,587,901	(51,521,540)	484,066,361	(5,437,138)	478,629,223
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short-term borrowings	17,879,844	(101,638)	17,778,206	-	17,778,206
Current portion of long-term debt	7,018,386	(18,905)	6,999,481	-	6,999,481
Dividends payable	10,323,623	-	10,323,623	1,649,221	11,972,844
Accounts payable	27,720,895	(11,035,447)	16,685,448	-	16,685,448
Notes payable	2,385,218	-	2,385,218	-	2,385,218
Sundry creditors	2,204,667	(152,898)	2,051,769	-	2,051,769
Accounts payable to related companies	1,219,745	3,576,940	4,796,685	-	4,796,685
Accrued expenses	13,703,908	(3,848,945)	9,854,963	-	9,854,963
Taxes and social security charges payable	7,251,080	(2,328,536)	4,922,544	-	4,922,544
Other current liabilities	122,158	-	122,158	-	122,158
Total current liabilities	89,829,524	(13,909,429)	75,920,095	1,649,221	77,569,316
LONG-TERM LIABILITIES					
Long-term debt	72,620,486	(418,354)	72,202,132	-	72,202,132
Accrued expenses	2,757,119	(391,463)	2,365,656	-	2,365,656
Deferred income taxes	6,163,626	(783,362)	5,380,264	(4,924,926)	455,338
Deposits on bottles and containers	17,285,539	(9,409,376)	7,876,163	-	7,876,163
Total long-term liabilities	98,826,770	(11,002,555)	87,824,215	(4,924,926)	82,899,289
Total liabilities	188,656,294	(24,911,984)	163,744,310	(3,275,705)	160,468,605
MINORITY INTEREST	42,086,383	(26,609,556)	15,476,827	-	15,476,827
SHAREHOLDERS' EQUITY					
Common Stock	132,772,552	-	132,772,552	-	132,772,552
Share premium	8,882,498	-	8,882,498	-	8,882,498
Other reserves	3,038,454	-	3,038,454	-	3,038,454
Retained earnings	160,151,720	-	160,151,720	(2,161,433)	157,990,287
Total shareholders' equity	304,845,224	-	304,845,224	(2,161,433)	302,683,791
Total liabilities and shareholders' equity	535,587,901	(51,521,540)	484,066,361	(5,437,138)	478,629,223

(1) This caption includes time deposits, marketable securities and securities under resale agreements amounting to ThCh$ 19,122,509 ThCh$ 761,792 and ThCh$ 27,210,827, respectively, which are cash equivalents.

CONSOLIDATED BALANCE SHEET

Adjusted for general price-level changes and expressed in thousands
of constant Chilean pesos of December 31, 1998

	As of December 31, 1998				
	Consolidated balance sheet under Chilean GAAP	Adjustments to deconsolidate joint venture	Consolidated balance sheet without joint venture	Other US GAAP adjustments	Consolidated balance sheet under US GAAP
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents (1)	53,080,322	(14,601,197)	38,479,125	-	38,479,125
Time deposits	59,111,809	-	59,111,809	(59,111,809)	-
Investment available-for-sale	-	-	-	67,255,538	67,255,538
Accounts receivable - trade and other	59,491,438	(13,740,209)	45,751,229	-	45,751,229
Accounts receivable from related companies	1,166,511	1,913,553	3,080,064	-	3,080,064
Inventories	36,629,446	(4,603,732)	32,025,714	345,865	32,371,579
Prepaid expenses	5,423,649	(1,530,125)	3,893,524	-	3,893,524
Other current assets	2,589,759	(123,507)	2,466,252	(1,729,774)	736,478
Total current assets	217,492,934	(32,685,217)	184,807,717	6,759,820	191,567,537
PROPERTY, PLANT AND EQUIPMENT, net	287,164,389	(53,578,060)	233,586,329	(9,150,983)	224,435,346
OTHER ASSETS	62,726,205	34,599,150	97,325,355	(1,043,915)	96,281,440
Total assets	567,383,528	(51,664,127)	515,719,401	(3,435,078)	512,284,323
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short-term borrowings	14,293,722	(61,445)	14,232,277	-	14,232,277
Current portion of long-term debt	6,988,819	(30,191)	6,958,628	-	6,958,628
Dividends payable	10,309,514	-	10,309,514	1,748,875	12,058,389
Accounts payable	27,755,968	(8,724,787)	19,031,181	-	19,031,181
Notes payable	1,017,833	-	1,017,833	-	1,017,833
Sundry creditors	1,681,348	(149,410)	1,531,938	-	1,531,938
Accounts payable to related companies	736,146	3,715,482	4,451,628	-	4,451,628
Accrued expenses	13,589,867	(3,506,241)	10,083,626	-	10,083,626
Taxes and social security charges payable	5,956,027	(2,507,577)	3,448,450	-	3,448,450
Other current liabilities	4,445	-	4,445	-	4,445
Total current liabilities	82,333,689	(11,264,169)	71,069,520	1,748,875	72,818,395
LONG-TERM LIABILITIES					
Long-term debt	73,907,979	(2,738)	73,905,241	-	73,905,241
Accrued expenses	2,565,517	(410,375)	2,155,142	-	2,155,142
Deferred income taxes	7,703,004	(1,337,153)	6,365,851	(4,806,638)	1,559,213
Deposits on bottles and containers	18,105,756	(9,803,730)	8,302,026	-	8,302,026
Total long-term liabilities	102,282,256	(11,553,996)	90,728,260	(4,806,638)	85,921,622
Total liabilities	184,615,945	(22,818,165)	161,797,780	(3,057,763)	158,740,017
MINORITY INTEREST	49,163,736	(28,845,962)	20,317,774	-	20,317,774
SHAREHOLDERS' EQUITY					
Common stock	138,731,580	-	138,731,580	-	138,731,580
Share premium	10,019,236	-	10,019,236	-	10,019,236
Other reserves	4,771,706	-	4,771,706	-	4,771,706
Retained earnings	180,081,325	-	180,081,325	(377,315)	179,704,010
Total shareholders equity	333,603,847	-	333,603,847	(377,315)	333,226,532
Total liabilities and shareholders' equity	567,383,528	(51,664,127)	515,719,401	(3,435,078)	512,284,323

