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, 1997**

_ 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	National Association of Securities Dealers Automated Quotation National Market System

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: **310,829,080**

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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* Not applicable

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, 1997 purchasing power. See the notes to the consolidated financial statements of the Company (the “Consolidated Financial Statements”) included in pages F9 through F56 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 drink unit cases (8 oz cans)…….	……..1 soft drink 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 drink, mineral water and wine sales in Chile; the *Cámara de la Industria Cervecera Argentina* (Argentine Industry Beer 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 nor 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 drink 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 third party market share estimates for Chilean and Argentine beer sales and soft drink 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 third parties.

Exchange Rates

The *Ley Orgánica Constitucional del Banco Central de Chile N° 18.840* (the "Central Bank Act"), enacted in 1989, liberalized the rules that govern the ability to buy and sell foreign exchange. Prior to 1989, Chilean law permitted the purchase and sale of foreign exchange only in those cases explicitly authorized by the Central Bank. The Central Bank Act now provides that 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 of Chile 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. 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") is the average exchange rate at which transactions are carried out in the Formal Exchange Market on the prior business day. The Central Bank is authorized to carry out its transactions at the Reference Exchange Rate and at the spot market rate. It generally carries out its transactions at the spot market rate. Authorized transactions by banks are generally transacted at the spot market rate. It is the Central Bank's policy to sell U.S. dollars at a rate 12.5% over the Reference Exchange Rate when the spot market rate exceeds the Reference Exchange Rate by 12.5% and to purchase U.S. dollars at a rate 12.5% under the Reference Exchange Rate when the spot market rate is 12.5% less than the Reference Exchange Rate.

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 (i.e., currently between 12.5% over and 12.5% under the Reference Exchange Rate), 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.

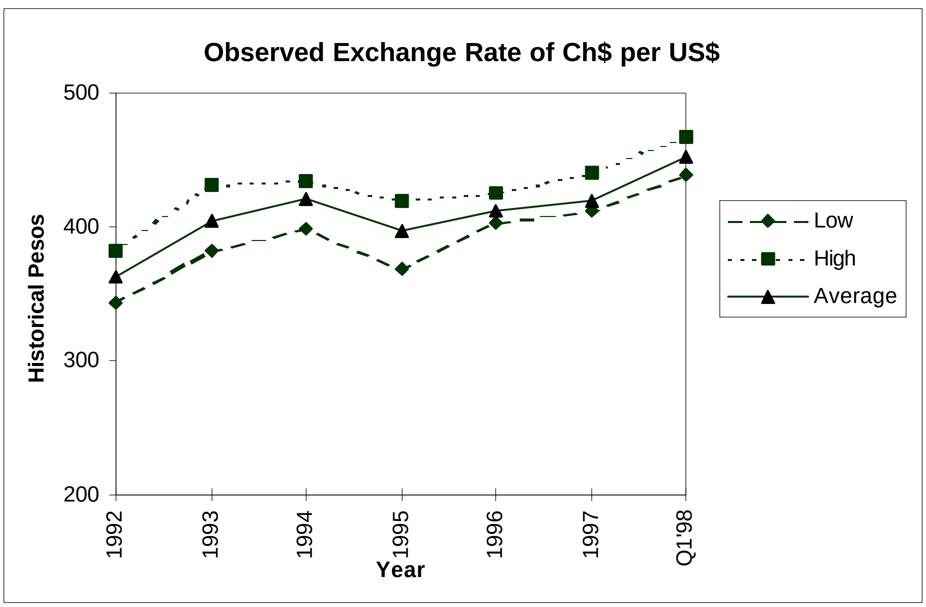
The following table sets forth the annual high, low, average and year-end Observed Exchange Rate for U.S. dollars for each year starting in 1993 as reported by the Central Bank of Chile. The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

	Observed Exchange Rate of Ch$ per US$ (1)			
Year	**Low (2)**	**High (2)**	**Average (3)**	**Period-end**
1993	382.12	431.04	404.17	428.47
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 (through March 31)	439.18	466.95	451.57	454.34

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.

The Observed Exchange Rate for December 31, 1997 was Ch$439.18 = US$1.00. The following chart depicts the variations of the US$ / Ch$ exchange rate explained in the table above.



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 M., Administration and Finance Manager (Chief Financial Officer) or Hugo Ovando Z., Investor Relations Manager.

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

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

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

(Note: 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 brewer, the second-largest brewer in Argentina, the second-largest Chilean soft drink producer, the largest Chilean mineral water producer and the third largest wine producer in Chile. The Company's products in its beer and soft drink businesses include a range of proprietary, licensed and imported brands.

In 1997, the Company had consolidated net sales of Ch$261,813 million, of which 43.3% was accounted for by beer segment sales in Chile, 12.9% by beer segment sales in Argentina, 32.9% by soft drink, nectar and mineral water segment sales in Chile, 10.3% by wine segment sales, and the remainder by sales of mineral water and soft drinks in Argentina as well as by other products.

Beer. The Company estimates that its share of the Chilean beer market by volume was approximately 86% for 1995, 89% for 1996 and 91% for 1997. 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 1997 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 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 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, the Company and Anheuser-Busch have 95.6% and 4.4% respective interests in Compañía Cervecerías Unidas Argentina S.A. ("CCU Argentina"). The Company estimates that its market share of the Argentine beer market was approximately 8% in 1995, 9% in 1996 and 11% in 1997.

As of December 31, 1997, 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 owns 50.0% of Southern Breweries Establishment ("SBE"), which, in turn, owns 68.8% of Karlovacka. The Company's total investment in SBE at

December 31, 1997 was Ch$7,640 million. SBE, which is not a consolidated subsidiary of the Company, contributed Ch$2,084 million, Ch$2,042 million, and Ch$2,051 million to the Company's non-operating income in 1995, 1996 and 1997, respectively.

Soft Drinks and Mineral Water. The Company produces and sells soft drink 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 drink, 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 drink market share by volume to have been 27%, 26% and 24% and its Chilean mineral water market share by volume to have been 62%, 60% and 61% in 1995, 1996 and 1997, 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. After subsequent investments, the Company increased its stake in VSP to 51.2% as of October 1997. VSP produces and markets a full range of wine products for both the domestic and export markets. The Company believes that in 1997, VSP's sales by volume amounted to approximately 12% of total measured domestic industry sales and approximately 9% 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 45 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 24 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 12 owned or leased warehouses and a direct sales force reaching approximately 8,800 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, 1997, BAESA had two sales forces responsible for the Company's products; one exclusively dedicated to the sale of Budweiser brand beer targeting approximately 3,200 high volume clients, and another selling the Company’s Argentine beer products in conjunction with the entire mix of BAESA products to another group of approximately 37,000 clients.

1.2 Historical Background

The Company was established in 1902 following the merger of two existing brewers. 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 1907 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 subsequent 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 American Depositary Shares (“ADS”), each representing five shares of the Company's Common Stock, in an international American Depositary Receipt (“ADR”) offering. The ADSs are listed and traded on the National Association of Securities Dealers Automated Quotation National Market System (“NASDAQ”).

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 and to 51.2% in August-October 1997). In November 1994, the Company created the ECUSA joint venture with BAESA for the production, bottling and marketing of soft drink and mineral water products in Chile. In addition, in 1994 through its subsidiary SBE the Company acquired a 26.9% equity interest in Karlovacka, a Croatian brewer. Between 1994 and 1997, 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 brewers, 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 “CICSA”. Following the merger, CCU Argentina’s interest in CICSA is 99.2%. In April of 1998, CCU Argentina paid approximately US$9 million to acquire the brands and assets of Cervecería Córdoba (“Córdoba”), an Argentine brewery subject to administration by a bankruptcy tribunal. CCU Argentina has been allowed to begin producing Córdoba’s brands at its own facilities and is awaiting transfer of Córdoba’s other assets.

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. Currently, 4,573,972 of the Company's shares from its 1996/1997 capital increase, representing less than 1.5% of the Company's total issued and subscribed shares of Common Stock, remain unissued. Shares not sold by October 1999 will be canceled.

The Company's principal executive offices are located at Bandera 84, Sixth Floor, Santiago, Chile. Its 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.a The Company's Beer Business in Chile

The Chilean Beer Market. The Company estimates that annual beer consumption in Chile was 397 million liters in 1997, or approximately 27 liters per capita. The Company believes that a consumer's choice of alcoholic beverage is principally a function of relative price, image, personal preference, and alcohol content. Given that beer and wine have traditionally been the principal alcoholic beverages consumed in the country, the Company has witnessed a substitution effect when changes in the relative price of beer to wine occur.

The Company estimates that the total beer market in Chile has increased at a five-year compounded annual growth rate (“CAGR”) of 1.8% in terms of volume sold in the 1992 to 1997 period. The Company believes that given Chile’s high concentration of young adults and relatively low per capita consumption rate compared to countries in Western Europe and North America, there exists potential for growth in Chilean beer consumption. Given its leadership position, its strong and diversified product portfolio, and its marketing and distribution capabilities, the Company believes that it is well positioned to benefit from future growth in beer consumption in Chile.

The following chart shows the Company's estimates for total and per-capita consumption levels for beer in Chile for the years 1993 -1997.

Year	Total Sales Volume (millions of liters)	Per Capita (liters)
1993	396	29
1994	386	28
1995	400	28
1996	394	27
1997	397	27

The Company estimates that the total beer market increased approximately 0.9% in terms of volume sold during 1997 as compared to 1996. The growth of the beer market in 1997 was due principally to an increase in the price of wine in Chile (which typically results in consumers substituting beer for wine) in the second half of the year. This substitution effect was partially offset by abnormal weather conditions from the “El Niño” weather phenomenon, which resulted in cooler temperatures and lower consumption of beer.

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"); their principal brands of beer in Chile are Cristal, Becker and Austral, respectively. The Company estimates that in 1997, Cristal accounted for approximately 68%, Becker approximately 5%, and Austral slightly less than 1% 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 1% of total beer industry volume in 1997.

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 any 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$101,619 million, Ch$106,304 million, and Ch$ 110,716 million or 47.9%, 44.0%, and 42.3% of the Company's total net sales in 1995, 1996, and 1997, respectively. The Company's sales of beer by volume in Chile increased 3.7% in 1997. 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			Morenita Especial
Budweiser (1)			Dorada
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. 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. Escudo is a beer with a higher alcohol content than the Company's other beers, Morenita is a dark beer, and Dorada is a discount brand.

In 1997, the Company exported a limited amount of beer to neighboring South American countries. Export sales of beer accounted for less than 1% of the Company's net sales in 1997. The Company continually explores export opportunities, however, it does not expect beer exports to be a significant source of sales in the future since the Company's primary focus in Chile is on the domestic market.

The Company also produces, imports, and markets Paulaner beer in Chile under an exclusive license agreement from 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 and/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 renewed 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$1,106 million, or approximately 1.0% of its total net sales for beer in Chile in 1997.

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 proprietary beer brands Morenita and Morenita Especial. In April 1997, the Company signed a contract to locally produce Guinness. 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$403 million in 1997, representing less than 0.4% 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 1997, the Company's total net sales of Budweiser in Chile accounted for Ch$1,096 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 1996 and 1997, the Company sold its beer products in Chile in the following packaging formats:

Container	Percentage of Total Beer Products Sold 1996	1997
Returnable (1)	82.1%	81.8%
Non-Returnable (2)	11.2%	12.0%
Returnable Kegs (3)	6.7%	6.2%
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 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 1996 and 1997, 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 1996	1997
Retailers	40%	41%
Bars and Restaurants	25%	24%
Wholesalers	25%	23%
Supermarkets	10%	12%
Total	100%	100%

As of December 31, 1997, the Company had approximately 40,000 customers in Chile for its beer products, none of which accounted for more than 2% 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	1993	1994	1995	1996	1997
		(in millions of liters)			
Super-Premium	10.3	10.5	11.1	12.6	15.1
Premium	259.3	233.2	246.7	256.2	269.7
Medium-Priced	31.7	47.7	47.7	43.5	41.9
Popular-Priced	53.1	41.8	41.3	36.6	33.6
Other Brands	0.4	0.0	0.0	0.0	0.1
Total	354.8	333.2	344.5	348.9	360.4

The above figures do not include (i) export sales to third parties, which amounted to 0.1 and 1.6 million liters in 1996 and 1997, respectively, or (ii) export sales to affiliates, which amounted to 0.4 and 3.6 million liters in 1996 to 1997, respectively.

The real average price to the Company's customers for beer products in Chile has increased from an average of Ch$285 per liter in 1993 to an average of Ch$306 per liter in 1997. The five-year CAGR of prices in the 1992 to 1997 period was 2.8%.

In order to consolidate its beer production and to increase production efficiencies, the Company closed its La Serena plant during the first quarter of 1995 and replaced the previously existing Antofagasta production facility with a new bottling facility in December 1995. Beer production is now centralized at three plants in addition to the bottling facility in Antofagasta. A new production facility in Temuco, Chile is expected to be completed in 1999 or 2000 depending on the Company’s requirements for capacity. 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 1997, the Company made contractual arrangements with approximately 300 farmers in Chile to provide supplies of barley in order to satisfy the Company's requirements. Additionally, during 1997 the Company imported 8,300 tons of barley. Through March 1998, the Company owned facilities in Chile which produced approximately 28% of its malt requirements during 1997. The remaining 72% of its malt needs in 1997 were provided by local suppliers under medium-term contracts. In April 1998, the Company sold its malting facility and arranged long-term malting contracts 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 1997, approximately one third of the Company’s requirements for aluminum cans was supplied from 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 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 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 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.

After production, bottling, and packaging, the Company's beer is either stored at one of the four production facilities or transported to a network of 20 warehouses which are located throughout Chile and are either owned or leased by the Company. Beer products are generally shipped to warehouses within the same region of production, allowing the Company to minimize its transportation and delivery costs.

During 1997, 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 1997, beer represented 74.3% of the volume sold by the beer division distribution system in Chile. The remaining 25.7% of sales volume were accounted for by soft drink, 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 is generally due 30 days from the date of delivery. Credit sales accounted for 14.7%, 16.6%, and 18.9% of the Company's beer sales in Chile in 1995, 1996, and 1997, respectively. Losses on credit sales of beer in Chile have not been material.

During the last three 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. 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. Also in 1997, the Company restructured its customer classification and distribution system in order to maximize the efficiency of visits to each client based on their individual needs.

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 production of beer in Chile by quarter in 1995, 1996, and 1997:

Year	Quarter	Production (millions of liters)	% of Annual Production
1995	1st quarter	108.4	30.7
	2nd quarter	66.3	18.8
	3rd quarter	73.3	20.7
	4th quarter	105.2	29.8
	Total	353.2	100.0
1996	1st quarter	108.1	30.6
	2nd quarter	65.0	18.4
	3rd quarter	72.3	20.5
	4th quarter	107.4	30.5
	Total	352.8	100.0
1997	1st quarter	104.7	28.8
	2nd quarter	71.2	19.6
	3rd quarter	75.8	20.9
	4th quarter	111.5	30.7
	Total	363.3	100.0

Geographical Markets. The Company's main beer production facility is located in Santiago. The Santiago Metropolitan Region accounts for approximately 40% of the population of Chile and accounted for approximately 41% of the Company's beer sales by volume in 1997. The Valparaiso/Viña del Mar region and its surrounding areas account for approximately 6% of the population of Chile and accounted for approximately 9% of the Company's beer sales by volume in 1997. The Company also has two additional beer production facilities and one additional bottling facility located throughout 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. The Company lost market share in 1992 as a result of Cervecería Chile's entrance into the Chilean beer market. In 1993, the Company's market share declined further as Cervecería Chile began to distribute its products to areas of Chile in which it was not previously present. The Company believes that its share of Chile's beer market declined during 1994 principally as a result of further distribution expansion coupled with an aggressive price discounting strategy undertaken by Cervecería Chile.

The Company responded to Cervecería Chile's entry into the Chilean beer market by dedicating additional resources to marketing, increasing production capacity levels, consolidating operations, and implementing quality improvements in existing production and bottling lines and in sales and distribution. Most marketing efforts supported the Company's flagship beer brand, Cristal, and were directed toward maintaining a continued presence in all areas of national interest, including sports, culture, education, training, art and music. In addition to increasing its advertising expenditures, the Company increased investments in marketing assets through the purchase of refrigeration equipment for use at various points of sale.

During 1996, the Company began to regain market share as it continued to focus marketing efforts on strengthening its brand equity. During the same period, Cervecería Chile discontinued is policy of steep price discounting. In 1997, the Company continued to increase market share while Cervecería Chile maintained stable price levels. There can be no assurance that Cervecería Chile will not re-institute a policy of steep price discounting in the future which could adversely affect the Company's sales volume, market share, and operating margins.

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
1993	90%
1994	86%
1995	86%
1996	89%
1997	91%

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 accounted for approximately 10% of total beer sales by volume in 1996 and for 7% in 1997. 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 1996 and 1997, 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 1% of total beer sales by volume during 1997.

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. Specifically, the Company's beer products compete directly with domestic wine and indirectly with soft drinks. Historically, beer consumption in Chile has been directly correlated with changes in domestic wine prices. Significant increases in domestic wine prices have led to increases in beer consumption, while reductions in wine prices have led to proportionately smaller decreases or no growth in beer consumption. In addition, growth in beer consumption has decreased or slowed over the past few years as a result of lower prices of soft drinks relative to prices of beer.

1.3.b 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 the Company and Anheuser-Busch hold 95.6% and 4.4% respective interests in CCU Argentina. Under the agreement, Anheuser-Busch maintains an option which expires in 2002 to increase its stake in CCU Argentina to 20%. 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.

During 1996 and 1997, the Company and Anheuser-Busch invested approximately US$149.1 million and US$8.9 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	3	27
3rd Quarter 1997	38	2	40
Total	US$ 149	US$ 9	US$ 158

Among other things, the new capital was used to prepay debts incurred in 1995, to acquire the initial stake in CICSA and CSF, to increase CCU Argentina's stake in these subsidiaries, to increase plant capacity, to reduce short term debt, and to purchase land in Zárate, a region close to Buenos Aires.

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$9 million to acquire the brands and assets of Cervecería Córdoba ("Córdoba"), an Argentine brewery subject to administration by a bankruptcy tribunal. CCU Argentina has been allowed to begin producing Córdoba's brands at its own facilities and is awaiting transfer of Córdoba's other assets.

The Argentine Beer Market. The Argentine beer market is estimated by the Company to be more than three times the size of Chile's. Commercial beer production was first established in Argentina in 1860 by Cervecería Bieckert S.A. ("Bieckert"). Traditionally, beer and wine have been the principal alcoholic beverages consumed in the country, and the Company believes that a consumer's choice between the two products is principally a function of quality, relative price, image, personal preference, and alcohol content. The Company estimates that annual beer consumption in Argentina was 1,257 million liters, or approximately 35 liters per capita in 1997. 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)
1993	1,080	32
1994	1,175	34
1995	1,118	32
1996	1,169	33
1997	1,257	35

(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 4.2% in the 1992 to 1997 period. As compared to the countries in Western Europe and North America, the age distribution of the population in Argentina suggests that there will be relatively faster growth in the drinking age population. The Company believes that its position as the second largest producer in the beer market in Argentina, its product portfolio (including its flagship Budweiser beer), and its marketing and distribution capabilities leaves it well positioned to benefit from future growth of beer consumption in Argentina.

The Company estimates that beer consumption increased for the industry as a whole by 7.5% during 1997. This growth is attributable to a continuing strong recovery of the Argentine economy, especially during the first three quarters of 1997 following a recession which began in 1995 and continued in the first half of 1996. Increased competition from new entrants in the industry and corresponding increases in advertising and marketing activity also had a positive impact on the size of the beer market in Argentina.