(1) This caption includes time deposits, marketable securities and securities under resale agreements amounting to ThCh$ 19,969,823 ThCh$ 5,489,076 and ThCh$ 27,687,746, respectively, which are cash equivalents.

CONSOLIDATED STATEMENT OF INCOME

Adjusted for general price-level changes and expressed in thousands of constant Chilean pesos of December 31, 1998

	For the year ended December 31, 1996				
	Consolidated statement of income under Chilean GAAP	Adjustments to deconsolidate joint venture	Consolidated statement of income without joint venture	Other US GAAP adjustments	Consolidated statement of income under US GAAP
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
OPERATING RESULTS					
Net sales	252,019,387	(85,694,934)	166,324,453	-	166,324,453
Cost of sales	(122,694,272)	49,101,575	(73,592,697)	(5,735)	(73,598,432)
Gross margin	129,325,115	(36,593,359)	92,731,756	(5,735)	92,726,021
Selling and administrative expenses	(98,365,870)	28,331,515	(70,034,355)	(1,332,835)	(71,367,190)
Operating income	30,959,245	(8,261,844)	22,697,401	(1,338,570)	21,358,831
NON-OPERATING RESULTS					
Non-operating income	7,630,501	3,471,977	11,102,478	(2,964,945)	8,137,533
Non-operating expenses	(12,021,504)	1,242,981	(10,778,523)	3,149,242	(7,629,281)
Price-level restatements	(431,758)	125,917	(305,841)	-	(305,841)
Income before income tax and minority interest	26,136,484	(3,420,969)	22,715,515	(1,154,273)	21,561,242
Income tax	(2,570,104)	-	(2,570,104)	6,224,828	3,654,724
Minority interest	(3,417,051)	3,420,969	3,918	-	3,918
NET INCOME	20,149,329	-	20,149,329	5,070,555	25,219,884
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CONSOLIDATED STATEMENT OF INCOME

Adjusted for general price-level changes and expressed in thousands of constant Chilean pesos of December 31, 1998

	For the year ended December 31, 1997				
	Consolidated statement of income under Chilean GAAP	Adjustments to deconsolidate joint venture	Consolidated statement of income without joint venture	Other US GAAP adjustments	Consolidated statement of income under US GAAP
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
OPERATING RESULTS					
Net sales	272,477,420	(84,476,728)	188,000,692	-	188,000,692
Cost of sales	(126,199,550)	44,307,606	(81,891,944)	188,050	(81,703,894)
Gross margin	146,277,870	(40,169,122)	106,108,748	188,050	106,296,798
Selling and administrative expenses	(103,075,919)	28,625,433	(74,450,486)	(1,516,755)	(75,967,241)
Operating income	43,201,951	(11,543,689)	31,658,262	(1,328,705)	30,329,557
NON-OPERATING RESULTS					
Non-operating income	18,139,003	4,508,701	22,647,704	895,289	23,542,993
Non-operating expenses	(11,944,007)	448,174	(11,495,833)	3,916,043	(7,579,790)
Price-level restatements	(392,345)	259,957	(132,388)	-	(132,388)
Income before income tax and minority interest	49,004,602	(6,326,857)	42,677,745	3,482,627	46,160,372
Income tax	(4,303,058)	1,670,704	(2,632,354)	478,174	(2,154,180)
Minority interest	(5,704,017)	4,656,153	(1,047,864)	-	(1,047,864)
NET INCOME	38,997,527	-	38,997,527	3,960,801	42,958,328
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CONSOLIDATED STATEMENT OF INCOME