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: any 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$12,454 million, Ch$23,325 million and Ch$32,589 million, representing 5.9%, 9.7%, and 12.4% of the Company's total net sales in 1995, 1996, and 1997 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

(1) Imported
(2) Produced under license

Schneider is the Company's principal proprietary brand in Argentina, accounting for 42.6% of the Company's Argentine sales volume in 1997. The Company began local production of Budweiser brand beer in December 1996 and has managed to grow the brand at a strong pace ever since. Budweiser beer represented 18.7% of the Company's Argentine sales volume in 1997. The Company's Schneider, Santa Fe and Salta brands are sold in three varieties: regular lager, special lager and dark. During 1997, the Company ceased producing Espiga de Oro and it also began to import Guinness beer. By importing Guinness from Ireland, the Company made Argentina one of the two places in South America where Guinness draught is sold. During 1997, the Company exported from Argentina 45,746 liters of beer, representing 0.03% 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 1996 and 1997, the Company sold its beer products in Argentina in the following packaging formats:

		Percentage of Total Beer Products Sold	
Container		**1996**	**1997**
Returnable (1)		93.1%	93.0%
Non-Returnable (2)		3.8%	4.8%
Returnable Kegs (3)		3.1%	2.2%
	Total	100.0%	100.0%

(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 50 or 30 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". Although the introduction of non-returnable Budweiser packaging has been primarily targeted at the Buenos Aires metropolitan region, the Company has made non-returnable packaging for Budweiser brand beer available on a nationwide scale.

In Argentina, though most beer is sold to wholesalers, the Company also sells its products to retailers and supermarket chains. In 1996 and 1997, 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 1996	1997
Wholesalers	90%	88%
Retailers	5%	5%
Supermarkets	5%	7%
Total	100%	100%

In 1997, the Company sold to approximately 8,000 customers in Argentina, none of which individually accounted for more than 9% 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 8.9% of the Company's total Argentine beer sales by volume during 1997. In addition, through this agreement, the Company provides BAESA with sales on credit. As of March 31, 1998, accounts receivable from BAESA under this arrangement amounted to approximately US$4 million.

The real average net price to the Company's customers for its beer products in Argentina was Ch$227 and Ch$229 per liter in 1995 and 1997, 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. The Company did not purchase any barley during 1997, as it obtained its malt needs from its malt plant in Bahía Blanca which had sufficient barley stocks from 1996, and from two other malt suppliers in Argentina. During 1996 and most of 1997, malt and rice used for the production of Budweiser were imported from the U.S. at a cost to the Company significantly higher than domestic supplies. During 1997, CCU Argentina completed Anheuser-Bush's approval process so as to permit the Company to source malt and rice for the production of Budweiser from regional suppliers. As a result, the Company currently obtains rice from suppliers in Uruguay and malt from suppliers both in Uruguay and Argentina. Because of these developments, the Company has begun to significantly reduce overall raw material costs for Budweiser production.

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. The Company is currently in the process of selling this facility. Given the widespread availability of malt supplies in Argentina, in neighboring countries, and in the international market, the decision to sell 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 the 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, 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 12 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, 1997, the Company had a direct sales force which sold the Company's beer products to approximately 8,800 customers within the Salta, Jujuy and Santa Fe 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, 1997 under the terms of its distribution agreement with the Company, BAESA maintained two sales forces responsible for the Company's products: one exclusively dedicated to the sale of Budweiser brand beer, targeting approximately 3,200 high volume clients, and another selling the Company's Argentine beer products in conjunction with the entire mix of BAESA´s products to another group of approximately 37,000 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 89%, 92%, and 94% of the Company's beer sales in Argentina in 1995, 1996, and 1997, 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 production of beer in Argentina during each quarter in 1995, 1996, and 1997:

Year	Quarter	Production (in millions of liters)	% of Annual Production
(1) 1995	1st quarter	26.9	30.4
	2nd quarter	15.8	17.8
	3rd quarter	16.0	18.1
	4th quarter	29.8	33.7
	Total	88.5	100.0
1996	1st quarter	26.6	27.0
	2nd quarter	16.9	17.2
	3rd quarter	18.2	18.5
	4th quarter (2)	36.7	37.3
	Total	98.4	100.0
(3) 1997	1st quarter	40.9	30.1
	2nd quarter	25.8	19.0
	3rd quarter	27.3	20.1
	4th quarter	41.7	30.7
	Total	135.7	100.0

(1) During the 1st and 4th quarter of 1995 the Company acquired the Salta and Santa Fe operations, respectively.

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

(3) Includes the production 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 8.4% of the population of Argentina and for approximately 34.2% of total beer sales of CCU Argentina by volume in 1997. The region surrounding and including the cities of Salta and Jujuy account for approximately 4.4% of the population of Argentina and for approximately 15.9% of total beer sales of CCU Argentina by volume in 1997. The greater Buenos Aires metropolitan area accounts for approximately 47.0% of the population of Argentina and for approximately 16.0% of total beer sales of CCU Argentina by volume in 1997.

Competition. In 1997, the Argentine beer market consisted of six brewing groups: Quilmes, the Company, Companhia Cervejaria Brahma ("Brahma"), Cervecería Córdoba S.A. ("Córdoba"), 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, Córdoba, Isenbeck and San Carlos, respectively. According to the Argentine Beer Industry Chamber ("CICA") and the Company's estimates for Brahma and Isenbeck, the different brewing groups had the following market shares in 1997; Quilmes, 73%; the Company, 11%; Brahma, 11%; Warsteiner, 3%; Córdoba, 2%; and Galicia, less than 1%.

The Company's Argentine Market Share for Beer

Year	Estimated Market Share
1995	8%
1996	9%
1997	11%

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 Bieckert in Argentina, and as a result of the 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, 1997, 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 1997 average market share has decreased to 73% (including 5% attributed to Bieckert) from the 79% market share it had until 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 two breweries is estimated to be approximately 150 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, 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 1997.

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.c The Company's Beer Business in Croatia

The Company owns a 34.4% economic interest in Karlovacka Pivovara d.d., which owns and operates a brewery located in Croatia with a single production facility. At December 31, 1997 the Company's total investment in SBE, its 50.0% owned subsidiary which holds 68.8% of the equity capital of Karlovacka, was Ch$7,640 million. SBE, which is not a consolidated subsidiary of the Company, contributed Ch$2,051 million of the Company's non-operating income in 1997. 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 31% of total industry production in 1997. 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 1997, Karlovacka sold 113 million liters of beer. Net income for Karlovacka was approximately Ch$3,036 million (US$6.9 million) in 1997.

1.4 The Company’s Soft Drink and Mineral Water Business

1.4.a The Company’s Soft Drink and Mineral Water Business in Chile

Overview. The Company has produced and sold soft drinks in Chile since 1907. 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 and Canada Dry Limón Soda). In a similar licensing arrangement with Watt’s, a local consumer products company, the Company has bottled and distributed Watt’s “Nectar” juice 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 (i) an Association Contract (Joint Venture Agreement) in which both companies contributed the assets used in their respective soft drink and mineral water businesses in Chile, and (ii) a shareholders’ agreement relating to the governance of ECUSA. Under this agreement the Company and BAESA hold 55% and 45% respective interests in ECUSA. On June 30, 1997, the ECUSA’s shareholders’ agreement was revised. Under the revised 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, the ECUSA 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. 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.

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 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, 1997, BAESA’s total indebtedness (including accrued interest) to the Company was approximately US$31 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. The Company is unable to predict whether and when BAESA will complete its planned financial restructuring, the effects of such restructuring, or the consequences of a failure to complete such a restructuring. Although there have been no difficulties to date in reaching agreements between the Company and BAESA on significant operating and management decisions relating to ECUSA, the inability to reach agreements in the future could restrict the Company's ability to expand its soft drink and mineral water business and could have an adverse effect on the Company's financial condition and results of operations. See "--Risk Factors - Significance of Relationship with BAESA".

The Chilean Soft Drink and Mineral Water Market. Commercial soft drink production was first established in Chile by the Company in 1907, and mineral water production began in 1960. The Company estimates that annual carbonated soft drink consumption in Chile was 1,294 million liters, or approximately 89 liters per capita, in 1997. The Company also estimates that consumption of mineral water, including both carbonated and non-carbonated types, was 101 million liters, or approximately 7 liters per capita, in 1997.

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

Carbonated Soft Drink and Mineral Water Sales

	Volume (1) (millions of liters)			Liters Per Capita (2)		
Year	**Soft Drinks**	**Mineral Water**	**Total**	**Soft Drinks**	**Mineral Water**	**Total**
1993	996	79	1,075	72	6	78
1994	1,016	76	1,091	73	5	78
1995	1,122	81	1,202	79	6	85
1996	1,235	90	1,324	86	6	92
1997	1,294	101	1,396	89	7	95

(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 1997, soft drink industry sales volume increased 5% and mineral water industry sales volume increased 13% compared to 1996. The Company believes these increases are principally due to the strong performance of the Chilean economy, and to promotional activities and marketing efforts from industry participants. The Company also believes the mineral water segment was positively influenced by a drought that affected the main cities of Chile during the second half of 1996 and the first quarter of 1997.

The soft drink 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 2.2% of the Company's total soft drink sales by revenues in 1997.

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

Type		1995	1996	1997
Colas		56%	55%	53%
Non-colas		44%	45%	47%
	Total	100%	100%	100%

Since the creation of the ECUSA joint venture in November 1994, the two main soft drink producer groups in Chile have been (i) the licensees of The Coca-Cola Company (consisting of four 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 for a large portion of soft drink 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 1997.

The mineral water market in Chile comprises both carbonated and non-carbonated water. As with the soft drink market, virtually 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 drink 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 Drink, Mineral Water and Nectar Production and Marketing in Chile. The Company's soft drink, nectar and mineral water production and marketing in Chile generated net sales of Ch$80,242 million, Ch$87,255 million and Ch$85,393 million, or 37.8%, 36.1%, and 32.6% of the Company's total net sales, in 1995, 1996, and 1997, respectively.

The following table shows the soft drink 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
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

In connection with the creation of ECUSA, Cadbury Schweppes and the Company replaced all previous license agreements for all Cadbury Schweppes products (Orange Crush, Diet Orange Crush, Canada Dry Limón Soda, Canada Dry Ginger Ale and Canada Dry Agua Tónica) with a single new license agreement covering all those products. The new agreement, executed by ECUSA and Cadbury Schweppes, commenced in November 1994, 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.

In September 1994, a new supply agreement was negotiated by the Company and Sinalco AG ("Sinalco") of Germany, pursuant to which the Bilz trademark was transferred to the Company. In accordance with the agreement, the Company has committed to purchase the flavoring concentrate from Sinalco through the year 2013.

The prior license agreement between BAESA's previous Chilean affiliate and PepsiCo for its sales of Pepsi, Diet Pepsi, Seven-Up, and Diet Seven-Up was amended in connection with the ECUSA joint venture. The amended agreement commenced in November 1994 for an initial term of ten years and is automatically renewable by mutual consent for six additional five-year periods. In January 1998, a new exclusive bottling appointment was signed between ECUSA and PepsiCo authorizing ECUSA to produce, sell and distribute Pepsi products in Chile. The new agreement has an initial term of ten years and is automatically renewable by mutual consent for successive five-year periods.

The license agreement for Watt's Durazno and Watt's Damasco with Watt's, which grants the Company exclusive production rights, was signed in January 1987 and has a 33 year term. This agreement requires that Watt's be provided with a first opportunity to supply any new nectar flavors the Company decides to produce. No changes with respect to the Watt's agreement were required or made as a consequence of the ECUSA joint venture.

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.

In 1997, ECUSA continued to improve its facilities by installing a new bottling line for non-returnable plastic bottles with a nominal capacity of 2,000,000 hectoliters per year.

During 1996 and 1997, the Company sold its soft drink and mineral water products in the following packaging formats:

	Soft Drinks and Nectars		Mineral Water	
Container	**1996**	**1997**	**1996**	**1997**
Returnable (1)	66.7%	64.5%	48.2%	36.8%
Non-Returnable (2)	30.5%	32.6%	51.8%	63.2%
"Post-Mix" (3)	2.8%	2.9%	--	--
Total	100.0%	100.0%	100.0%	100.0%

(1) Returnable soft drink 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 drink 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 locals 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 1996 and 1997, the percentage mix of the above distribution channels for the Company's soft drink and mineral water products was as follows:

Distribution Channels		Percentage of Total Soft Drink and Mineral Water Products Sold 1996	1997
Retailers		56%	54%
Bars and Restaurants		10%	9%
Wholesalers		13%	14%
Supermarkets		21%	23%
	Total	100%	100%

During 1997, the Company had no single customer that accounted for more than 4% 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 waters by category during each of the last three years:

Category	1995	1996	1997
	(in millions of liters except powdered drink mix)		
Colas			
Proprietary	1.8	0.0	0.0
Licensed	70.8	66.4	52.3
Non-colas			
Proprietary	113.7	134.1	148.2
Licensed	110.5	118.0	109.6
Nectars	4.3	4.9	5.8
Soft Drink Total	301.1	323.4	315.9
Mineral Waters			
Cachantun	43.3	48.4	56.4
Porvenir	6.7	5.8	5.5
Mineral Water Total	50.0	54.2	61.9
Total	351.1	377.6	377.8
Sip-Sup (powdered drink mix) (1)	442	371	265

(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	1995	1996 (in millions of liters)	1997
Proprietary	115.5	134.2	148.2
Cadbury Schweppes	96.4	107.0	101.6
PepsiCo	84.9	76.6	60.1
Others	4.4	5.8	5.8
Total	301.2	323.6	315.9

The real price per liter to the Company's customers for soft drink products increased from an average of Ch$205 in 1993 to Ch$232 in 1997 and experienced a five year CAGR of 3.6%. For mineral water products, the real price per liter increased from an average of Ch$166 in 1993 to Ch$191 in 1997 and experienced a five year CAGR of 6.1%.

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 drink brands from the respective licensing companies. See "--The Company's Soft Drink and Mineral Water Production and Marketing in Chile". Flavoring concentrates for the Company's proprietary brands are purchased from third party suppliers in Chile, Germany, and the United States, 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, can be used when price and delivery terms are favorable. 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 drink 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 drink concentrates purchased from Cadbury Schweppes, PepsiCo and Sinalco under the license agreements described under "--The Company's Soft Drink 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 drink and mineral water clients. The ECUSA sales force sells directly to approximately 54,400 customers, accounting for 73.5% of the Company’s total soft drink and mineral water sales by volume in Chile in 1997. The area served by ECUSA accounts for approximately 64% 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 sales force that sells and distributes soft drink 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 26.5% of the Company’s total soft drink and mineral water sales by volume in Chile in 1997.

The Company's Chilean soft drink and mineral water customers make payment for the Company's products either by 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 25.2% and 27.8% of ECUSA’s soft drink and mineral water sales to third parties in Chile in 1996 and 1997, 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 drink 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 production of soft drinks and mineral water by quarter for the last three years:

Year	Quarter	Soft Drinks & Mineral Water Production (in millions of liters)	% of Annual Production
1995	1st quarter	98.3	27.5
	2nd quarter	70.7	19.8
	3rd quarter	82.4	23.0
	4th quarter	106.1	29.7
	Total	357.5	100.0
1996	1st quarter	110.5	28.6
	2nd quarter	73.2	19.0
	3rd quarter	88.3	22.9
	4th quarter	114.1	29.5
	Total	386.1	100.0
1997	1st quarter	107.5	28.6
	2nd quarter	74.3	19.8
	3rd quarter	82.9	22.0
	4th quarter	111.3	29.6
	Total	376.0	100.0

Competition in Chile. The Company's principal competitors in the soft drink 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 four separate licensees which market soft drinks under the Coca-Cola, Diet Coke, Cherry Coke, 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 72% of total carbonated soft drink net sales in 1997. However, calculations made by the Company are higher than Nielsen estimates, indicating an approximate 76% market share for Coca Cola products in 1997.

Under the ECUSA joint venture arrangements, several brands of soft drinks previously produced by the Company or BAESA were discontinued, and sales of PepsiCo and other BAESA products were included in the Company's market share calculations beginning in November 1994. Thus, while the Company's market share increased in 1994 directly after the formation of the ECUSA joint venture, it fell in 1995 after the discontinuation of certain redundant products had been completed. During both 1996 and 1997, as a consequence of decreased marketing support for the Pepsi brands and increased marketing activity on the part of the Company's competitors, the Company's overall soft drink market share decreased, due to reductions in market share for the Pepsi and Cadbury Schweppes brands which, in part, resulted from the launch of Quatro. The Company's market share for its soft drink and nectar products over the last five years is presented in the following table based on both store audits conducted by Nielsen and Company estimates which the Company believes are based on more accurate information concerning the Chilean carbonated soft drink market.

The Company's Chilean Soft Drink Market Share

Year	Nielsen	Company Estimates
1993	26%	22%
1994	35%	29%
1995	32%	27%
1996	31%	26%
1997	28%	24%

The Company's domestic competitors in the soft drink 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 cola brand Pepsi-Cola 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 drink 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 1997. 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 drink 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 61%, while those of Vital S.A. products accounted for approximately 36% of total mineral water sales by volume in 1997. Small domestic bottlers as well as imported mineral water products such as Evian and Perrier comprise the remaining 3% sales volume. The following chart shows estimates of the Company's soft drink and mineral water market share for the last five years. As more accurate information about the Chilean mineral water market has become available, the Company has been able to make its own estimations of the market which it believes to be more accurate.

The Company's Chilean Mineral Water Market Share

Year	Nielsen	Company Estimates
1993	69%	66%
1994	68%	65%
1995	68%	62%
1996	66%	60%
1997	66%	61%

1.4.b The Company's Soft Drink and Mineral Water in Argentina

The Company operates a mineral water production plant in the city of Rosario de la Frontera in 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 5.2 million liters, 5.4 million liters and 5.1 million liters in 1995, 1996 and 1997, respectively, representing approximately 7.5%, 6.1%, and 4.9% of the Company's total mineral water sales volume in 1995, 1996 and 1997, respectively. Net sales of Palau were Ch$778 million, Ch$683 million and Ch$611 million in 1995 , 1996 and 1997, respectively, or less than 0.4%, 0.3% and 0.2% of the Company's total net sales, in 1995, 1996 and 1997, 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 drink bottlers. These sales aggregated Ch$183 million, Ch$174 million and Ch$313 million in 1995, 1996, and 1997, 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. As a result of these capital increases, the Company's total ownership interest in VSP rose to 51.2%. 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 drink consumption decline. Similarly, wine sales may tend to partially offset reduced sales by the Company's beer business during periods of relatively low wine prices.

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 increase during 1997 was used to add new hectares of vineyards in Requinoa, Chépica and Molina. These recent purchases of land are part of a larger plan aimed at doubling the number of hectares of the vineyard and increasing capacity. The winery also increased its total wine storage capacity in both tanks and barrels from 23.1 million liters in 1994 to 36.3 million liters as of December 31, 1997 and its peak bottling capacity from 22,600 liters per hour in 1994 to 25,100 liters per hour as of December 31, 1997.

VSP is a publicly traded company that, at December 31, 1997, had a market capitalization of Ch$ 40,904 million. VSP shares trade on the Bolsa de Comercio de Santiago

("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$851 million, Ch$508 million and Ch$383 million in 1995, 1996 and 1997, respectively. These sales represented approximately 0.4%, 0.2% and 0.1% of the Company's total net sales in 1995, 1996 and 1997, respectively.

The Chilean Wine Market. The Company estimates that wine consumption in Chile amounted to approximately 14.4 liters per capita in 1997. 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 50 - 55 million liters of wine during 1997 as compared to 211 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 1993 through 1997.

Year	Total Volume (millions of liters)	Per Capita (liters)
1993	164	12
1994	238	17
1995(1)	217	15
1996(1)	232	16
1997(1)	211	14

(1) Includes wine sales from Pisco producers in the third and fourth regions of Chile.

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 tetra pak 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 1,150 hectares. As of December 31, 1997, VSP's total land amounted to 1,564 hectares, including additional property acquired in Requinoa, Chépica and Molina. VSP's vineyards currently cover an aggregate of 1,359 hectares.

VSP is one of Chile's largest producers and distributors of wine in terms of sales volume and net sales. From April to December 1995 VSP sales contributed Ch$11,609 million to the Company's consolidated results, representing 5.5% of the Company's net sales. In 1996 and 1997, VSP's sales amounted to Ch$18,421 million and Ch$25,347 million representing approximately 7.6% and 9.7% of the Company's total net sales, respectively. The above net sales figures for wine do not include sales of bulk wine which amounted to Ch$56 million, Ch$143 million and Ch$1,038 million in 1995, 1996 and 1997, respectively.

VSP's results have been consolidated into the Company's Consolidated 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

(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 8%, 10%, and 12% in 1995, 1996, and 1997, respectively. According to the Wine Exporters and Bottlers Association, VSP's share of Chile's total wine export sales by volume was 7%, 6%, and 9% in 1995, 1996, and 1997, respectively.

VSP produces and markets premium, varietal, and popular-priced wines under the brand names, 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		
Gato		X	X
Etiqueta Dorada			X
Santa Helena			
Seleccion del Directorio	X		
Siglo de Oro		X	
Gran Vino		X	X

From 1997 through May 1998, VSP won the following medals in both international and national contests:

Contest	Country	Wine		Award
Expogourmand '97	Chile	1996	35 Sur C.S.	Gold
		1997	35 Sur S.B.	Gold
		1997	Castillo de Molina Reserva S.B.	Gold
Int'l Wine Challenge '97	United Kingdom	1994	Castillo de Molina Reserva C.S.	Silver
		1994	Cabo de Hornos	Silver
		1995	Castillo de Molina Reserva C.S.	Bronze
		1995	Gato Negro C. S.	Bronze
Challenge Int'l du Vin '97	France	1994	Castillo de Molina Reserva C.S.	Silver
		1996	Castillo de Molina Reserva C.D.	Bronze
Vinitaly '97	Italy	1994	Castillo de Molina Varietal C.S.	Silver
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)

(1) The "Prix de 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, "M." refers to Merlot

VSP harvests the majority of the grapes required for the production of its exported wines. In contrast, most of the wine required for domestic wine sales is purchased from local suppliers. In 1997, approximately 54.6% of wine for domestic sale was purchased from five local producers: Vinícola Patacón Ltda., Cooperativa Pisco Control Ltda., Cooperativa Agricola Pisquera Elqui LTDA., Agricola Santa Rita LTDA., and Agrícola Rupanco Ltda.. 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 1997:

Category	Domestic	Export	Total
	(thousands of liters)		
Premium	123	356	479
Varietal	792	15,610	16,402
Popular-Priced	24,467	626	25,093
Bulk	0	2,041	2,041
Total	25,383	18,632	44,015

As of December 31, 1997, VSP's storage capacity totaled 36.3 million liters, and its peak bottling capacity totaled 25,100 liters per hour.

Domestic Market. The Company's domestic wine is packaged in bottles, jugs, tetra paks, 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 1996 and 1997:

Container		**Percentage of Total Domestic Wine sold 1996**	**1997**
Tetra Pak		85.4%	87.7%
Jug		6.9%	5.5%
Glass Bottles		5.0%	4.5%
Bag-in-Box		2.7%	2.3%
	Total	100.0%	100.0%

In 1996 and 1997, VSP obtained all of its glass bottles, tetra pak containers and jugs from third party suppliers. The Chilean wine industry does not operate a returnable bottling system. See "--Raw Materials".

Beer is the principal domestic competitor to wine in Chile. Historically, wine prices and beer consumption in Chile have been directly correlated. Generally, increases in domestic wine prices have led to increases in beer consumption, while reductions in wine prices have reduced growth in beer consumption. In addition, the Company's wine products may also compete with other alcoholic beverages, such as spirits (namely, pisco), and with non-alcoholic beverages such as soft drinks and juices.

The real average price to the Company's domestic wine customers was Ch$446 and Ch$468 per liter in 1995 and 1997, respectively.

Export Market. According to industry sources, exports of Chilean wine (excluding champagne) increased from approximately 43 million liters in 1990 to 213 million liters in 1997, at a compounded rate of 25.7% per annum. From 1996 to 1997, the volume of wine exported increased 18%. 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.

VSP exported 18.6 million liters of wine in 1997 to 45 countries worldwide. These exports accounted for net sales of Ch$14,597 million. In 1997, VSP's primary export markets included the United Kingdom, France, 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 tetra paks. The following chart shows the Company's packaging mix for export wine volume in 1996 and 1997:

Container	Percentage of Total Export Wine Volume 1996	1997
Glass Bottles	93.0%	87.6%
Bulk	4.3%	11.0%
Tetra Pak	2.7%	1.4%
Total	100.0%	100.0%

The real average price to the Company's export wine customers was Ch$721 and Ch$783 per liter in 1995 and 1997, respectively.

Raw Materials. The principal raw materials that VSP uses in its production process are purchased and harvested grapes, purchased wine, bottles, tetra paks, corks, and cardboard boxes. VSP obtains most of its 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. Bottles are principally purchased from Cristalerías Chile; however, when prices have been favorable, VSP has purchased bottles from other suppliers. Tetra pak containers are bought from Tetra Pak de Chile Comercial Ltda. and are assembled in VSP's automated packing lines.

Domestic Sales, Transportation and Distribution. After production, bottling, and packaging, wine is either stored at the production facilities or transported to 20 warehouses which are part of the Company's beer warehouse network located throughout Chile. 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. See "--The Company's Beer Business--The Company's Beer Business in Chile--Sales, Transportation and Distribution".

In July 1995, the Company assumed the responsibility for the distribution of VSP's wine in all areas of Chile with the exception of Regions I and XII, located in the northernmost and southernmost parts of the country, respectively. During 1997, VSP used another distributor for only the XII region, in the extreme south of Chile, principally in the city of Punta Arenas. As of December 31, 1997, the Company sold wine to approximately 34,000 clients on behalf of VSP, a significant increase from the winery's previous customer base of approximately 6,000 clients.

The Company distributes VSP wine products in Chile directly to retail, supermarket, and wholesale customers. In 1996 and 1997, 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 1996	1997
Retailers	39%	37%
Bars and Restaurants	11%	12%
Wholesalers	25%	28%
Supermarkets	25%	23%
Total	100%	100%

The Company had approximately 34,000 customers for its wine products at December 31, 1997, 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 60 agents who facilitate the export of its wine to approximately 45 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 Spirit and the main liquor wholesale distributor for the United States, as well as other distributors.

Geographical Markets. In Chile, the Santiago Metropolitan Region, which account for 40% of the Chilean population, represented approximately 46% of total domestic sales of VSP products by volume in 1997. Viña del Mar and its surrounding areas, which account for 6% of the Chilean population, represented approximately 10% of total domestic sales of VSP products by volume in 1997.

The following table provides the distribution of VSP's exports during 1997 by geographical markets:

Market	**Volume (thousands of liters)**	**Percentage of Total Exports**
Europe	10,730	57.6%
Latin America	4,602	24.7%
USA & Canada	2,283	12.3%
Asia	766	4.1%
Others	251	1.3%
Total	18,632	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 12% in 1997. 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 1997, Concha y Toro and Santa Rita had market shares of 24% and 17%, 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".

According to information compiled by the Wine Exporters and Bottlers Association, VSP is the second-largest exporter of Chilean wines by volume with a market share of approximately 9% in 1997. VSP competes internationally against other Chilean producers as well as with wine producers from other parts of the world.

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 1997, 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 11% were manufactured by PLASCO and sold as “pre-forms” (to be blown at ECUSA’s facility located in the city of Concepción), approximately 5% were bought as “pre-forms” and blown by PLASCO, and less than 1% 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 drink, and mineral water distribution. Most of these products are sold to the Company and its other subsidiaries.

Plastic bottle production increased from 67.0 million units in 1996 to 86.6 million in 1997. Plastic crate production decreased by 12.5% from 0.8 million in 1996 to 0.7 million units in 1997. PLASCO's net sales of Ch$9,104 million and net income of Ch$1,865 million in 1997 represented a decrease of 19.7% and an increase of 24.5%, respectively, over 1996.

In 1997, the Company completed a capital increase in PLASCO by transferring certain fixed assets to PLASCO with a value of Ch$ 5,739 million.

During 1998, the Company plans to invest approximately Ch$699 million in PLASCO, to be used principally for the purchase of new equipment. These expenditures will allow PLASCO to be able to continue providing ECUSA with the majority of its returnable and non-returnable plastic bottle requirements, with the exception of five-liter bottles.

1.7 Capital Expenditures

The Company's capital expenditures for 1995, 1996, and 1997 totaled approximately Ch$178,661 million and were principally accounted for by approximately Ch$59,842 million invested in the Company's beer operations in Chile, Ch$64,740 million invested in the Company's Argentine beer operations (which includes approximately Ch$24,878 million required for the consolidation of fixed assets from the acquisitions of CICSA and CSF), Ch$35,606 million invested in soft drink and mineral water operations, and Ch$10,940 million invested in wine operations.

In recent years, capital expenditures have been made primarily for the expansion of the Company's production capacity, including a new Chilean beer bottling facility in Antofagasta and substantial improvements to and expansion of the beer production facilities in Santiago and Santa Fe in Argentina, and for the consolidation of its operations into fewer and more efficient plants. Capital expenditures have been made in the Company's soft drink division in order to adjust soft drink 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 continue developing a new vineyard and wine production plant in Molina.

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 1998 and the 1999-2001 period are as follows:

Business Unit	**1998**	**1999-2001** (Ch$ Millions)	**Total**
Beer—Chile	Ch$18,763	Ch$61,251	Ch$80,014
Beer—Argentina	8,020	55,713	63,733
Soft Drinks and Mineral Water	6,638	28,688	35,325
Wine	9,483	14,416	23,899
Other	2,449	16,798	19,247
Total	Ch$45,353	Ch$176,865	Ch$222,218

In the years 1998 through 2001, the Company plans to make capital expenditures to increase production capacity, install new bottling lines, construct new water treatment facilities, 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 relate to production capacity increases including the construction of two additional brewing facilities. The Company plans to construct a brewery in the southern city of Temuco, Chile located approximately 670 kilometers south of Santiago. This Temuco plant is expected to replace the older Concepción plant as well as to increase the Company's total Chilean nominal beer production capacity from 615 million liters per year at year-end 1997 to 760 million liters per year by the end of the year 2001. The Company plans to complete the first stage in developing the Temuco plant in 1999, at which point the new plant is expected to reach a production capacity of 120 thousand hectoliters per month. Upon its completion, the new plant is expected to reach a production capacity of 180 thousand hectoliters 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 capacity is expected to increase from 220 million liters per year at year-end 1997 to 242 million liters by year-end 1998. 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 1998, the Company plans to complete an expansion begun in 1997 aimed at doubling the size of VSP's vineyards by adding an additional 400 hectares of land to the 564 hectares purchased during 1997. The additional land will be utilized principally to expand the production of grapes for export wines. The Company's capital expenditure plan also contemplates an increase in VSP's bottling and storage capacity.

The Company reviews its capital investment program periodically and changes to the program are made as appropriate. 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 the 1996/1997 capital increase approved by shareholders in October 1996, of which 92% or 52,534,642 shares have been subscribed and paid as of June 3, 1998.

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 brand beer in Argentina. See "--The Company's Beer Business – The Company's Beer Business in Argentina – Beer Production and Marketing in Argentina".

1.9 Employees

Chile. As of December 31, 1997, the Company had a total of 4,529 permanent employees in Chile, of which 2,445 were represented by 35 labor unions. In turn, 26 of the labor unions are members of four federations which represent their union members in collective bargaining negotiations with the Company. As of December 31, 1997, the average tenure of the Company's full-time employees was approximately eight years.

Two of the federations of unions collectively represent approximately 70% of the Company's beer division's union-affiliated workers. In 1997, the Company negotiated a two year agreement covering these workers.

Four unions represent approximately 26% of ECUSA's work force. In 1997, ECUSA entered into two year collective bargaining agreements with these workers.

Three unions represent approximately 61% of VSP's workers. During 1997 and 1998, the Company completed negotiations with all three of the unions for two year contracts.

All employees who are terminated for reasons other than misconduct are entitled by law to receive a severance payment. In the years 1995, 1996, and 1997, the Company made severance payments in the amounts of Ch$2,291 million, Ch$1,289 million and Ch$1,481 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 limitations. 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 203 employees in 1995 and incurred indemnity obligations of approximately Ch$891 million. During 1996, VSP laid off seven employees and incurred Ch$9 million in indemnity obligations. During 1997, VSP laid off 30 employees and incurred Ch$171 million in indemnity obligations.

In 1996, the Company's Chilean beer division laid off a total of 50 employees, incurring indemnity obligations of approximately Ch$147 million. During 1997, this division laid off an additional 196 employees incurring indemnity obligations of approximately Ch$468 million.

The Company does not maintain any pension funds or retirement programs 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 1997, the Company had 765 temporary employees, who were hired for specific time periods to satisfy short-term needs.

Argentina. As of December 31, 1997, the Company had a total of 705 employees in Argentina, of which 456 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, 1997, the average tenure of the Company's employees in Argentina was eight years.

Collective bargaining 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. CICA, the Argentine breweries representative, began collective bargaining negotiations with FATCA in June 1996 and a new agreement was reached with the approval of the *Ministerio de Trabajo y Seguridad Social* (the Ministry of Labor and Social Security) in January 1997. This new agreement is effective until September 1998.

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 amount of Ch$267 million, Ch$287 million, and Ch$371 million in 1995, 1996, and 1997, 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 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.

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 each of the provinces' health authorities, 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.

The regulation of matters relating to the protection of the environment is not as well developed in Chile 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 generate material effects.

Argentina. To an increasing extent, new laws and regulations are being enacted in Argentina as a result of heightened community concerns for environment 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 1997. 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 10% in 1996, and 7% in 1997. The Company's only other significant competitor in the Chilean beer business is Polar, with an estimated national market share of approximately 1% in 1996 and 1997. 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, prices remained relatively stable. There can be no assurance, given the current environment, that aggressive price discounting will not resume in the future. The Company's share of the beer market in Chile was approximately 86% for each of 1994 and 1995, increasing to approximately 89% in 1996, and 91% in 1997.

While 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 returnable bottling system, as well as to capture market share. Nevertheless, in view of favorable 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 importation. 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.

The Company is the second largest brewer in Argentina with an estimated year-end market share of 8% in 1995, 9% in 1996, and 11% in 1997. 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 1997. Over the last 16 months, two acquisitions took place in the Argentine beer industry. In February 1997, Quilmes acquired Bieckert and in April 1998 the Company acquired Córdoba's brands adding approximately 5% and 2% 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 a 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 New York Stock Exchange, 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 they reached a definitive agreement which itself was amended and restated by a "Restructuring Agreement" on April 6, 1998. The terms of this new agreement converted existing debt into new debt and called for a rights offering to existing shareholders. The parties to the Restructuring Agreement agreed to convert their existing debt into new negotiable obligations and new shares of common stock that will represent no less than 98% of BAESA's equity when issued. The consummation of the transactions contemplated by the Restructuring Agreement is contingent upon the satisfaction of several conditions which include: the acceptance of an exchange offer for at least 92% of the outstanding principal amount of BAESA's existing negotiable obligations ("Eurobonds"), the resolution of certain class action litigation on terms acceptable to the holders of more than 65% of the outstanding aggregate principal amount of the company's indebtedness and the PepsiCo debt, and the approvals by Argentine and U.S. regulators of the issuance of the new shares and by the Argentine regulators of the issuance of the new debt. On May 21, 1998, the exchange offer for the Eurobonds was successfully completed and as of the filing of this report, BAESA's Restructuring Agreement was pending upon the satisfaction of the remaining conditions stated above.

The Company and BAESA formed the ECUSA joint venture to produce, package, sell and distribute in Chile the Company's proprietary soft drink brands, brands produced under licenses from PepsiCo, Cadbury Schweppes and Watt's, as well as the Company's mineral water products. 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.

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$28.5 million was rescheduled. Under the new terms, between 1997 and 1999, the yearly interest that accrues on the indebtedness at a rate of 9.375% and any outstanding obligations derived from the most recent rescheduling will be paid out of BAESA's share of ECUSA's annual dividends. After these payments, any excess (or deficit) of the total dividends will be used to reduce (or increase) the principal amount of the indebtedness. In 2000, BAESA will pay any interest accrued during this period and will amortize the principal in order to reduce it to US$ 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, 1997, BAESA's total indebtedness (including accrued interest) to the Company was approximately US$31 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 agreement is also secured by BAESA's share of ECUSA dividends. As of March 31, 1998, BAESA's indebtedness to the Company under this agreement amounted to approximately US$4 million.

The Company considers its relations with BAESA to be good, and since the arrangement of the new schedule in June 30, 1997, the Company has not to date experienced any negative effects in its dealings with BAESA as a result of BAESA's financial situation. Although the Company believes its arrangements with BAESA with respect to ECUSA provide adequate protections to assure continued stability of ECUSA's business notwithstanding changes in BAESA's financial situation, and the Company would have adequate alternatives available if BAESA were unable to continue distributing the Company's beer products in Argentina, the Company is unable to predict whether and when BAESA will complete its planned financial restructuring, the effects of such restructuring or the consequences of a failure to complete such a restructuring. (See "--The Company's Soft Drink and Mineral Water Business in Chile -Overview.")

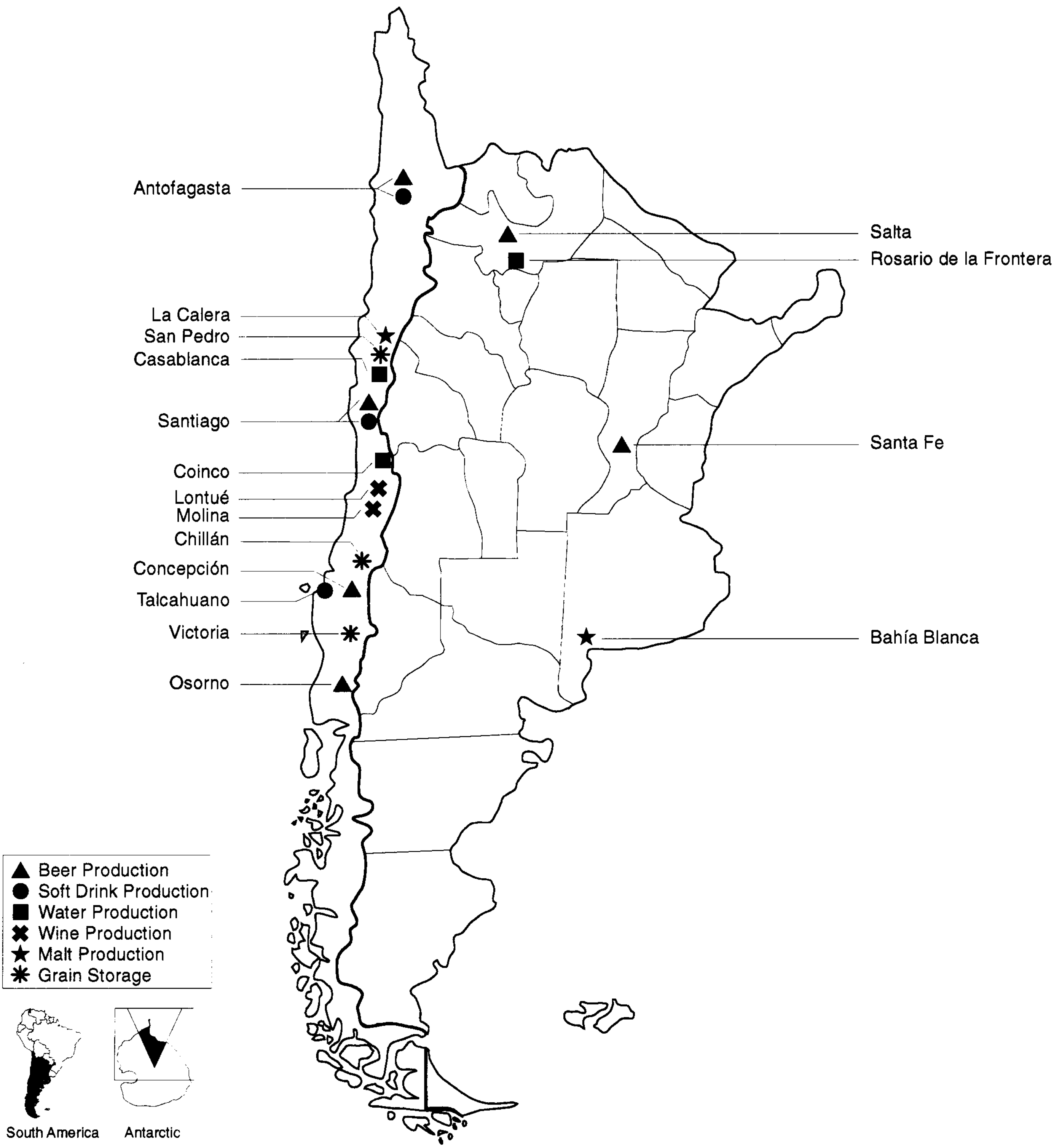
Forward-Looking Information is Subject to Risk and Uncertainty. Certain statements contained in this Annual Report, specifically included in the sections entitled "Item 1: Description of Business" and "Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations" contain "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 drink 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 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".