Adjusted for general price-level changes and expressed in thousands of constant Chilean pesos of December 31, 1998

	As of December 31, 1998				
	Consolidated statement of income under GAAP	Adjustments to deconsolidate joint venture	Consolidated statement of income without joint venture	Other US GAAP adjustments	Consolidated statement of income under US GAAP
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
OPERATING RESULTS					
Net sales	280,111,046	(83,149,406)	196,961,640	-	196,961,640
Cost of sales	(127,643,275)	44,046,459	(83,596,816)	(4,357,519)	(87,954,335)
Gross margin	152,467,771	(39,102,947)	113,364,824	(4,357,519)	109,007,305
Selling and administrative expenses	(107,849,449)	28,415,224	(79,434,225)	730,652	(78,703,573)
Operating income	44,618,322	(10,687,723)	33,930,599	(3,626,867)	30,303,732
NON-OPERATING RESULTS					
Non-operating income	20,438,566	3,847,475	24,286,041	172,797	24,458,838
Non-operating expenses	(15,625,667)	296,328	(15,329,339)	4,681,203	(10,648,136)
Price-level restatements	(8,781)	288,065	279,284	-	279,284
Income before income tax and minority interest	49,422,440	(6,255,855)	43,166,585	1,227,133	44,393,718
Income tax	(4,643,565)	1,718,159	(2,925,406)	(456,324)	(3,381,730)
Minority interest	(5,463,521)	4,537,696	(925,825)	-	(925,825)
NET INCOME	39,315,354	-	39,315,354	770,809	40,086,163

3 Additional disclosure requirements

a) Earnings per share

Disclosure of the following earnings per share information is not generally required for presentation in financial statements under Chilean accounting principles, but is required under US GAAP:

	1996	1997	1998
	ThCh$	ThCh$	ThCh$
Basic earnings per share (under US GAAP)			
Net income per share	96.30	139.16	128.14
Weighted average number of Common stock outstanding (in thousands)	261,881	308,705	312,842

Earnings per share is determined by dividing the net income for the year under US GAAP by the weighted average number of Common stock outstanding during each year.

b) Income taxes

The provision for income taxes charged to results is summarized as follows:

	1996	1997	1998
	ThCh$	ThCh$	ThCh$
Current tax expense	1,641,742	1,933,090	2,771,746
Deferred tax under Chilean GAAP	928,362	699,264	153,660
Additional deferred tax to conform with US GAAP	(6,224,828)	(478,174)	456,324
Total provision for US GAAP	(3,654,724)	2,154,180	3,381,730

Deferred tax assets (liabilities) are summarized as follows at December 31 of each year:

	1996	1997	1998
	ThCh$	ThCh$	ThCh$
Property, plant and equipment and depreciation	(6,861,944)	(7,398,257)	(8,853,050)
Staff severance indemnities	(221,285)	(188,510)	(213,154)
Deposits on bottles and containers	(1,184,292)	-	-
Other provisions	-	-	(67,403)
Goodwill on investments	(1,286,361)	(1,434,563)	(1,434,563)
Gross deferred tax liabilities	(9,553,882)	(9,021,330)	(10,568,170)
Accounts receivable	561,200	423,901	801,000
Inventories	425,487	350,139	337,027
Investments in other companies	221,479	215,562	215,562
Other assets	916,440	897,077	861,887
Tax loss carryforwards	6,657,922	6,184,730	6,417,235
Others	537,107	494,583	376,246
Gross deferred tax assets	9,319,635	8,565,992	9,008,957
Net deferred tax assets (liabilities)	(234,247)	(455,338)	(1,559,213)

The provision for income taxes differs from the amount of income taxes determined by applying the applicable Chilean statutory income tax rate of 15% to pretax income as a result of the following differences:

	1996	1997	1998
	ThCh$	ThCh$	ThCh$
At statutory Chilean tax rate (15%)	3,234,774	6,766,877	6,520,184
Increase (decrease) in rates resulting from:			
Non-deductible expenses	4,793,165	3,691,203	1,359,887
Non-taxable income	(9,979,362)	(6,809,308)	(2,875,063)
Tax credits	(107,748)	(146,964)	(7,119)
Difference between tax rate in Chile and Argentina	642,056	456,453	1,226,123
Utilization of tax loss carryforward	(2,186,252)	(1,760,274)	(2,867,707)
Other	(51,357)	(43,807)	25,425
At effective tax rates	(3,654,724)	2,154,180	3,381,730
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In accordance with Chilean law, the Company and each of its subsidiaries compute and pay income tax on a separate return basis and not on a consolidated basis.