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) 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

The Company's office headquarters are located in Santiago, Chile and occupies approximately 5,212 square meters of office space on premises leased by the Company.

Map of Chile and Argentina Showing the Company's Plants (as of December 31, 1997)



Map of Chile and Argentina Showing the Company's Warehouses and/or Commercial Offices (as of December 31, 1997)

Set forth below is information concerning the production facilities of the Company as of December 31, 1997, all of which are owned and operated by the Company or its subsidiaries:

	Nominal Installed Monthly Production Capacity	Utilized Capacity During Peak Month (1)	Average Utilized Capacity During 1997 (2)
Beer Production Facilities			
Santiago (3)	46.0	79.5%	53.1%
Concepción	4.8	82.2%	58.3%
Antofagasta (4)	(5) 4.1	81.3%	53.5%
Osorno	5.1	97.0%	70.6%
Chile Total	(6) 55.9		59.0%
Santa Fe	20.0	69.6%	(8) 48.5%
Salta	3.4	(7) 105.0%	77.7%
Argentina Total	23.4		65.0%
Soft Drink Production Facilities			
Santiago	72.1	46.4%	(9) 31.9%
Talcahuano	17.5	37.2%	27.1%
Antofagasta	9.8	15.0%	11.8%
Total	99.4		33.0%
Mineral Water Production Facilities			
Coinco	14.7	46.7%	33.0%
Casablanca	2.0	28.2%	22.1%
Chile Total	16.7	--	29.0%
Rosario de la Frontera	2.8	26.1%	17.0%
Argentina Total	2.8	--	--

(1) Based on the period from December 31, 1996 to December 31, 1997. 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 or January). 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 of the 12 months ended December 31, 1997, the real slack capacity amounted to approximately 3.3 million liters in Chilean beer, 4.7 million liters in Argentine beer, 24.7 million liters in soft drinks, 4.5 million liters in Chilean mineral water, and 2.1 million liters in Argentine mineral water.

(2) Average Utilized Capacity During 1997 equals the plant's total production output as a percentage of nominal installed annual production capacity in 1997. Nominal installed annual production capacity is calculated by multiplying the Nominal Installed Monthly Production Capacity 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 79.5% to 86.7% and the Average Utilized Capacity during 1997 increases from 53.1% to 57.8% 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) In December 1995, the Company's former Antofagasta production plant was replaced with a new bottling

facility. The Company's tankers transport concentrated beer from the Santiago brewery to Antofagasta for bottling. Figures relating to utilized capacity are calculated based on the plant's nominal storage capacity of 4.1 million liters (as of December 31, 1997) and a nominal bottling capacity of 8.9 million liters.

(5) Storage capacity.

(6) Does not include Antofagasta storage capacity.

(7) Includes the stock of beer produced in the month of December ’96 (Peak Month: January ’97).

(8) The average utilized capacity of Santa Fe increases from 48.5% to 62.8% without taking into account the capacity increase completed in December 1997.

(9) The average utilized capacity of Santiago increases from 31.9% to 37.2% if it is calculated without taking into account the capacity increase completed in November 1997.

	Installed Vinification Capacity (in millions of liters)	Storage Capacity in tanks and barrels (in millions of liters)
Wine Production Facilities		
Lontué	0.0	15.6
Molina	19.6	20.7
Total	19.6	36.3

As of December 31, 1997, VSP’s Lontué plant had a nominal bottling capacity of 25,100 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 are 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 March 31, 1998 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	63.10%
Compañía de Petroleos de Chile S.A.	23,887,716	7.69%
Directors and executive officers of the Company as a group (1)	17,039	0.01%

(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 Craig and Andrónico Luksic Craig, directors of the Company, are members of the Luksic family.

In addition, as of March 31, 1998, Morgan Guaranty Trust Company of New York, the Depositary for CCU's ADR facility, was the record owner of 50,230,555 shares of Common Stock (16.16% 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 the operation of which may at a subsequent date result in a change in control of the Company.

Quiñenco S.A. is engaged in a wide range of business activities in both Chile and Argentina and controls more than 50 companies. Quiñenco's holdings include, among others, interests in companies engaged in manufacturing (Madeco S.A., the leading manufacturer of copper and aluminum-based products in Chile), telecommunications (Compañía de Teléfonos--Telefónica del Sur S.A., a Chilean local service telephone company), food processing and distribution (Empresas Lucchetti S.A., the second-largest producer of pasta in Chile, Argentina, and Peru), financial services (Banco Santiago the largest privately owned bank in Chile), telex, cable TV and long-distance telephonic transmission (VTR Telecomunicaciones S.A.), hotel services, and commercial printing.

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 brewery in Bavaria and the fourth largest brewery 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 72% of the trading volume of the Common Stock in Chile in 1996 and 66% of such volume in 1997. Shares of Common Stock have traded in the United States on the NASDAQ stock exchange since September 24, 1992 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:

	Santiago Stock Exchange (per share of common stock)(1)		NASDAQ (per ADS)	
	High (Ch$)	Low (Ch$)	High (US$)	Low (US$)
1995				
1st quarter	2,075.00	1,400.00	26.000	16.625
2nd quarter	2,100.00	1,760.00	28.500	22.625
3rd quarter	2,060.00	1,594.90	27.500	20.000
4th quarter	2,010.00	1,680.00	24.875	20.375
1996				
1st quarter	1,870.00	1,615.00	23.875	19.625
2nd quarter	1,900.00	1,660.00	23.500	20.875
3rd quarter	2,100.00	1,550.00	26.250	18.750
4th quarter	1,740.00	1,330.00	21.750	16.000
1997				
1st quarter	1,600.00	1,310.00	20.125	15.484
2nd quarter	1,930.00	1,600.00	23.875	19.625
3rd quarter	2,350.00	1,751.00	29.500	21.125
4th quarter	2,500.00	1,910.00	30.750	22.000
1998				
1st quarter	2,630.00	1,980.00	30.133	22.234

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

As of March 31, 1998, there were 10,046,111 ADSs (equivalent to 50,230,555 shares of Common Stock) outstanding, held by approximately 36 holders of record. Such ADSs represented at such date 16.16% 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. Currently, 4,573,792 of the Company's shares from its 1996/1997 capital increase, representing less than 1.5% of the Company's total issued and subscribed shares of Common Stock, remain unissued. Shares not sold by October 1999 will be canceled.

ITEM 6: Exchange Controls and Other Limitations Affecting Security Holders

Among other things, the Central Bank of Chile 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 of Chile 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 of Chile, 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 Regulation of the Central Bank of Chile ("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 of Chile 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 Chile of a certificate from the holder of such shares (or from an institution authorized by the Central Bank of Chile) 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 of Chile 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 Chile 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 Chile 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 of Chile based on a request therefor presented through a banking institution established in Chile. The Foreign Investment Contract will provide that if the Central Bank of Chile 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 of Chile. 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 will be 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.

The Reserve Requirement may affect the price and volume of trading in securities in Chile, including the price and volume of trading in the Common Stock. The Reserve Requirement may 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. However, the Company is unable to assess at this time the impact of the Reserve Requirement on the securities markets in Chile, the market for the Common Stock in Chile or the market for the ADRs. The Company is also 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.

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 tax 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 1995, 1996 and 1997, CCU paid First Category Tax at an effective rate below the 15% statutory rate. The Company expects that the effective consolidated tax rate in 1998 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 includible 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 generally accepted accounting principles ("Chilean GAAP"), which differ in certain significant respects from U.S. generally accepted accounting principles ("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, 1995, 1996, and 1997.

The Chilean peso financial information as of and for the years ended December 31, 1993, 1994, 1995, 1996 and 1997 shown below is presented in constant Chilean pesos of December 31, 1997.

	Year ended December 31,				
	1993	**1994**	**1995**	**1996**	**1997**
	(millions of constant Ch$) (1)				
Income Statement Data:					
Chilean GAAP:					
Total revenues	Ch$ 163,514	Ch$ 159,613	Ch$ 212,122	Ch$ 241,629	Ch$ 261,813
Operating income	36,985	30,377	28,086	29,683	42,055
Interest expense	(4,083)	(3,511)	(6,760)	(7,666)	(6,748)
Other income	2,582	19,791	15,220	7,316	16,553
Income tax	(2,129)	(487)	(2,685)	(2,464)	(4,126)
Net income	32,051	38,267	28,419	19,319	37,390
EBITDA (2)	52,520	48,446	49,892	54,867	69,146
Net earnings per share	123.18	146.39	108.72	69.92	120.29
Net earnings per ADS	615.90	731.95	543.60	349.59	601.46
Dividends per share (3)	48.08	57.77	43.09	30.65	60.15
Weighted average shares outstanding (000s)	260,197	261,394	261,394	276,307	310,829
U.S. GAAP:					
Total revenues	Ch$ 163,514	Ch$ 148,532	Ch$ 137,233	Ch$ 159,467	Ch$ 180,819
Net income	29,918	31,613	25,222	24,180	41,187
Net earnings per share	114.98	120.94	96.49	87.51	132.51
Net earnings per ADS	574.90	604.70	482.45	461.65	667.10
Balance Sheet Data:					
Chilean GAAP:					
Total assets	Ch$ 255,669	Ch$ 303,613	Ch$ 417,978	Ch$ 441,823	Ch$ 513,507
Long-term liabilities	67,593	66,050	120,633	108,434	98,927
Total debt (4)	56,126	53,140	118,556	106,948	93,498
Total stockholders' equity	152,230	175,221	190,261	221,013	292,277
U.S. GAAP:					
Total assets	Ch$253,948	Ch$ 252,208	Ch$ 357,671	Ch$ 383,198	Ch$ 458,897
Long-term liabilities	64,270	52,859	104,657	88,381	82,130
Total debt (4)	56,126	47,056	108,121	101,143	92,982
Total stockholders' equity	148,141	165,286	178,273	214,163	290,205
Other Data:					
Sales volume (in millions of liters):					
Beer (Chile)	354.7	333.2	344.5	349.1	361.9
Beer (Argentina)	--	--	53.2	100.5	142.3
Soft drinks and mineral water (5)	279.4	269.4	357.0	383.2	382.9
Wine (6)	--	--	23.6	36.9	45.1
Change in consumer price index applicable for the restatement of financial statements (7)	12.1%	8.9%	8.2%	6.6%	6.3%

(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, because amortization under Chilean GAAP is a non-operating expense.
(3) Expressed in pesos as of December 31, 1997, except 1997 dividends, which were paid in January and May of 1998, and are expressed in pesos corresponding to those payment dates.
(4) Includes short-term and long-term 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 decided upon 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.

At the annual regular shareholders' meeting held on April 28, 1998, the Board of Directors announced a dividend policy for 1998, 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 (which can include 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 of 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**
1993	13.47	23.27	36.74	0.16	0.27	0.43
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

(1) Interim and final dividend amounts are expressed in historical pesos.
(2) This number serves reference purposes only as the Company pays all dividends in Chilean pesos. The Chilean peso amount 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 in respect of 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, 1995, 1996 and 1997. Although Chilean inflation moderated 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, 1997 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 accounted for by each of the Company's geographical markets as a percentage of consolidated net sales or operating income, as the case may be:

	Year Ended December 31,					
	1995		1996		1997	
	(millions of Ch$, except percentages)					
Net Sales						
Chile	Ch$197,410	93.1%	Ch$216,392	89.6%	Ch$227,270	86.8%
Argentina (1)	14,712	6.9	25,250	10.4	35,113	13.4
Eliminations	--	--	(13)	--	(570)	(.2)
Total	Ch$212,122	100.0%	Ch$241,629	100.0%	Ch$261,813	100.0%
Operating Income						
Chile	Ch$ 27,272	97.1%	Ch$ 29,599	99.7%	Ch$ 40,982	97.4%
Argentina (1)	813	2.9	94	0.3	1,314	3.1
Eliminations	--	--	(10)	--	(242)	(0.6)
Total	Ch$ 28,086	100.0%	Ch$ 29,683	100.0%	Ch$ 42,055	100.0%

(1) CICSA and CSF, the Company's two Argentine brewery subsidiaries, became consolidated subsidiaries of the Company as of January 1, 1995 and September 1, 1995, respectively. CICSA and Santa Fe were merged (with CICSA being the surviving entity) in January 1998.

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 and as a percentage of consolidated net sales or operating income, as the case may be:

	Year Ended December 31,					
	1995		1996		1997	
	(millions of Ch$, except percentages)					
Net Sales						
Beer Segment (1)	Ch$ 117,846	55.6%	Ch$132,945	55.0%	Ch$ 147,173	56.2%
Soft Drinks and Mineral Water Segment (2)	81,499	38.4	88,895	36.8	87,226	33.3
Wine Segment (3)	12,523	5.9	19,198	8.0	27,072	10.3
Other (4)	254	0.1	590	0.2	342	0.1
Total	Ch$212,122	100.0%	Ch$241,629	100.0%	Ch$261,813	100.0%
Operating Income						
Beer Segment (1)	Ch$25,415	90.5%	Ch$23,035	77.6%	Ch$ 29,422	70.0%
Soft Drinks and Mineral Water Segment (2)	3,800	13.5	6,488	21.9	9,855	23.4
Wine Segment (3)	(639)	(2.3)	451	1.5	2,457	5.8
Other (4)	(491)	(1.7)	(292)	(1.0)	321	0.8
Total	Ch$ 28,086	100.0%	Ch$29,683	100.0%	Ch$ 42,055	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, nectars, mineral waters, powdered juices and related merchandise.
(3) Includes sales of wine, by-products and other products such as labels and corks. VSP, the Company's wine subsidiary, became a consolidated subsidiary of the Company on April 1, 1995.

(4) Includes sales of crates and other packaging.

9.3 Consolidation of Recently Acquired Subsidiaries

The Company acquired minority interests in three operating companies. The results of VSP were accounted for by the equity method until March 31, 1995; beginning in April 1, 1995, VSP became a consolidated subsidiary of the Company. The Company acquired two Argentine brewery companies, CICSA and CSF in January-February 1995 and in September 1995, respectively. CICSA became a consolidated subsidiary of the Company on January 1, 1995, and CSF became a consolidated subsidiary of the Company on September 1, 1995. See Note 1(o) to the Consolidated Financial Statements for an explanation of the consolidation methodology used in consolidating the financial results of subsidiaries that maintain their financial statements in a foreign currency.

9.4 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,					
	1995		1996		1997	
	(millions of Ch$, except percentages and sales volume data)					
Net Sales	Ch$ 212,122	100.0%	Ch$241,629	100.0%	Ch$261,813	100.0%
Cost of Sales	(98,595)	(46.5)	(117,636)	(48.7)	(121,120)	(46.3)
Gross Profit	Ch$ 113,527	53.5%	Ch$123,993	51.3%	Ch$140,693	53.7%
Selling and Administrative Expenses	(85,441)	(40.3)	(94,311)	(39.0)	(98,638)	(37.7)
Operating Income	Ch$ 28,086	13.2%	Ch$29,683	12.3%	Ch$42,055	16.1%
Non-Operating Income	15,220	7.2	7,316	3.0	16,553	6.3
Non-Operating Expenses	(9,690)	(4.6)	(11,526)	(4.8)	(11,275)	(4.3)
Price-Level Restatement	(330)	(0.2)	(414)	(0.2)	(349)	(0.1)
Income Taxes	(2,685)	(1.3)	(2,464)	(1.0)	(4,126)	(1.6)
Minority Interest	(2,181)	(1.0)	(3,276)	(1.4)	(5,469)	(2.1)
Net Income	Ch$28,419	13.4%	Ch$19,319	8.0%	Ch$37,390	14.3%
EBITDA (1)	Ch$49,892	23.5%	Ch$54,867	22.7%	Ch$69,146	26.4%
Sales volume (2):						
Beer (Chile)		344.5		349.1		361.9
Beer (Argentina)		53.2		100.5		142.3
Soft drinks and mineral water (3)		357.0		383.2		382.9
Wine (4)		23.6		36.9		45.1

(1) EBITDA is operating income plus depreciation. Under Chilean GAAP, amortization is a non-operating expense.
(2) In millions of liters.
(3) Includes sales of soft drinks and mineral water in Argentina, which equaled 5.9 million liters in 1995, 5.4 million liters in 1996, and 5.0 million liters in 1997.
(4) Includes sales of wine in Argentina, which equaled 2.3 million liters in 1995, and 1.5 million liters in 1996, and 1.1 million liters in 1997.

9.5 Results of Operations for Years Ended December 31, 1997, 1996 and 1995

Net Sales. The Company's net sales were Ch$261,813 million in 1997 as compared to Ch$241,629 million in 1996, resulting in an 8.4% increase in 1997 which is mainly explained by the following factors:

(a) A 10.7% increase in the Company's sales of beer products in both Chile and Argentina during 1997 as compared to 1996. In Chile, net sales of beer increased by 3.9% or Ch$4,309 million due to a 3.7% increase in sales volume and a 0.4% increase in unit prices. In Argentina, net sales of beer increased by 41.6% or Ch$9,919 million due to a 41.7% increase in sales volume, which was partially offset by a 1.4% decline in unit prices.

(b) A 41.0% or Ch$7,874 million increase in the Company's overall wine sales in 1997 as compared to 1996. This increase in sales resulted both from a 22.4% increase in overall sales volume consisting of a 60.4% increase in export volumes and a 4.9% increase in domestic volumes, and from a 16.5% increase in overall prices, consisting of a 15.5% increase in domestic unit prices and a 3.9% increase in export unit prices.

(c) A 1.9% decrease in the Company's soft drink and mineral water sales to Ch$87,226 million in 1997 as compared to Ch$88,895 million in 1996.

In 1996, net sales increased 13.9% as compared to net sales in 1995 of Ch$212,122 million. The increase in 1996 resulted primarily from a 13.6% increase in the net sales of beer products in both Chile and Argentina, an 8.9% increase in the net sales of soft drinks due primarily to the growth of the industry. In addition, the Company benefited from an increase in wine sales and from a full year consolidation of VSP which was fully consolidated during 1996 compared to nine months during 1995.

Cost of Sales. Cost of sales 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 plant and equipment. Cost of sales in 1997 was Ch$121,120 million as compared to cost of sales in 1996 of Ch$117,636 million. As a percentage of net sales, cost of sales was 46.3% in 1997 as opposed to 48.7% in 1996. The decrease in cost of sales as a percentage of net sales in 1997 is attributable principally to the following factors:

(a) Increased sales of products for which the Company does not pay royalty fees and a decrease in the prices of aluminum cans and in raw materials used to produce plastic packages within the soft drink and mineral water segment; these factors resulted in a corresponding decrease of Ch$4,698 million (to Ch$42,541 million) in the cost of goods sold in that segment. As a percentage of net sales, cost of goods sold in this segment was reduced from 53.1% in 1996 to 48.8% in 1997.

(b) Lower prices for raw materials such as barley and cans within the Chilean beer division, resulting in a 3% (Ch$1,374 million) decrease of cost of goods sold to Ch$43,984 million. As a percentage of net sales, cost of goods sold in this segment fell from 41.6% in 1996 to 38.8% in 1997.

(c) A greater percentage of wine sales consisting of exports, which are sold at higher prices than domestic wines, resulting in a reduction in cost of goods sold as a percentage of net sales from 63.4% in 1996 to 62.0% in 1997.

In 1996, cost of sales increased 19.3% as compared to cost of sales in 1995 of Ch$98,595 million. Increased costs during 1996 resulted primarily from the consolidation of the Argentine operations for the full year of 1996, which gave rise to additional production and depreciation costs associated with Argentine operations, higher raw material costs within the Chilean beer segment, greater sales of wine in Chile, and the consolidation of VSP as of April 1, 1995. In addition, costs increased due to higher demand for soft drinks and beer products in one-way packaging, the production of which results in higher costs of sales per unit than do products in returnable packaging. Costs also increased as a result of higher depreciation charges due to increased investment in fixed assets by the Company during 1996.

Gross Profit. Gross profit increased 13.5% to Ch$140,693 million in 1997, from Ch$123,993 million in 1996. 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 in almost every business segment coupled with lower prices for certain raw materials.

In 1996, gross profit increased 9.2% to Ch$123,993 million as compared to gross profit in 1995 of Ch$113,527 million. As a percentage of net sales, gross profit was 51.3% in 1996 and 53.5% in 1995. The increase in gross profit in absolute terms during 1996 was mainly due to the increase in sales volumes and real unit prices of the Company's principal products. The decrease in gross profit as a percentage of net sales resulted from both the continued effect of the consolidation of subsidiaries of differing levels of profitability and from increases in sales volumes of products with higher per-unit costs as stated above under “Cost of Sales”.

Selling and Administrative Expenses. Selling and administrative expenses include advertising and promotional expenses, salaries of administrative personnel, maintenance and general expenses, and transportation and services provided by third parties. Selling and administrative expenses in 1997 were Ch$98,638 million as compared to Ch$94,311 million in 1996. The increase in selling and administrative expenses in absolute terms in 1997 was principally the result of both higher marketing expenses related to the Company’s beer operations in Chile and Argentina, and increased purchases of third party services. As a percentage of net sales, selling and administrative expenses were 37.7% in 1997 and 39.0% in 1996. This relative decrease was principally the result of the dillution of certain fixed costs and the restructuring in the Chilean beer sales force which included the elimination of the second sales force.

In 1996, selling and administrative expenses increased 10.4% to Ch$94,311 million, as compared to Ch$85,441 million in 1995. The increase in selling and general administrative expenses in absolute terms resulted from increased expenses in the Argentine operations due to the full year effects of the consolidation of CSF, the additional marketing expenses allocated for the Santa Fe and Schneider brands, and the launch of Budweiser. In addition, the Company incurred increased expenses at ECUSA, which resulted from higher marketing, sales force, and depreciation expenses. As a percentage of net sales, selling and general administrative expenses were 39.0% in 1996 and 40.3% in 1995. The relative decrease was principally the result of lower costs of distributing wine through the Company’s beer distribution network.

Operating Income. Operating income increased 41.7% in 1997 to Ch$42,055 million as compared to Ch$29,683 million in 1996. As a percentage of net sales, operating income was 16.1% in 1997 as compared to 12.3% in 1996. The absolute increase was principally due to higher operating profit on each of the Company’s business segments; namely 27.7%, 51.9% and 444.3% in the beer, soft drink 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 8.4% increase in net sales, which outpaced the 3.0% increase in cost of goods sold and the 4.6% increase in selling, general and administrative expenses.

In 1996, operating income increased 5.7% as compared to Ch$28,086 million in 1995. As a percentage of net sales, operating income was 12.3% in 1996 as compared to 13.2% in 1995. This increase in absolute terms was principally due to an increase in net sales during 1996 as described above. The decrease in operating income as a percentage of net sales was principally due to an increase in cost of sales as described above, which was partially offset by lower selling and administrative expenses as a percentage of net sales in 1996.

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 fixed assets related to marketing (all of which have resulted in high depreciation charges). The Company defines EBITDA as the sum of its operating income and depreciation. In 1997, EBITDA increased by 26.0% to Ch$69,146 million. In 1996 EBITDA increased by 10.0% to Ch$54,867 million from Ch$49,892 million in 1995.

Non-Operating Income. Non-operating income in 1997 was Ch$16,553 million as compared to Ch$7,316 million in 1996. This increase during 1997 resulted primarily from Ch$4,906 million higher interest income (reflecting earnings on increased cash balances) and from a Ch$4,417 million non-recurring gain from the sale of property in the city of Antofagasta.

In 1996, non-operating income decreased 51.9% to Ch$7,316 million as compared to Ch$15,220 million in 1995, a change principally explained by a Ch$8,450 non-recurring gain on the sale of land and other assets during 1995.

Non-Operating Expenses. Non-operating expenses in 1997 were Ch$11,275 million as compared to Ch$11,526 million in 1996. The decrease in 1997 was due to Ch$917 million lower interest expenses which were partially offset by Ch$432 million of additional write-offs of property, plant and equipment resulting from obsolescence and closing of plants.

In 1996, non-operating expenses increased 18.9% as compared to Ch$9,690 million in 1995. The increase in 1996 was due principally to an increase in interest expenses related to indebtedness incurred from the acquisition of CICSA and CSF, and to an increase of Ch$1,046 million in amortization of goodwill, principally resulting from full-year amortization expenses derived from the acquisitions of CICSA, CSF and VSP. These increases were partially offset by smaller losses incurred in connection with forward exchange contracts entered into during 1995.

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$349 million in 1997, as compared to a net loss of Ch$414 million in 1996. 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 resulting from price-level restatement as a percentage of net sales was less than 1%.

In 1996, the price-level restatement of the Company's non-monetary assets resulted in a net loss of Ch$414 million as compared to a loss of Ch$330 million in 1995. In both years, the loss resulting from price-level restatement as a percentage of net sales was less than 1%.

Income Taxes. Income taxes in 1997 amounted to Ch$4,126 million for an effective consolidated tax rate for the Company of 8.8% as compared to income taxes in 1996 of Ch$2,464 million for an effective consolidated tax rate of 9.8%. The Company's effective tax rates for these periods were lower than the statutory rates of 15% for Chile and 30% for Argentina because of the use of tax loss carryforwards by several of the Company's subsidiaries. The Company expects that the effective consolidated tax rate for the Company and its subsidiaries in 1998 will continue to be less than the Chilean statutory rate of 15% as a result of remaining 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, 1997, the Company's consolidated subsidiaries had available tax loss carryforwards of Ch$29,974 million in Chile and Ch$6,937 million in Argentina. The Company's Chilean subsidiaries with the most significant tax loss carryforwards available include VSP with Ch$12,106 million, Cervecera Santiago Ltda. with Ch$12,139 million, Comercial CCU Norte Sur (Formerly Embotelladora Modelo Ltda.) with Ch$2,612 million and Porvenir S.A.I with Ch$1,698 million. Two of the Company's Argentine subsidiaries, CCU Argentina S.A. and Cervecería Santa Fe S.A., also have tax loss carryforwards amounting to Ch$3,368 million and Ch$3,595 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 subjects 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 on 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 under 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.

In 1996, income taxes were Ch$2,464 million as compared to Ch$2,685 million during 1995 for an effective consolidated tax rate for the Company of 9.8% in 1996 and 8.1% in 1995. As of December 31, 1996, the Company's consolidated subsidiaries had available tax loss carryforwards of Ch$36,066 million in Chile and Ch$9,761 million in Argentina.

Minority Interest. Minority interest in 1997 increased 66.9% to Ch$5,469 million as compared to Ch$3,276 million in 1996. This increase resulted from higher levels of income in subsidiaries with significant minority interests, namely VSP and ECUSA.

In 1996, minority interest increased 50.2% to Ch$3,276 million as compared to minority interest in 1995 of Ch$2,181 million. This increase resulted also from higher levels of income in those subsidiaries of the Company in which there are significant minority interests, as well as from a full year consolidation for VSP.

Net Income. Net income in 1997 was Ch$37,390 million, 93.5% higher than 1996's net income of Ch$ 19,319 million. The difference in net income is largely explained by 41.7%

higher operating income and 126.3% higher non-operating income during 1997 as described above. In addition, the Company benefited from a lower income tax rate.

In 1996, net income was Ch$19,319 million, 32.0% less than net income of Ch$28,419 million in 1995. This difference is mainly explained by a one-time gain of Ch$8,450 million in 1995 from the sale of land and certain other assets described above that were not present in 1996, by higher amortization of goodwill, and by increased interest expenses resulting from the Company's acquisitions in 1995.

9.6 Liquidity and Capital Resources

As of December 31, 1997, the Company had Ch$50,138 million in cash and cash equivalents, which does not include Ch$53,380 million from time deposits placed at more than 90 days. Indebtedness, including accrued interest, amounted to Ch$93,498 million as of December 31, 1997. Short-term indebtedness included Ch$17,143 million of short-term obligations to banks and financial institutions under certain lines of credit described below, Ch$4,505 million representing the current portion of long-term debt to the public, Ch$2,088 million representing the current portion of long-term debt to banks, and Ch$136 million representing other loans. As of December 31, 1997, long-term indebtedness (excluding the current portion thereof) comprised Ch$37,436 million of long-term obligations to banks, Ch$31,424 million of long-term obligations to the public represented by bonds, and Ch$767 million of other loans.

As of December 31, 1997, 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 figures (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 (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, 1997, the Company met all its financial debt covenants and had a consolidated current ratio of 2.44 to 1; a ratio of EBIT to interest expense of 9.71 to 1 for the Company (unconsolidated) and 7.15 to 1 for the Company (consolidated); and a ratio of total debt to total capitalization of 0.20 to 1 for the Company (unconsolidated) and 0.22 to 1 for the Company (consolidated). The Company's net worth as of December 31, 1997 was Ch$292,277 million.

9.7 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$20,635 million at December 31, 1996 and Ch$20,748 million at December 31, 1997) is a long-term, non-indexed monetary liability that is affected over time by inflation. To date, the Company has been effective in passing on increases in raw material prices due to inflation in the form of higher product prices, thereby minimizing any adverse effects of inflation on earnings. 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.

9.8 U.S. GAAP Reconciliation

Net income under U.S. GAAP for 1995, 1996, and 1997 was Ch$25,222 million, Ch$24,180 million and Ch$41,187 million, respectively, as compared to that reported under Chilean GAAP of Ch$28,419 million, Ch$19,319 million, and Ch$37,390 million, respectively. These differences are principally the result of the inclusion under U.S. GAAP of an adjustment of 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, 1995, 1996, and 1997 was Ch$178,273 million, Ch$214,163 million, and Ch$290,205 million, respectively as compared to that reported under Chilean GAAP for the same period of Ch$190,261 million, Ch$221,013 million, and Ch$292,277 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 the Company’s 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.

9.9 Year 2000 Compliance

The Company expects to invest approximately US$11 million in software and hardware during 1998 and 1999 to replace and upgrade its information systems by installing an Entreprise Resource Planning system. The Company plans to replace its accounting and administrative systems first, followed by its sales and distribution systems and then its manufacturing systems. This investment is expected to aid in reducing operating costs and improving productivity for the Company. In addition, the software will be year 2000 compliant. The Company believes most of its main systems will be replaced by the end of 1999. Those of its existing systems which remain in place by year 2000 are expected to be upgraded by the Company during 1998 and 1999 to comply with year 2000 requirements.

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. The last election of directors occurred in April 1997. 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 March 31, 1998 are as follows:

Directors	Position	Position Held Since	At Company Since
Guillermo Luksic Craig (1)	Chairman of the Board and Director	September 1990 (President) November 1986 (Director)	November 1986 November 1986
Thomas Fürst Freiwirth	Vice President of the Board and Director	November 1986	November 1986
Johannes Bauer Spiegel	Director	April 1991	April 1991
Peter Hellich Sandler	Director	February 1993	February 1993
Felipe Lamarca Claro	Director	September 1990	September 1990
Luis Felipe Lehuedé Fuenzalida	Director	February 1997	February 1997
Andrónico Luksic Craig (1)	Director	November 1986	November 1986
Manuel José Noguera Eyzaguirre	Director	May 1987	May 1987
Laura Novoa Vásquez	Director	November 1986	November 1986

Executive Officers	Position	Position Held Since	At Company Since
Francisco Pérez Mackenna (2)	General Manager (Chief Executive Officer)	February 1991	February 1991
Dirk Leisewitz Timmermann	General Comptroller	June 1988	December 1987
Ricardo Reyes Mercandino	Administration/ Finance Manager (Chief Financial Officer)	July 1996	July 1996
Gabriel Valls Saintis	Human Resources Manager	April 1982	January 1979
Jorge Aninat Solar	Engineering and Projects Manager	March 1996	April 1977
Polentzi Errazquin Valliant	CCU Chile Business Unit Manager	January 1998	August 1991
Jennifer Tsang Koide	Strategic Planning and Development Manager	March 1996	October 1994
Marisol Bravo Léniz	Corporate Affairs and Public Relations Manager	June 1994	July 1991
Margarita Sánchez Acevedo	Legal Counsel	November 1986	April 1972
Jorge Gran Echeverría	Marketing Services Manager	November 1994	January 1982
Fernando Sanchis Sacchi	CCU Argentina Manager	May 1995	May 1995
Francisco Diharasarri Domínguez	ECUSA Manager	January 1998	June 1985
Matías Elton Necochea	Viña San Pedro Manager	January 1997	January 1997
Santiago Toro Ugarte	PLASCO Manager	January 1998	September 1984

(1) Guillermo Luksic Craig and Andrónico Luksic Craig are brothers. See "--Item 4: Control of Registrant".
(2) Francisco Pérez Mackenna will be replaced as of July 1, 1998 by Patricio Jottar Nasrallah.

ITEM 11: Compensation of Directors and Officers

For the year ended December 31, 1997, the aggregate amount of compensation paid by the Company to all directors and executive officers was Ch$2,513 million (US$5.7 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 1997, 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 (thousands of Ch$)	Expense reimbursement	Total
Guillermo Luksic Craig	Ch$62,017	Ch$52,782	Ch$114,799	Ch$2,871	Ch$117,670
Thomas Fürst Freiwirth	57,319	52,782	110,101	11,367	121,468
Johannes Bauer Spiegel	45,320	52,782	98,102	13,730	111,832
Peter Hellich Sandler	28,015	52,782	80,797	8,351	89,148
Felipe Lamarca Claro	16,847	52,782	69,629	0	69,629
Andrónico Luksic Craig	16,847	52,782	69,629	0	69,629
Manuel José Noguera Eyzaguirre	17,848	52,782	70,630	0	70,630
Laura Novoa Vásquez	16,847	52,782	69,629	0	69,629
Fernando Silva Lavín	7,339	52,782	60,121	0	60,121
Luis Felipe Lehuedé F.	12,633		12,633		12,633

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 a 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 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 amended contract has a term of five years, beginning in May 1995, and is renewable for a five-year term 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".

During January and February 1995, the Company acquired a 62.7% interest in CICSA by (i) acquiring for approximately US$10 million certain outstanding shares owned by Lanzville Investments Establishment ("Lanzville") and (ii) acquiring for approximately US$20 million certain newly issued shares acquired pursuant to preemptive rights assigned to the Company by Lanzville and Yalder S.A. ("Yalder"). Lanzville and Yalder are affiliates of the Luksic Group. During June 1997, the Company increased its ownership in CICSA by acquiring Lanzville's 31.9% minority stake in the Company's subsidiary for approximately US$8.3 million. As of December 31, 1997, both Yalder and Lanzville had no equity participation in CICSA. See "--Item 1: Description of Business--The Company's Beer Business--The Company's Beer Business in Argentina".

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

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

1.1 By-laws (*estatutos*) of Compañía Cervecerías Unidas S.A.*

3.1 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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* Articles 1 and 38 have been amended from the version of the By-laws previously filed to reflect among other things, a change in provisions relating to arbitration proceedings with respect to certain actions brought by shareholders.

** 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.

COMPAÑIA CERVECERIAS UNIDAS S.A
AND SUBSIDIARIES

December 31, 1997

Consolidated Financial Statements

CONTENTS

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, 1996 and 1997, and the related consolidated statements of income for each of the three years in the period ended December 31, 1997, the consolidated statement of changes in financial position for the years ended December 31, 1995 and 1996 and the consolidated statement of cash flows for the years ended December 31, 1996 and 1997, 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, 1995 and 1996 and for the years then ended have been restated in terms of constant Chilean pesos of December 31, 1997 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 subsidiaries at December 31, 1996 and 1997, and the results of their operations for each of the three years in the period ended December 31, 1997, the changes in their financial position for the years ended December 31, 1995 and 1996 and their cash flows for the years ended December 31, 1996 and 1997, in conformity with accounting principles generally accepted in Chile.

5 As described in Note 2, during 1996 the Company presented a statement of cash flows for the first time in conformity with generally accepted accounting principles in Chile and also presented a statement of changes in financial position for the years ended December 31, 1995 and 1996, in compliance with regulations of the Superintendency of Securities and Insurance.

6 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, 1997 and the determination of consolidated shareholders' equity, also expressed in constant Chilean pesos, at December 31, 1995, 1996 and 1997 to the extent summarized in Note 24 to the consolidated financial statements.

PRICE WATERHOUSE

Santiago, Chile
January 31, 1998

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, 1997

	As of December 31,	
ASSETS	1996	1997
	ThCh$	ThCh$
CURRENT ASSETS		
Cash	20,161,341	4,984,512
Time deposits and marketable securities (Note 3)	16,696,454	64,799,368
Accounts receivable - trade and other (Note 4)	49,749,469	54,749,908
Accounts receivable from related companies (Note 17)	9,609,369	1,537,572
Inventories (Note 6)	31,191,781	31,681,592
Prepaid expenses	4,529,987	5,622,358
Prepaid taxes	2,697,664	2,975,919
Other current assets (Note 7)	11,564,253	33,967,195
Total current assets	146,200,318	200,318,424
PROPERTY, PLANT AND EQUIPMENT, net (Note 8)	253,050,113	264,621,484
OTHER ASSETS (Note 9)	42,573,030	48,567,189
Total assets	441,823,461	513,507,097
	=========	=========
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings (Note 11)	18,358,013	17,142,708
Current portion of long-term debt (Note 12)	7,670,120	6,729,038
Dividends payable	3,720,826	9,898,009
Accounts payable	20,404,887	22,403,091
Notes payable	3,642,684	2,286,882
Sundry creditors	277,411	2,113,775
Accounts payable to related companies (Note 17)	933,652	1,169,458
Accrued expenses (Note 14)	12,648,100	13,138,934
Taxes and social security charges payable	7,884,691	6,952,138
Other current liabilities	333,502	117,122
Total current liabilities	75,873,886	81,951,155
LONG-TERM LIABILITIES		
Long-term debt (Note 12)	80,919,554	69,626,546
Accrued expenses (Note 14)	2,507,600	2,643,451
Deferred income taxes (Note 15)	4,371,762	5,909,517
Deposits on bottles and containers	20,635,392	20,747,849
Total long-term liabilities	108,434,308	98,927,363
Total liabilities	184,308,194	180,878,518
MINORITY INTEREST	36,502,122	40,351,279
COMMITMENTS AND CONTINGENCIES (Note 19)		
SHAREHOLDERS' EQUITY (Note 16)		
Common Stock (276,306,831 and 310,829,080 shares authorized and outstanding, with no par value, respectively)	77,351,548	127,298,708
Share premium	8,516,297	8,516,297
Other reserves	2,913,187	2,913,187
Retained earnings	132,232,113	153,549,108
Total shareholders' equity	221,013,145	292,277,300
Total liabilities and shareholders' equity	441,823,461	513,507,097
	=========	=========

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, 1997

	For the years ended December 31,		
	1995	1996	1997
	ThCh$	ThCh$	ThCh$
OPERATING RESULTS			
Net sales (Note 23)	212,121,871	241,629,326	261,813,188
Cost of sales	(98,595,149)	(117,635,927)	(121,120,286)
Gross margin	113,526,722	123,993,399	140,692,902
Selling and administrative expenses (Note 22)	(85,441,184)	(94,310,518)	(98,638,018)
Operating income	28,085,538	29,682,881	42,054,884
NON-OPERATING RESULTS			
Non-operating income (Note 21)	15,220,179	7,315,917	16,553,077
Non-operating expenses (Note 22)	(9,690,353)	(11,525,891)	(11,274,752)
Price-level restatement (Note 24)	(330,352)	(413,958)	(348,931)
Income before income tax and minority interest	33,285,012	25,058,949	46,984,278
Income tax (Note 15)	(2,685,369)	(2,464,146)	(4,125,655)
Minority interest	(2,180,868)	(3,276,175)	(5,468,856)
NET INCOME	28,418,775	19,318,628	37,389,767
	=========	=========	=========

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 CHANGES IN FINANCIAL POSITION

Adjusted for general price-level changes and expressed
in thousands of constant Chilean pesos of December 31, 1997