c) Investment securities

Shown below are the carrying amount, gross unrealized gains and losses and approximate fair value of investment securities available-for-sale under US GAAP (see paragraph 1g):

	Carrying amount		Gross unrealized gains		Gross unrealized losses		Fair value	
	1997	1998	1997	1998	1997	1998	1997	1998
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Central Bank and other securities	8,217,503	6,966,367	285,074	832,962	-	-	8,502,577	7,799,329
Deposits in banks	47,420,934	59,111,809	-	344,400	(417,081)	-	47,003,853	59,456,209
Total securities available-for-sale	55,638,437	66,078,176	285,074	1,177,362	(417,081)	-	55,506,430	67,255,538
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d) Fair value

The following methods and assumptions were used to estimate the fair value of each class of financial instrument at December 31, 1997 and 1998 for which it is practicable to estimate such value:

- Cash
  Cash is stated at carrying amount, which is equivalent to fair value.

- Time deposits and marketable securities
  Fair value of time deposits was determined using rates currently available in the market and the fair value of marketable securities is based on quoted market prices for the marketable securities.

- Investments in other companies
  Fair value of common stock in companies is based on quoted market prices for such common stock.

- Other current assets
  Fair value of financial instruments included in Other current assets was determined using interest rates currently offered for similar financial instruments.

- Bank borrowings and bonds payable
  Fair value of bank borrowings and bonds payable was estimated using the interest rate that the Company would pay for similar loans.

- Deposits on bottles and containers
  The carrying value of deposits on bottles and containers approximates the fair value as the carrying value reflects the amounts that would be required to settle the obligation.

The estimated fair values of the Company's financial instruments are as follows.

	December 31, 1997		December 31, 1998	
Assets	Carrying amounts	Fair value	Carrying amounts	Fair value
	ThCh$	ThCh$	ThCh$	ThCh$
Cash	5,198,845	5,198,845	5,781,795	5,781,795
Time deposits and marketable securities	67,585,741	67,584,846	79,081,632	79,425,484
Investments in other companies	194,803	194,803	5,236,593	6,070,086
Other current assets	35,427,784	35,296,672	29,227,527	29,227,527
Total assets	108,407,173	108,275,166	119,327,547	120,504,892
Liabilities				
Bank borrowings (short-term)	17,879,844	17,879,844	14,293,722	14,280,355
Bonds payable (short-term)	4,698,371	4,691,625	4,782,964	4,676,024
Current portion of long-term bank borrowings	2,178,281	2,175,527	2,205,855	2,205,855
Bank borrowings (long-term)	39,045,753	39,045,102	44,483,074	44,483,074
Bonds payable (long-term)	32,775,182	29,682,189	28,553,621	25,712,147
Deposits on bottles and containers	17,285,539	17,285,539	18,105,756	18,105,756
Total liabilities	113,862,970	110,759,826	112,424,992	109,463,211

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f) Off-balance-sheet risks

Accounts receivable and payable in connection with forward exchange contracts that hedge the risk of exchange fluctuations on debt of a financing nature are generally offset upon maturity of the contracts; any net differences that arise are settled in cash and presented on a net basis in the Statement of cash flows. However, hedging transactions during the three years ended December 31, 1998 were not significant.

3 Recent accounting pronouncements

Statement of Financial Accounting Standards No. 133 (FAS 133) *Accounting for Derivative Instruments and Hedging Activities*, is effective for fiscal years beginning after June 15, 1999. This standard establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives on the balance sheet at fair value. Generally, changes in the fair value of derivatives must be recognized in income when they occur, the only exception being derivatives that qualify as hedges in accordance with the Standard. If a derivative qualifies as a hedge, a company can elect to use "hedge accounting" to eliminate or reduce the income-statement volatility that would arise from reporting changes in a derivative's fair value in income. The type of accounting to be applied varies depending on the nature of the exposure that is being hedged. In some cases, income-statement volatility is avoided by an entity recording changes in the fair value of the derivative directly in shareholder's equity. In other cases, changes in the fair value of the derivative continue to be reported in earnings as they occur, but the impact is counterbalanced by the entity's adjusting the carrying value of the asset or liability that is being hedged. This standard must be adopted during the year ended December 31, 2000, but is not expected to have a significant effect on the financial statements of the Company because it does not generally hold important amounts of derivative instruments.