	For the years ended December 31, 1995	1996
	ThCh$	ThCh$
SOURCES OF FUNDS		
Net income for the year	28,418,775	19,318,628
Charges (credits) to income which do not represent movements of funds:		
Depreciation	21,806,046	25,184,290
Bottles and containers written-off and consumption of spare parts	1,641,947	2,172,358
Long-term deferred income taxes	907,034	890,088
Amortization of goodwill	1,429,770	2,476,151
Loss (gain) on sale of land and properties held for sale and other assets	(8,450,218)	29,815
Price-level restatement of non-current assets and liabilities	273,796	(1,221,865)
Other	3,891,141	2,026,121
Funds from operations	49,918,291	50,875,586
OTHER SOURCES OF FUNDS		
Proceeds from sale of property, plant and equipment and other assets	10,627,728	1,004,777
Net increase in deposits on bottles and containers	2,430,438	1,676,067
Minority interest arising principally from acquisition of Viña San Pedro S.A. in 1995 and increase in capital of Compañía Cervecerías Unidas Argentina S.A. in 1996	13,518,677	2,336,178
Accounts receivable transferred from long-term to short-term	5,028,720	4,438,754
Decrease in investment in related company	3,004,187	-
Increase in long-term bank loans	54,110,684	56,558,959
Increase in long-term liabilities	1,460,983	794,527
Capital increase	-	20,169,301
Other	6,600,735	780,957
Total sources of funds	146,700,443	138,635,106
APPLICATIONS OF FUNDS		
Additions to property, plant and equipment	83,422,800	47,124,997
Maturities of long-term liabilities	118,577	358,124
Maturities of long-term bonds payable	3,531,573	3,679,629
Goodwill on acquisitions	19,106,172	-
Additions to other assets	474,105	270,878
Prepayment of loans	-	64,688,934
Dividends declared	13,401,925	8,736,071
Net increase in long-term assets and liabilities arising from consolidation of Viña San Pedro S.A.	20,329,920	-
Increase in investments in other companies	55,867	-
Other	1,010,892	4,014,103
Total applications of funds	141,451,831	128,872,736
INCREASE IN WORKING CAPITAL	5,248,612	9,762,370

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

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Adjusted for general price-level changes and expressed
in thousands of constant Chilean pesos of December 31, 1997

	For the years ended December 31,	
	1995	1996
	ThCh$	ThCh$
VARIATIONS IN WORKING CAPITAL COMPONENTS		
CURRENT ASSETS-INCREASE (DECREASE)		
Cash	3,029,359	13,833,227
Time deposits and marketable securities	(3,105,434)	3,359,020
Accounts receivable	17,476,190	6,363,179
Inventories	12,181,842	624,686
Prepaid expenses	317,760	(1,137,157)
Prepaid taxes	(166,673)	1,149,596
Other current assets	4,558,063	(12,340,343)
Net variation in current assets	34,291,107	11,852,208
CURRENT LIABILITIES-(INCREASE) DECREASE		
Short-term borrowings	(12,314,416)	(590,812)
Current portion of long-term debt	(2,109,423)	(1,234,231)
Dividends payable	1,716,712	2,184,921
Accounts payable	(14,292,847)	2,158,999
Notes payable	36,273	(809,447)
Accounts payable to related companies	(371,761)	(371,489)
Accrued expenses	(1,326,062)	(2,244,974)
Income tax	90,715	-
Taxes and social security charges payable	(476,875)	(951,869)
Other	5,189	(230,936)
Net variation in current liabilities	(29,042,495)	(2,089,838)
INCREASE IN WORKING CAPITAL	5,248,612	9,762,370
	========	========

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, 1997

	For the years ended December 31, 1996	1997
	ThCh$	ThCh$
CASH FLOWS FROM OPERATING ACTIVITIES		
NET INCOME	19,318,628	37,389,767
Loss (gain) on sale of land and properties held for sale	29,815	(4,424,322)
Gains on sales of investments	(77,414)	(549,825)
Losses on sales of investments	2,748	283,629
Gain on sale of other assets	-	(59,731)
CHARGES (CREDITS) TO INCOME NOT REPRESENTING CASH FLOWS		
Depreciation	25,184,290	27,091,303
Amortization of goodwill	2,476,151	2,483,690
Amortization of negative goodwill	-	(24,907)
Amortization of other intangibles	185,700	219,959
Write-offs of glass bottles, consumption of spare parts and provisions	4,928,770	7,648,991
Equity in net income of affiliated companies	(2,044,538)	(2,053,989)
Deferred income tax	890,088	1,421,500
Price-level restatement	413,958	348,931
Other	1,476,371	(1,232,358)
CHANGES IN ASSETS AFFECTING CASH FLOWS:		
Decrease (increase) in accounts and notes receivable	10,789,572	(6,771,244)
Increase in inventories	(2,547,022)	(1,833,265)
Increase in other assets	(2,699,359)	(2,637,378)
CHANGES IN LIABILITIES AFFECTING CASH FLOWS:		
Decrease in accounts payable affecting operating results	(51,131)	(2,096,438)
Increase (decrease) in interest payable	911,500	(28,927)
(Decrease) increase in income tax payable	(669,044)	662,860
(Decrease) increase in accounts payable affecting non-operating results	(6,431,574)	133,470
Increase in value added tax	2,988,812	4,662,650
MINORITY INTEREST	3,276,175	5,468,856
Net cash provided by operating activities	58,352,496	66,103,222

CONSOLIDATED STATEMENT OF CASH FLOWS

Adjusted for general price-level changes and expressed in
thousands of constant Chilean pesos of December 31, 1997

	For the years ended December 31,	
	1996	1997
	ThCh$	ThCh$
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common shares	21,400,032	50,012,188
Payment of expenses relating to issuance of common shares	(1,230,731)	(65,028)
Loans obtained	92,313,259	26,451,702
Increase in minority interest	1,278,862	2,160,183
Dividends paid	(11,352,567)	(9,527,075)
Payments of loans	(90,109,953)	(31,029,076)
Payments of bonds	(3,513,036)	(3,676,798)
Other	122,050	-
Net cash provided by financing activities	8,907,916	34,326,096
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Proceeds from sale of properties, plant and equipment	1,073,007	4,020,617
Proceeds from sale of investments in related companies	102,057	223,897
Proceeds from sale of other investments	10,156,062	1,446,515
Capital expenditures	(58,256,840)	(46,042,796)
Investments in related companies	-	(3,896,509)
Investments in financial instruments	(12,610,488)	(40,366,186)
Increase in accounts receivable from related companies	-	(126,639)
Other	(4,447,916)	154,404
Net cash used in investment activities	(63,984,118)	(84,586,697)
Net cash flow for the year	3,276,294	15,842,621
PRICE-LEVEL RESTATEMENT OF CASH AND CASH EQUIVALENTS	(1,063,519)	(1,807,780)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,212,775	14,034,841
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	33,890,421	36,103,196
CASH AND CASH EQUIVALENTS AT END OF YEAR	36,103,196	50,138,037
	========	========

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

COMPAÑIA CERVECERIAS UNIDAS S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 1997

Adjusted for general price-level changes and expressed in thousands
of constant Chilean pesos of December 31, 1997, except as indicated

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.

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 bean 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.

The Company has an extensive and integrated distribution network for the sale and distribution of beer, soft drinks, mineral water products, and wine in Chile. At December 31, 1997, the Company's network in Chile was comprised of a total of 24 owned or leased warehouses, a network of independent transportation companies, and a direct sales force of more than 908 salespersons.

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 8.2%, 6.6% and 6.3% for the years ended November 30, 1995, 1996 and 1997, 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, 1995 and 1996 and the amounts disclosed in the related footnotes have been restated in terms of Chilean pesos of December 31, 1997 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$ 406.91 per US$ 1.00 in 1995, Ch$ 424.87 per US$ 1.00 in 1996 and Ch$ 439.18 per US$ 1.00 in 1997).

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, 1996 and 1997, 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, 1996 and 1997 certain property is reported under Other assets because it is held for sale.

k) Bottles and containers

At December 31, 1996 and 1997 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 investments in Southern Breweries Establishment (50% ownership interest) in 1996 and 1997.

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 10 years 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 1995 and prior years, the investments in Southern Breweries Establishment and the Argentine subsidiaries were recorded in accordance with Technical Bulletin 45 of the Chilean Institute of Accountants. Under this pronouncement, Croatia and Argentina were considered to have highly inflationary economies because the average inflation rate for the past five years exceeded 10% per annum. As a result, no effect was given to price-level restatements based on inflation in those countries and the U.S. 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 1995 were prepared in accordance with Chilean GAAP and then remeasured into U.S. dollars as follows:

1. Monetary assets and liabilities at year-end rates of exchange.

2. All other assets and liabilities and shareholders' equity at historical rates.

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

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 Price-level restatement account in the consolidated statements of income under Chilean GAAP.

No exchange difference arose from the above methodology if the Chilean inflation rate and the devaluation rate of the Chilean peso against the U.S. dollar coincided. A foreign exchange would have resulted if inflation exceeded devaluation and a foreign exchange gain would have resulted if devaluation exceeded inflation.

At December 31, 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 continue to be considered highly inflationary economies and therefore the financial statements of Southern Breweries Establishment and the Argentine subsidiaries are remeasured as if the financial 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, 1996	At December 31, 1997
	ThCh$	ThCh$
Cash	20,161,341	4,984,512
Time deposits	3,747,139	18,334,141
Mutual fund shares (money market funds)	1,646,001	730,385
Securities purchased under resale agreements (Note 6)	10,548,715	26,088,999
	36,103,196	50,138,037

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLE

During the years 1995, 1996 and 1997, the Company made the following changes in accounting principles:

a) As from January 1, 1996, and in accordance with the Technical Bulletin No. 50 issued by the Chilean Institute of Accountants, the presentation of the statement of cash flows instead of the statement of changes in financial position became mandatory. However, the Superintendency of Securities and Insurance also required the presentation of the statement of changes in financial position for 1996. Accordingly, the Company presented both statements for 1996.

b) As from January 1, 1996 and in accordance with Technical Bulletin No. 51 ("BT 51") issued by the Chilean Institute of Accountants, the Company has remeasured the financial statements of its foreign subsidiaries (Argentine subsidiaries) and equity investee (Southern Breweries Establishment) using the Chilean peso as the functional currency.

   BT 51, entitled "Investments in Foreign Countries", is applicable for years beginning after December 31, 1995. In accordance with BT 51, the financial statements of subsidiaries and investees in foreign countries that are subject to significant risks, restrictions or important distortions due to inflationary or exchange effects must be remeasured in Chilean pesos. Accordingly, the financial statements of Southern Breweries Establishment and the Argentine subsidiaries will continue to be prepared in accordance with Chilean GAAP, but are now remeasured into Chilean pesos as follows:

   1 Monetary assets and liabilities are stated at year end rates of exchange between the Chilean peso and the local currency.

   2 All non-monetary assets and liabilities and shareholders' equity are stated at historical rates of exchange between the Chilean peso and the local currency.

   3 Income and expense accounts are stated at average rates of exchange between the Chilean peso and the local currency for the period.

   4 All exchange differences which arise are included in the results of operations for the period.

   Price-level restatements based on Chilean inflation are applied to all non-monetary asset and liability accounts, stockholders' equity and income and expense accounts after they have been expressed in historical Chilean pesos as described above.

   Upon adoption of BT 51 in 1996, the non-monetary assets and liabilities at December 31, 1995 were translated from US dollars to Chilean pesos at the rate of exchange in effect at that date and those amounts became the new accounting bases for the non-monetary assets and liabilities. Accordingly, there was no effect on the financial statements of the Company on the date of adoption of the new accounting standard, but changes resulting from variations in the inflation and exchange rates were recorded in income subsequent to that date.

   Until 1996, the investments in Croatia and Argentina were remeasured in United States dollars and the translation adjustments were charged directly to the results of operations. This change in accounting resulted in an increase in 1996 net income of approximately ThCh$ 336,971.

NOTE 3 - TIME DEPOSITS AND MARKETABLE SECURITIES

Time deposits and marketable securities are summarized as follows:

	1996	1997
	ThCh$	ThCh$
Time deposits	14,573,265	63,800,042
Shares	477,188	268,941
Mutual fund shares	1,646,001	730,385
Total	16,696,454	64,799,368
	========	========

NOTE 4 - ACCOUNTS RECEIVABLE - TRADE AND OTHER

Accounts receivable are summarized as follows:

	1996	1997
	ThCh$	ThCh$
Trade accounts receivable	50,491,541	55,272,761
Other accounts receivable	2,155,886	2,201,933
Advances to suppliers	2,577,559	2,387,132
Allowance for doubtful accounts	(5,475,517)	(5,111,918)
Total	49,749,469	54,749,908
	========	========

NOTE 5 - FOREIGN CURRENCY

Assets and liabilities denominated in foreign currency included in the consolidated financial statements and translated into Chilean pesos as described in Note 1 d) are as follows:

	1996	1997
	ThCh$	ThCh$
Assets		
Current assets	54,376,750	26,916,170
Other assets	7,072,512	12,525,642
Total	61,449,262	39,441,812
	========	========
Liabilities		
Current liabilities	33,524,847	28,440,341
Long-term liabilities	34,949,402	33,752,009
Total	68,474,249	62,192,350
	========	========

NOTE 6 - INVENTORIES

Inventories are summarized as follows:

	1996	1997
	ThCh$	ThCh$
Finished goods	4,414,777	3,991,493
Production in process and semi-manufactured goods	1,511,547	1,029,307
Raw materials	17,189,383	20,176,597
Raw materials in transit	2,283,482	885,723
Supplies	5,438,490	5,211,257
Wine in third party cellars	308,802	702,356
Grape crop development costs	602,047	704,557
Obsolescence provisions	(556,747)	(1,019,698)
Total	31,191,781	31,681,592
	========	========

NOTE 7 - OTHER CURRENT ASSETS

Other current assets consisted of the following:

	1996	1997
	ThCh$	ThCh$
Securities purchased under resale agreements:		
Readjustable Promissory Notes - Central Bank of Chile (1)	11,348,778	26,124,418
Time deposits (2)	-	7,609,805
Bond discount (Note 13)	50,041	49,969
Deferred income taxes (Note 15)	-	100,340
Other	165,434	82,663
Total	11,564,253	33,967,195
	========	========

(1) Readjustable Promissory Notes that mature in January and March 1997 and January, February and March 1998, respectively.

(2) Time deposits amounting to ThCh$ 7,609,805 at December 31, 1997 were used to guarantee interest rate swap contracts which matured in January, February, March, May, June and July, 1998.

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

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

	1996	1997
	ThCh$	ThCh$
Land and buildings	53,227,207	60,499,590
Vineyards	3,291,268	3,791,733
Machinery and equipment	186,721,802	212,201,078
Increase arising from technical appraisal of fixed assets	12,378,192	11,783,709
Bottles and containers	77,350,106	81,831,630
Construction in progress	33,908,709	29,124,261
Fixed assets in transit	2,858,771	1,107,261
Other fixed assets	546,462	557,845
Accumulated depreciation	(117,232,404)	(136,275,623)
Total net	253,050,113	264,621,484
	=========	=========

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

	1996	1997
	ThCh$	ThCh$
Accounts receivable from related companies (Note 17)	6,624,764	14,412,903
Goodwill on investments (net)	20,714,215	18,561,343
Negative goodwill on investment in Compañía Industrial Cervecera S.A.(net)	-	(483,611)
Land and buildings held for sale	3,256,750	3,216,467
Investments in affiliated companies	5,634,215	7,688,203
Prepaid expenses	1,165,505	804,449
Deferred interest on bonds (Note 13)	735,565	684,545
Investments in other companies	702,208	186,772
Trademarks	3,212,748	3,209,953
Other	527,060	286,165
Total	42,573,030	48,567,189
	========	========

Investments in affiliated companies are detailed as follows:

	1996	1997
	ThCh$	ThCh$
Southern Breweries Establishment (1)	5,587,913	7,639,651
Other	46,302	48,552
Total	5,634,215	7,688,203
	=======	=======

(1) The Company's ownership interest in Southern Breweries Establishment is 50%. Its primary objective is to maintain an investment in Karlovacka Pivovara d.d., a brewery operating in Croatia. Southern Breweries Establishment had an ownership interest of 66.50% in Karlovacka Pivovara d.d. at December 31, 1996 and 68.80% at December 31, 1997.

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 10 years beginning in 1995.

Goodwill on investments is detailed as follows:

	1996	1997
	ThCh$	ThCh$
Southern Breweries Establishment	142,770	124,349
Viña San Pedro S.A.	4,531,156	4,240,174
Compañía Industrial Cervecera S.A.	3,534,300	3,101,529
Cervecería Santa Fe S.A.	12,505,989	11,095,291
Total	20,714,215	18,561,343
	========	========

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 48.38% to 50.10% by paying ThCh$ 607,383 for a 1.72% ownership interest.

b) In March 1995 a subsidiary, Compañía Cervecerías Unidas Argentina S.A. acquired 62.71% of Compañía Industrial Cervecera S.A. for ThCh$ 14,903,830 and in September 1995 acquired 98.77% of Cervecería Santa Fe S.A. for ThCh$ 20,135,258.

The acquisitions were accounted for as net book value purchases under Chilean GAAP and accordingly, the operations of Viña San Pedro S.A., Compañía Industrial Cervecera S.A. and Cervecería Santa Fe S.A. are included in the accompanying financial statements from April 1, 1995, January 1, 1995 and September 1, 1995, respectively. Had these acquisitions been consummated on January 1, 1995 the Company's revenues and earnings from continuing operations for 1995, on an unaudited pro forma basis, would have been as follows:

	1995
	ThCh$
Revenues (ThCh$)	218,810,267
Net income (ThCh$)	27,386,071
Earnings per share(Ch$)	104.77

During 1997, the Company increased its participation in Viña San Pedro S.A. from 50.10% to 51.24% by paying ThCh$ 4.465.659 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$ 3,567,856, generating a negative goodwill of ThCh$ 484,838. 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 the subsidiary 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.

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$ 29,269,471 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$ 5,072,015 (US$ 10,000,000) and a receivable from BAESA of ThCh$ 20,283,528 (US$ 40,000,000) which is payable in annual installments of approximately ThCh$ 5,070,882 plus corresponding 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, 1997, BAESA's total indebtedness including accrued interests to the Company was approximately US$ 31 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 allows 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:

	1996	1997
	ThCh$	ThCh$
United States dollars	18,158,317	13,307,218
Other foreign currencies	192,350	613,750
UFs	-	3,221,719
Pesos not indexed	7,346	21
Total	18,358,013	17,142,708
	========	========

The annual average rate of interest in 1997 on the above loans was approximately 7.46% (8.52% in 1996).

NOTE 12 - LONG-TERM DEBT

Long-term debt is comprised of:

	1996	1997
	ThCh$	ThCh$
Loans payable (generally in quarterly and semi-annual installments)	48,157,371	39,524,481
Bonds payable (Note 13)	39,744,126	35,928,622
Other long-term obligations	688,177	902,481
Total	88,589,674	76,355,584
Less: Current portion	(7,670,120)	(6,729,038)
Long-term portion	80,919,554	69,626,546
	========	========

Schedule maturities at December 31, 1997 are follows:

Maturing during the years	Bonds payable	Loans payable	Other	Total
	ThCh$	ThCh$	ThCh$	ThCh$
1998	4,504,670	2,088,476	135,892	6,729,038
1999	4,014,506	1,172,156	417,990	5,604,652
2000	4,201,383	4,323,992	115,027	8,640,402
2001	4,400,409	10,683,522	67,443	15,151,374
2002	1,139,502	10,683,524	130,675	11,953,701
2003 and thereafter	17,668,152	10,572,811	35,454	28,276,417
Total	35,928,622	39,524,481	902,481	76,355,584
	========	========	======	========

The Company signed an agreement with the Banco de Santiago on September 26, 1995 for a line of credit for the financing of the expansion of the bottling line of Embotelladoras Chilenas Unidas S.A., a subsidiary. The line of credit is for a maximum of 388,000 UFs and has a term of five years. Payments of principal and interest are due every six months beginning on March 30, 1997.

The agreement for the line of credit requires the Company to comply with the following covenants:

- Maintain established ratios of indebtedness and coverage of financial expenses.

- The present shareholders must maintain their shareholding of at least 51% of the Company.

Loans payable at December 31, 1996 included ThCh$ 4,108,075 drawn under this line of credit. The balance outstanding under the line of credit was paid back during 1997.

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

Bank	Currency	Short-term	Payable during the years ending December 31, 1999	2000	2001	2002	2003 and there after	Total at December 31, 1997	Annual interest rate
			ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	%
Banco BICE	UF	121,678	110,715	110,715	110,715	110,717	-	564,540	7.35
Citibank	US$	348,874	-	3,293,850	9,881,550	9,881,550	9,881,550	33,287,374	(1)
Banco Creditstanstalt	US$	84,401	11,414	-	-	-	-	95,815	5.32
Banco de A. Edwards	UF	468,262	466,961	466,961	423,133	423,133	423,171	2,671,621	8.77
Banco de Crédito Argentino	US$	38,821	4,141	-	-	-	-	42,962	5.19
Banco Francés	US$	180,324	-	-	-	-	-	180,324	5.29
Banco Santander	UF	420,741	419,736	419,736	268,124	268,124	268,090	2,064,551	8.77
BanSud	US$	114,121	-	-	-	-	-	114,121	6.47
Barclays Bank	US$	974	-	-	-	-	-	974	7.74
Banco Sudameris	UF	227,636	-	-	-	-	-	227,636	7.74
Banco Sudameris	US$	82,644	159,189	32,730	-	-	-	274,563	5.58
Total		2,088,476	1,172,156	4,323,992	10,683,522	10,683,524	10,572,811	39,524,481	
		=======	=======	=======	========	========	========	========	

(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, 1997 the Company had made eight 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, 1997 the Company had made six 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, 1997, ThCh$ 49,969 (ThCh$ 50,041 in 1996) are presented in Other current assets and ThCh$ 684,545 (ThCh$ 735,565 in 1996) 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:

	1996	1997
	ThCh$	ThCh$
Short-term		
Principal	3,679,535	3,839,037
Accrued interest	751,156	665,633
Total	4,430,691	4,504,670
Long-term		
Principal	35,313,435	31,423,952
Total	39,744,126	35,928,622
	========	========

NOTE 14 - ACCRUED EXPENSES

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

Short-term	1996	1997
	ThCh$	ThCh$
Salaries payable	160,911	140,558
Compulsory profit sharing benefits to employees	1,245,770	919,947
Advertising expenses	2,044,268	2,835,357
Fees	517,149	960,862
Directors' profit sharing (Note 20)	386,777	934,744
Provision for vacation expenses	2,710,877	2,751,192
Provision for lawsuits	984,406	149,041
Provision for service indemnities	211,307	110,680
Forward exchange contracts	240,676	172,294
Other accrued expenses	4,145,959	4,164,259
Total	12,648,100	13,138,934
	========	========

Long-term		
Provision for service indemnities	2,122,124	2,504,410
Other provisions:		
Provision for lawsuits	140,815	139,041
Forward exchange contracts	230,035	-
Other accrued expenses	14,626	-
Total	2,507,600	2,643,451
	========	=======

NOTE 15 - TAXES

a) The Company has income tax liabilities at December 31, 1997 amounting to ThCh$ 2,653,450 (ThCh$ 1,526,675 in 1996) and other taxes of ThCh$ 50,705 (ThCh$ 47,383 in 1996). Most of the income tax that would have been payable on 1996 and 1997 results of operations has been eliminated by the application of tax loss carryforwards which arose in prior years. At December 31, 1997 tax loss carry forwards, excluding Argentina, amounting to ThCh$ 33,029,400 (ThCh$ 36,066,476 in 1996) 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:

	1996		1997	
	Short-term	Long-term	Short-term	Long-term
	ThCh$	ThCh$	ThCh$	ThCh$
Depreciation	(15,915)	(6,663,703)	100,340	(7,848,340)
Employee severance indemnities	-	(68,112)	-	(94,961)
Goodwill and negative goodwill (net)	-	31,814	-	31,814
Market value adjustment of other investments	-	137,845	-	150,019
Allowance for property, plant and equipment and containers	-	2,164,977	-	1,858,548
Rights and trademarks	-	25,417	-	25,417
Provisions	-	-	-	(32,014)
Net assets (liabilities)	(15,915)	(4,371,762)	100,340	(5,909,517)
	=====	=======	======	=======

The income tax provision during the years 1995, 1996 and 1997 is summarized as follows:

	1995	1996	1997
	ThCh$	ThCh$	ThCh$
Deferred income tax provision	(907,034)	(890,088)	(1,421,500)
Current tax provision	(1,778,335)	(1,574,058)	(2,704,155)
	(2,685,369)	(2,464,146)	(4,125,655)
	=======	=======	=======

The Company has a net unrecorded liability for deferred taxes under Chilean GAAP at December 31, 1997 of ThCh$ 35,246, due principally to accelerated depreciation for which new timing differences of a similar nature are expected to arise in the years in which the accelerated depreciation is expected to reverse.

As from January 1, 1999, the Company must apply Technical Bulletin N° 60 of the Chilean Institute of Accountants concerning deferred taxes. This requires the recording of deferred tax 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 form 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 liability becomes due.

NOTE 16 - SHAREHOLDERS' EQUITY

The changes in the Shareholders' equity accounts during 1995, 1996 and 1997 were as follows:

	Number of shares	Common stock	Share Premium	Other reserves: Surplus on technical appraisal of fixed assets	Other reserves: Other	Retained earnings: Retained earnings	Retained earnings: Net income for the year	Total
		ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Balances at December 31 1994 (historical)	261,394,438	46,638,384	6,945,973	2,382,429	(25,564)	61,771,969	25,198,675	142,911,866
Transfer of 1994 income	-	-	-	-	-	25,198,675	(25,198,675)	-
Share premium from Viña San Pedro S.A.	-	-	-	-	19,799	-	-	19,799
Final dividend of Ch$ 24.76 per share	-	-	-	-	-	(6,472,231)	-	(6,472,231)
Price-level restatement	-	3,824,347	569,570	195,358	(1,165)	6,743,261	-	11,331,371
Interim dividend of Ch$ 19.00 per share	-	-	-	-	-	-	(4,966,494)	(4,966,494)
Net income for the year	-	-	-	-	-	-	25,079,269	25,079,269
Balances at December 31, 1995	261,394,438	50,462,731	7,515,543	2,577,787	(6,930)	87,241,674	20,112,775	167,903,580
Balances at December 31, 1995 restated in constant December 31, 1997 pesos	-	57,182,247	8,516,297	2,921,039	(7,852)	98,858,601	22,790,953	190,261,285
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 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, 1997 pesos	-	77,351,548	8,516,297	2,921,039	(7,852)	116,012,169	16,219,944	221,013,145
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 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

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, 1997 aggregated ThCh$ 127,298,708 and consisted of 310,829,080 shares with no par value.

b) 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).

c) 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 1996 and 1997. The previous policy consisted of distributing an annual dividend equivalent to 40% of net income.

d) The Board of Directors' Meeting held on December 23, 1996 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, 1997. An additional interim dividend of ThCh$ 355,723 (historical) was also paid from net income for 1996 on all additional shares acquired by shareholders from the Company during the period from January 1 to January 21, 1997.

e) 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). The stock issuance expenses are shown deducted in the movement of shareholders' equity.

f) 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).

g) The Board of Directors' Meeting held on December 4, 1995 agreed to distribute an interim dividend of Ch$ 19.00 per share for a total of ThCh$ 4,966,494 (historical).

h) The Ordinary Shareholders' Meeting held on April 27, 1995 agreed to distribute a final dividend of Ch$ 24.76 per share for a total of ThCh$ 6,472,231 (historical).

NOTE 17 - ACCOUNTS WITH RELATED COMPANIES

The consolidated balance sheet at December 31, 1996 and 1997 includes the following accounts with related companies:

	1996		1997	
Entity	Receivable	Payable	Receivable	Payable
	ThCh$	ThCh$	ThCh$	ThCh$
Compañía de Petróleos de Chile S.A.	-	1,285	-	16,454
Confia Tour Ltda.	-	-	-	246,272
Alusa S.A.	-	4,788	-	1,266
Polymer S.A.	-	795	-	-
Industrias Combinadas Gaio, Peirano S.A.	-	24,416	-	3,120
Cotelsa S.A.	-	3,770	-	2,111
Hoteles Carrera S.A.	-	7,107	-	6,802
Nieto S.A.	7,798	-	7,336	-
Inversiones PFI Chile Ltda.	377,168	80	356,592	55,178
Southern Breweries Establishment	1,965,620	-	1,766,522	-
Lanzville Investments Establishment	142,776	-	120,738	-
Anheuser - Bush International Holdings, Inc.	8,695	785,440	3,288	789,700
Banco Santiago	662	-	416	-
Banco Tornquist	1,895	-	216	-
Inmobiliaria del Norte S.A.	-	1,620	-	1,638
VTR Transradio Chilena S.A.	-	20,402	-	10,038
Pepsi Cola Argentina	-	537	-	-
Alupack S.A.	-	20,002	-	10,391
Editorial Trineo S.A.	-	21,987	-	19,656
Lucchetti S.A.	148	-	143	-
Radio Difusión y Sonido S.A.	-	1,600	-	-
Industrias Polymer S.A.	-	-	-	227
Uruguay Preforms S.A.	5,633	677	-	-
Buenos Aires Embotelladora S.A.	13,723,738	15,236	13,441,582	-
Inversiones Punch Ltda.	-	7,042	-	6,605
Pepsi Cola Engarrafadora Ltda.	-	5,101	-	-
Karlovacka Pivovara d.d.	-	-	253,642	-
Yalder S.A.	-	11,767	-	-
Total	16,234,133	933,652	15,950,475	1,169,458

The balances receivable at December 31, 1996 and 1997 are included in the financial statements as follows:

	1996	1997
	ThCh$	ThCh$
Current assets		
Accounts receivable	9,609,369	1,537,572
Other assets		
Accounts receivable from related companies (Note 9)	6,624,764	14,412,903
Total	16,234,133	15,950,475
	========	========

NOTE 18 - TRANSACTIONS WITH RELATED COMPANIES

The principal transactions with related parties are detailed below:

Company	Relationship	Transaction	Amounts 1995	1996	1997
			ThCh$	ThCh$	ThCh$
Alupack S.A.	Affiliate	Purchase of materials	117,776	62,794	115,659
Banco Santiago (formerly Banco O'Higgins)	Affiliate	Interest on long-term debt	99,495	159,257	84,125
		Time deposits on investments	-	3,095,326	16,551,122
		Loans obtained	-	307,113	439,180
		Long-term loans paid	-	-	5,478,180
Turismo Confia Tour Ltda.	Affiliate	Purchase of passenger tickets	402,167	315,035	521,579
Editorial Trineo S.A.	Affiliate	Purchase of materials	-	-	161,291
Hoteles Carrera S.A.	Affiliate	Services received (expense)	-	292	19,641
Inmobiliaria del Norte S.A.	Affiliate	Services received (expense)	-	20,301	19,897
Industrias Combinadas Gaio, Peirano S.A.	Shareholder	Purchase of raw materials	292,743	107,905	74,293
Karlovacka Pivovara d.d.	Affiliate	Services rendered (income)	-	152,276	236,356
Lanzville Investments Establishment	Affiliate	Advances on current account	-	40,943	(22,038)
F.H.I. Finance Holding International B.V. (Paulaner Overseas Breweries B.V.)	Affiliate	License agreement and technical services	64,905	88,338	80,798
Inversiones PFI Chile Ltda.	Affiliate	Purchase of raw materials	4,635,440	5,065,627	3,627,286
		Purchase of equipment	374,749	711,762	161,546
		Share of expenses	1,783,581	1,048,328	1,227,394
		Reimbursement of advertising expenses	490,559	1,103,514	798,475
Uruguay Preforms S.A.	Affiliate	Purchase of supplies	885,831	-	-
		Sale of assets	61,518	-	-
Buenos Aires Embotelladoras S.A.	Minority interest	Purchase of raw materials	301,328	-	-
		Expenses incurred for Baesa's account	6,219	142,702	44,133
		Purchase of finished products	1,284,301	375,794	-

Company	Relationship	Transaction	Amounts 1995	1996	1997
			ThCh$	ThCh$	ThCh$
Pepsi Cola Puerto Rico Bottling Co.	Shareholder	Purchase of equipment	98,914	-	-
Southern Breweries Establishment	Equity investee	Advances on current account	636,129	(162,840)	199,098
Compañía de Petróleos de Chile S.A.	Affiliate	Purchase of raw materials	22,745	-	-
Anheuser Busch Lad Corporation	Affiliate	Technical assistance	-	-	39,526
Anheuser Busch Inc.	Affiliate	Royalty for Budweiser	-	-	412,214
		Purchase of raw materials and beer	-	-	2,678,767
Cotelsa S.A.	Affiliate	Sales of pallets	-	13,172	16,743
VTR Transradio Chilena S.A.	Affiliate	Purchase of services	157,450	126,334	111,179
Radiodifusión y Sonido S.A.	Affiliate	Publicity	16,752	16,753	18,307

NOTE 19 - COMMITMENTS AND CONTINGENCIES

a) At December 31, 1997, Viña San Pedro S.A. had granted mortgages and pledges over certain of its property and equipment with a book value amounting to ThCh$ 12,647,720 to guarantee obligations aggregating ThCh$ 11,967,586.

b) At December 31, 1997, Cervecería Santa Fe S.A. had granted mortgages and pledges over certain of its property and equipment with a book value amounting to ThCh$ 1,514,438 to guarantee obligations aggregating ThCh$ 433,222.

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 1995 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, 1997 between the Company, Compañía Cervecerías Unidas Argentina S.A. and Anheuser-Busch Internacional 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 4.43% at December 31, 1997.

NOTE 20 - REMUNERATION OF DIRECTORS

During 1997, the Directors of the Parent Company and its subsidiaries received ThCh$ 467,814 (ThCh$ 231,553 in 1995 and ThCh$ 484,432 in 1996) 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 1997 an accrual was recorded in the amount of ThCh$ 934,744 corresponding to the Directors' participation in net income for 1997 (ThCh$ 568,188 in 1995 and ThCh$ 386,777 in 1996). 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:

	1995	1996	1997
	ThCh$	ThCh$	ThCh$
Interest earned from investments in banks and other financial institutions	3,983,344	3,053,336	7,959,314
Equity in net income of affiliated companies	2,088,093	2,044,538	2,053,989
Amortization of negative goodwill	-	-	24,907
Gain on sale of properties held for sale and other assets	8,450,218	-	4,484,053
Rent	286,096	167,674	205,098
Dividends received	78,275	61,027	53,390
Reversal of provision for lawsuits	-	-	442,332
Fee from granting extension of due date of loan payable by BAESA	-	-	235,816
Recovery of severance indemnities	-	551,121	-
Insurance recoveries	-	396,557	62,220
Gain from non-participation in capital increase of Argentine subsidiary	-	87,464	-
Other	334,153	954,200	1,031,958
Total for the year	15,220,179	7,315,917	16,553,077

NOTE 22 - SELLING AND ADMINISTRATIVE AND NON-OPERATING EXPENSES

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

	1995	1996	1997
	ThCh$	ThCh$	ThCh$
Salaries	30,442,494	33,524,746	33,190,624
Advertising and promotion expenses	27,406,768	31,118,958	32,673,753
Transportation	7,418,268	7,623,817	7,486,839
Maintenance and general expenses	9,050,636	9,803,963	9,767,786
Services purchased	5,015,362	6,388,067	7,405,959
Electricity	761,633	683,965	701,786
Other	5,346,023	5,167,002	7,411,271
Total for the year	85,441,184	94,310,518	98,638,018
	========	========	========

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

	1995	1996	1997
	ThCh$	ThCh$	ThCh$
Interest expense	6,759,772	7,665,779	6,748,423
Amortization of goodwill	1,429,770	2,476,151	2,483,690
Amortization of intangible assets	100,004	185,700	219,959
Adjustment to market value of Other investments	13,300	11,647	645
Accrued loss from litigation	84,223	16,557	278,304
Write-off of property, plant and equipment due to obsolescence and closings of plants	174,562	340,999	772,642
Equity in net losses of investments in related companies	149,874	-	-
Other	978,848	829,058	771,089
Total for the year	9,690,353	11,525,891	11,274,752
	=======	========	========

NOTE 23 - SEGMENT INFORMATION

During 1996 the Company changed the basis used to allocate costs and expenses of the head office to each segment. In 1995 such costs and expenses were allocated principally to the Chilean beer segment . In 1996 management created SBUs (Strategic Business Units) and decided that head office expenses should be allocated based on both volumes and head counts of each segment. The 1995 segment information has been retroactively restated to reflect this new criteria.

Segment information is presented below:

	1995								
	Beer		Soft drinks and mineral water		Wine		Other	Eliminations	Consolidated
	ThCh$		ThCh$		ThCh$		ThCh$	ThCh$	ThCh$
Sales to unaffiliated customers	117,846,187	(1)	81,498,776	(2)	12,523,149	(3)	253,759	-	212,121,871
Intersegment sales	-		-		-		7,562,455	(7,562,455)	-
Total revenue	117,846,187		81,498,776		12,523,149		7,816,214	(7,562,455)	212,121,871
	=========		========		========		========	=======	=========
Operating profit	25,414,643		3,800,368		(638,781)		(490,692)	-	28,085,538
	=========		========		========		========	=======	
Equity in net income of affiliated companies									1,938,219
Other income (general corporate income)									9,148,742
Interest expense (net)									(2,776,428)
Other expenses (general corporate expenses)									(2,780,707)
Price-level restatement									(330,352)
Income from continuing operations before income tax and minority interest									33,285,012
									=========
Identifiable assets at December 31	204,330,135		94,952,385		23,202,186		10,674,275	-	333,158,981
	=========		=========		========		========	=======	
Cash and cash equivalents									33,890,421
Investments in affiliated and other companies									4,328,725
Goodwill									23,190,367
Corporate assets									23,409,066
Total assets									417,977,560
									=========

(1) Sales of the beer segment include:

	1995
	ThCh$
Beer	114,072,793
By-products	586,717
Other products	3,186,677
	117,846,187
	=========

(2) Sales of the soft drinks segment include:

	1995
	ThCh$
Carbonated drinks	68,950,530
Nectars	1,445,169
Powdered mix	489,364
Mineral water	10,439,638
Other products	174,075
	81,498,776
	========

(3) Sales of the wine segment include:

	1995
	ThCh$
Wine	12,459,521
By-products	38,150
Other products	25,478
	12,523,149
	========

	Beer		Soft drinks and mineral water		Wine		Other	Eliminations	Consolidated
	1996								
	ThCh$		ThCh$		ThCh$		ThCh$	ThCh$	ThCh$
Sales to unaffiliated customers	132,945,216	(1)	88,895,478	(2)	19,198,416	(3)	590,216	-	241,629,326
Intersegment sales	-		-		-		9,871,191	(9,871,191)	-
Total revenue	132,945,216		88,895,478		19,198,416		10,461,407	(9,871,191)	241,629,326
	=========		=========		========		========	=======	=========
Operating profit	23,035,425		6,487,680		451,351		(291,575)	-	29,682,881
	=========		=========		========		========	=======	
Equity in net income of affiliated companies									2,044,538
Other income (general corporate income)									2,218,043
Interest expense (net)									(4,612,443)
Other expenses (general corporate expenses)									(3,860,112)
Price-level restatement									(413,958)
Income from continuing operations before income tax and minority interest									25,058,949
									=========
Identifiable assets at December 31	221,151,177		95,981,136		23,376,781		12,728,288	-	353,237,382
	=========		=========		========		========	=======	
Cash and cash equivalents									36,103,196
Investments in affiliated and other companies									6,336,423
Goodwill									20,714,215
Corporate assets									25,432,245
Total assets									441,823,461
									=========

(1) Sales of the beer segment include:

	1996
	ThCh$
Beer	129,629,764
By-products	726,845
Other products	2,588,607
	132,945,216
	=========

(2) Sales of the soft drinks segment include:

	1996
	ThCh$
Carbonated drinks	75,045,296
Nectars	1,566,815
Powdered mix	392,758
Mineral water	11,107,563
Other products	783,046
	88,895,478
	========

(3) Sales of the wine segment include:

	1996
	ThCh$
Wine	18,929,152
By-products	185,132
Other products	84,132
	19,198,416
	========

	1997								
	Beer		Soft drinks and mineral water		Wine		Other	Eliminations	Consolidated
	ThCh$		ThCh$		ThCh$		ThCh$	ThCh$	ThCh$
Sales to unaffiliated customers	147,172,914	(1)	87,225,522	(2)	27,072,390	(3)	342,362	-	261,813,188
Intersegment sales	-		-		-		7,942,826	(7,942,826)	-
Total revenue	147,172,914		87,225,522		27,072,390		8,285,188	(7,942,826)	261,813,188
	=========		=========		========		========	========	=========
Operating profit	29,421,650		9,855,092		2,456,628		321,514	-	42,054,884
	=========		=========		========		========	========	
Equity in net income of affiliated companies									2,053,989
Other income (general corporate income)									6,539,774
Interest expense (net)									1,210,891
Other expenses (general corporate expenses)									(4,526,329)
Price-level restatement									(348,931)
Income from continuing operations before income tax and minority interest									46,984,278
									=========
Identifiable assets at December 31	226,488,586		99,949,891		31,603,249		12,328,360	-	370,370,086
	=========		=========		========		========	=======	
Cash and cash equivalents									50,138,037
Investments in affiliated and other companies									7,874,975
Goodwill									18,561,343
Negative goodwill									(483,611)
Corporate assets									67,046,267
Total assets									513,507,097
									=========

(1) Sales of the beer segment include:

	1997
	ThCh$
Beer	143,304,873
By-products	717,047
Other products and services	3,150,994
	147,172,914
	=========

(2) Sales of the soft drinks segment include:

	1997
	ThCh$
Carbonated drinks	71,759,894
Nectars	1,837,944
Powdered mix	277,889
Mineral water	12,440,943
Other products	908,852
	87,225,522
	========

(3) Sales of the wine segment include:

	1997
	ThCh$
Wine	25,730,395
Other products	1,341,995
	27,072,390
	========

As indicated in Note 9, during 1995 the Company acquired two breweries in Argentina, Compañía Industrial Cervecera S.A. ("CICSA") and Cervecería Santa Fe S.A. Prior to the acquisition of these two Argentine subsidiaries, substantially all of the Company's operations were in Chile.

The Company operates principally in four segments which comprise the production and sale of beer, 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.

Depreciation was allocated to each of the segments as follows:

Segment	1995	1996	1997
	ThCh$	ThCh$	ThCh$
Beer	12,077,082	14,578,240	15,460,493
Soft drinks and mineral water	8,608,052	9,189,528	10,027,814
Wine	441,543	722,311	838,540
Other	679,369	694,211	764,456
Total	21,806,046	25,184,290	27,091,303

Capital expenditures for each of the segments were as follows:

Segment	1995	1996	1997
	ThCh$	ThCh$	ThCh$
Beer	59,016,713	32,366,263	33,199,311
Soft drinks and mineral water	16,394,983	10,429,124	8,781,826
Wine	5,564,270	1,219,389	4,155,926
Other	2,446,834	3,110,221	1,975,669
Total	83,422,800	47,124,997	48,112,732

Information about the company's operations in different geographic areas is as follows:

	1995			
	Chile	Argentina	Eliminations	Consolidated
	ThCh$	ThCh$	ThCh$	ThCh$
Sales to unaffiliated customers	197,410,233	14,711,638	-	212,121,871
Operating profit (loss)	27,272,188	813,350	-	28,085,538
Equity in net income of affiliated companies				1,938,219
Other income (general corporate income)				9,148,742
Interest expense (net)				(2,776,428)
Other expenses (general corporate expenses)				(2,780,707)
Price-level restatement				(330,352)
Income from continuing operations before income tax and minority interest				33,285,012
Total assets at December 31	359,886,819	62,023,549	(3,932,808)	417,977,560

	1996			
	Chile	Argentina	Eliminations	Consolidated
	ThCh$	ThCh$	ThCh$	ThCh$
Sales to unaffiliated customers	216,392,271	25,249,914	(12,859)	241,629,326
Operating profit (loss)	29,599,360	93,975	(10,454)	29,682,881
Equity in net income of affiliated companies				2,044,538
Other income (general corporate income)				2,218,043
Interest expense (net)				(4,612,443)
Other expenses (general corporate expenses)				(3,860,112)
Price-level restatement				(413,958)
Income from continuing operations before income tax and minority interest				25,058,949
Total assets at December 31	370,173,559	71,757,035	(107,133)	441,823,461

	1997			
	Chile	Argentina	Eliminations	Consolidated
	ThCh$	ThCh$	ThCh$	ThCh$
Sales to unaffiliated customers	227,269,970	35,112,978	(569,760)	261,813,188
Operating profit (loss)	40,982,346	1,314,386	(241,848)	42,054,884
Equity in net income of affiliated companies				2,053,989
Other income (general corporate income)				6,539,774
Interest expense (net)				1,210,891
Other expenses (general corporate expenses)				(4,526,329)
Price-level restatement				(348,931)
Income from continuing operations before income tax and minority interest				46,984,278
Total assets at December 31	429,723,263	84,084,751	(300,917)	513,507,097

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, 1997 was approximately 22.2%.

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:

	1995	1996	1997
	ThCh$	ThCh$	ThCh$
Restatement of non-monetary accounts based on Consumer Price Index:			
Property, plant and equipment and bottles and containers	17,098,250	15,661,193	15,532,456
Investments in related companies	17,477	455,516	333,918
Investments in other companies and marketable securities	178,863	130,816	112,306
Other assets	4,224,369	4,173,382	7,077,963
Shareholders' equity	(12,840,233)	(11,526,716)	(15,540,306)
Net adjustment of assets and liabilities denominated in foreign currency	(458,556)	(3,514,568)	(1,652,137)
Adjustment of inventories to replacement cost	1,076,342	1,339,353	1,326,252
Increase in liabilities denominated in UFs due to indexation	(7,520,961)	(5,698,096)	(5,569,979)
Net restatements of income and expense accounts in terms of year end constant pesos	(2,105,903)	(1,434,838)	(1,969,404)
Price-level restatement gain (loss)	(330,352)	(413,958)	(348,931)
	=======	========	========

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 l) 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 l) below.

d) Revaluation of land held for sale

Net income reported in the Chilean GAAP financial statements as of 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 l) 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 l) 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 Embotelladoras Chilenas Unidas S.A. 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 l) 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 l) 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 ten years. 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 ten years. 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 l) 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 exceeds 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 1995, 1996 and 1997 are classified as Non-operating income and expenses whereas under US GAAP they would be classified as Operating expenses:

	1995	1996	1997
	ThCh$	ThCh$	ThCh$
Non-operating income:			
Amortization of negative goodwill	-	-	(24,907)
Non-operating expenses:			
Amortization of goodwill	1,429,770	2,476,151	2,483,690
Amortization of intangible assets	100,004	185,700	219,959
Accrued loss from litigation	84,223	16,557	278,304
Write-off of property, plant and equipment due to obsolescence and closings of plants	174,562	340,999	772,642
	1,788,559	3,019,407	3,754,595

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 l) below to recognize the corresponding decrease in net equity at December 31 of each year.

k) Trademarks

Under Chilean GAAP trademarks are not required to be amortized. Under US GAAP trademarks should be amortized over a period not exceeding 40 years. Accordingly, trademarks held by Viña San Pedro S.A. are being amortized in conformity with accounting principles generally accepted in the United States and reflected in the reconciliation in paragraph 1 l) below.

l) 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, 1997 purchasing power):

	1995	1996	1997
	ThCh$	ThCh$	ThCh$
Net income as shown in the Chilean GAAP financial statements	28,418,775	19,318,628	37,389,767
Description of items having the effect of increasing reported income:			
1 Reversal of additional depreciation on revaluation increment of fixed assets (par. 1b)	47,767	47,767	5,489
2 Inclusion of labor and overhead in inventories (par. 1 c)	223,954	-	174,808
3 Revaluation of fixed assets sold (par. 1b)	-	-	468,493
4 Adjustment of amortization of goodwill on purchases of equity investments and subsidiaries in Argentina (par. 1h)	1,072,522	1,857,114	1,862,626
5 Effect of US GAAP adjustment of Embotelladoras Chilenas Unidas S.A. (par. 1f)	599,057	-	923,375
6 Deferred income taxes (par. 1e)	-	5,968,196	458,460
Description of items having the effect of decreasing reported income:			
1 Inclusion of labor and overhead in inventories (par. 1c)	-	(53,266)	-
2 Adjustment of amortization of negative goodwill on purchases of equity investments and subsidiaries in Argentina (par. 1 h)	-	-	(18,681)
3 Deferred income taxes (par. 1e)	(4,386,150)	-	-
4 Trading securities (par. 1g)	(753,876)	-	-
5 Amortization of trademark for Viña San Pedro S.A. (par. 1k)	-	(115,592)	(77,062)
6 Effect of US GAAP adjustments of Embotelladoras Chilenas Unidas S.A. (par. 1 f)	-	(2,842,709)	-
Net income according to US GAAP	25,222,049	24,180,138	41,187,275
	========	========	========

In addition, as described in paragraph 1 i) above, under Chilean GAAP Non-operating expenses aggregating ThCh$ 1,788,559 in 1995, ThCh$ 3,019,407 in 1996 and ThCh$ 3,754,595 in 1997 and non-operating income aggregating ThCh$ 24,907 in 1997 would be reclassified to Operating expenses under US GAAP.

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

	1995	1996	1997
	ThCh$	ThCh$	ThCh$
Net equity as shown in the Chilean GAAP financial statements	190,261,285	221,013,145	292,277,300
Reversal of revaluation of property, plant and equipment (par. 1b)	(7,043,390)	(7,043,390)	(6,454,238)
Reversal of accumulated depreciation on revaluation of property, plant and equipment (par. 1b)	549,848	597,615	482,445
Inclusion of labor and overhead in inventories (par. 1c)	326,939	273,673	448,481
Exclusion of revaluation of land held for sale (par. 1d)	(2,830,573)	(2,830,573)	(2,830,573)
Minimum dividend permitted by law, equivalent to 30% of net income for the year determined in accordance with Chilean accounting principles (par. 1j)	(2,897,810)	(2,696,904)	(1,581,228)
Asset (liabilities) from deferred income taxes under FAS 109 (par. 1e)	(1,805,110)	4,163,086	4,621,546
Available-for-sale securities (par. 1g)	(66,733)	8,918	(126,565)
Adjustment of goodwill on equity investments (par. 1h)	1,179,682	3,036,796	4,899,422
Adjustment of negative goodwill on equity investments (par. 1 h)	-	-	(18,681)
Effect of US GAAP adjustment of Embotelladoras Chilenas Unidas S.A. (par. 1 f)	599,057	(2,243,653)	(1,320,278)
Amortization of trademark for Viña San Pedro S.A. (par. 1k)	-	(115,592)	(192,654)
Net equity according to US GAAP	178,273,195	214,163,121	290,204,977
	=========	=========	=========

The following summarizes the changes in Shareholders' equity under U.S. GAAP during the years ended December 31, 1995, 1996 and 1997:

	ThCh$
Balance at January 1, 1995	165,285,356
Reversal of accrued minimum dividend from prior year	4,108,769
Dividend declared	(13,401,925)
Minimum dividend at year-end required by law	(2,897,810)
Increase in equity arising from an issuance of shares of Viña San Pedro S.A. in which the Company did not participate	23,490
Net income for the year	25,222,049
Gross unrealized losses on investments that are available-for-sale	(66,733)
Balance at December 31, 1995	178,273,196
Reversal of accrued minimum dividend from prior year	2,897,810
Dividend declared	(8,736,071)
Increase in capital	20,169,301
Minimum dividend at year-end required by law	(2,696,904)
Net income for the year	24,180,138
Reversal of gross unrealized losses on investments that are available-for-sale from prior year	66,733
Gross unrealized gain on investments that are available-for-sale at year-end	8,918
Balance at December 31, 1996	214,163,121
Reversal of accrued minimum dividend from prior year	2,696,904
Dividend declared	(16,072,772)
Increase in capital	49,947,160
Minimum dividend at year-end required by law	(1,581,228)
Net income for the year	41,187,275
Reversal of gross unrealized gain on investments that are available-for-sale from prior year	(8,918)
Gross unrealized gain on investments that are available-for-sale at year-end	(126,565)
Balance at December 31, 1997	290,204,977
	=========

2 US GAAP Condensed Financial Statements

The above reconciling items affect the consolidated balance sheet as of December 31, 1996 and 1997 and the income statement for the three years in the period ended December 31, 1997 as follows:

CONSOLIDATED BALANCE SHEET

Adjusted for general price-level changes and expressed in thousands of constant Chilean pesos of December 31, 1997

	As of December 31, 1996				
	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)	36,103,196	(2,733,264)	33,369,932	-	33,369,932
Time deposits	10,826,126	-	10,826,126	(10,826,126)	-
Marketable securities (trading securities)	477,188	-	477,188	(217,064)	260,124
Accounts receivable - trade and other	49,749,469	(13,425,424)	36,324,045	-	36,324,045
Accounts receivable from related companies	9,609,369	1,271,068	10,880,437	-	10,880,437
Inventories	31,191,781	(4,691,468)	26,500,313	273,673	26,773,986
Prepaid expenses	4,529,987	(1,366,243)	3,163,744	-	3,163,744
Prepaid taxes	2,697,664	(121,944)	2,575,720	-	2,575,720
Investments available for sale	-	-	-	11,852,170	11,852,170
Other current assets	1,015,538	(76,050)	939,488	(800,062)	139,426
Total current assets	146,200,318	(21,143,325)	125,056,993	282,591	125,339,584
PROPERTY, PLANT AND EQUIPMENT, net	253,050,113	(55,662,466)	197,387,647	(6,445,775)	190,941,872
OTHER ASSETS	42,573,030	26,496,383	69,069,413	(2,153,022)	66,916,391
Total assets	441,823,461	(50,309,408)	391,514,053	(8,316,206)	383,197,847
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short-term borrowings	18,358,013	(135,385)	18,222,628	-	18,222,628
Current portion of long-term debt	7,670,120	(1,516,044)	6,154,076	-	6,154,076
Dividends payable	3,720,826	(314,713)	3,406,113	2,696,904	6,103,017
Accounts payable	20,404,887	(7,403,930)	13,000,957	-	13,000,957
Notes payable	3,642,684	-	3,642,684	-	3,642,684
Sundry creditors	277,411	-	277,411	-	277,411
Accounts payable to related companies	933,652	3,216,973	4,150,625	-	4,150,625
Accrued expenses	12,648,100	(3,387,264)	9,260,836	-	9,260,836
Taxes and social security charges payable	7,884,691	(2,206,971)	5,677,720	-	5,677,720
Other current liabilities	333,502	-	333,502	(15,914)	317,588
Total current liabilities	75,873,886	(11,747,334)	64,126,552	2,680,990	66,807,542
LONG-TERM LIABILITIES					
Long-term debt	80,919,554	(4,153,670)	76,765,884	-	76,765,884
Accrued expenses	2,507,600	(362,024)	2,145,576	-	2,145,576
Deferred income taxes	4,371,762	-	4,371,762	(4,147,172)	224,590
Deposits on bottles and containers	20,635,392	(11,390,484)	9,244,908	-	9,244,908
Total long-term liabilities	108,434,308	(15,906,178)	92,528,130	(4,147,172)	88,380,958
Total liabilities	184,308,194	(27,653,512)	156,654,682	(1,466,182)	155,188,500
MINORITY INTEREST	36,502,122	(22,655,896)	13,846,226	-	13,846,226
SHAREHOLDERS' EQUITY	221,013,145	-	221,013,145	(6,850,024)	214,163,121
Total liabilities and shareholders' equity	441,823,461	(50,309,408)	391,514,053	(8,316,206)	383,197,847

(1) This caption includes time deposits, marketable securities and securities under resale agreements amounting to ThCh$ 3,747,139, ThCh$ 1,646,001 and ThCh$ 10,548,715, which are cash equivalents.

CONSOLIDATED BALANCE SHEET

Adjusted for general price-level changes and expressed in thousands
of constant Chilean pesos of December 31, 1997

	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)	50,138,037	(7,460,934)	42,677,103	-	42,677,103
Time deposits	45,465,901	-	45,465,901	(45,465,901)	-
Marketable securities (trading securities)	268,941	-	268,941	(268,941)	-
Accounts receivable - trade and other	54,749,908	(12,416,797)	42,333,111	-	42,333,111
Accounts receivable from related companies	1,537,572	1,781,530	3,319,102	-	3,319,102
Inventories	31,681,592	(4,570,382)	27,111,210	448,481	27,559,691
Prepaid expenses	5,622,358	(2,136,353)	3,486,005	-	3,486,005
Prepaid taxes	2,975,919	217,973	3,193,892	-	3,193,892
Investments available for sale	-	-	-	53,218,054	53,218,054
Other current assets	7,878,196	(51,517)	7,826,679	(7,710,117)	116,562
Total current assets	200,318,424	(24,636,480)	175,681,944	221,576	175,903,520
PROPERTY, PLANT AND EQUIPMENT, net	264,621,484	(55,357,514)	209,263,970	(5,971,793)	203,292,177
OTHER ASSETS	48,567,189	30,596,544	79,163,733	537,236	79,700,969
Total assets	513,507,097	(49,397,450)	464,109,647	(5,212,981)	458,896,666
	=========	=========	=========	=======	=========
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short-term borrowings	17,142,708	(97,448)	17,045,260	-	17,045,260
Current portion of long-term debt	6,729,038	(18,126)	6,710,912	-	6,710,912
Dividends payable	9,898,009	-	9,898,009	1,581,228	11,479,237
Accounts payable	22,403,091	(9,054,378)	13,348,713	-	13,348,713
Notes payable	2,286,882	-	2,286,882	-	2,286,882
Sundry creditors	2,113,775	(146,594)	1,967,181	-	1,967,181
Accounts payable to related companies	1,169,458	3,429,473	4,598,931	-	4,598,931
Accrued expenses	13,138,934	(3,690,264)	9,448,670	-	9,448,670
Taxes and social security charges payable	6,952,138	(2,232,537)	4,719,601	-	4,719,601
Other current liabilities	117,122	-	117,122	-	117,122
Total current liabilities	81,951,155	(11,809,874)	70,141,281	1,581,228	71,722,509
LONG-TERM LIABILITIES					
Long-term debt	69,626,546	(401,106)	69,225,440	-	69,225,440
Accrued expenses	2,643,451	(375,325)	2,268,126	-	2,268,126
Deferred income taxes	5,909,517	(751,065)	5,158,452	(4,721,886)	436,566
Deposits on bottles and containers	20,747,849	(10,547,562)	10,200,287	-	10,200,287
Total long-term liabilities	98,927,363	(12,075,058)	86,852,305	(4,721,886)	82,130,419
Total liabilities	180,878,518	(23,884,932)	156,993,586	(3,140,658)	153,852,928
MINORITY INTEREST	40,351,279	(25,512,518)	14,838,761	-	14,838,761
SHAREHOLDERS' EQUITY	292,277,300	-	292,277,300	(2,072,323)	290,204,977
Total liabilities and shareholders' equity	513,507,097	(49,397,450)	464,109,647	(5,212,981)	458,896,666
	=========	=========	=========	=======	=========

(1) This caption includes time deposits, marketable securities and securities under resale agreements amounting to ThCh$ 18,334,141, ThCh$ 730,385, and ThCh$ 26,088,999 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, 1997

	For the year ended December 31, 1995				
	Consolidated statement of income under Chilean GAAP	Adjustments to desconsolidate 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	212,121,871	(74,888,440)	137,233,431	-	137,233,431
Cost of sales	(98,595,149)	43,394,619	(55,200,530)	271,721	(54,928,809)
Gross margin	113,526,722	(31,493,821)	82,032,901	271,721	82,304,622
Selling and administrative expenses	(85,441,184)	25,159,537	(60,281,647)	(716,036)	(60,997,683)
Operating income	28,085,538	(6,334,284)	21,751,254	(444,315)	21,306,939
NON-OPERATING RESULTS					
Non-operating income	15,220,179	2,570,999	17,791,178	(154,819)	17,636,359
Non-operating expenses	(9,690,353)	1,282,851	(8,407,502)	1,788,558	(6,618,944)
Price-level restatements	(330,352)	(566,127)	(896,479)	-	(896,479)
Income before income tax and minority interest	33,285,012	(3,046,561)	30,238,451	1,189,424	31,427,875
Income tax	(2,685,369)	-	(2,685,369)	(4,386,150)	(7,071,519)
Minority interest	(2,180,868)	3,046,561	865,693	-	865,693
NET INCOME	28,418,775	-	28,418,775	(3,196,726)	25,222,049
	=========	========	=========	=======	=========

CONSOLIDATED STATEMENT OF INCOME

Adjusted for general price-level changes and expressed in thousands of constant Chilean pesos of December 31, 1997

	For the year ended December 31, 1996				
	Consolidated statement of income under Chilean GAAP	Adjustments to desconsolidate 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	241,629,326	(82,161,969)	159,467,357	-	159,467,357
Cost of sales	(117,635,927)	47,077,253	(70,558,674)	(5,499)	(70,564,173)
Gross margin	123,993,399	(35,084,716)	88,908,683	(5,499)	88,903,184
Selling and administrative expenses	(94,310,518)	27,163,485	(67,147,033)	(1,277,885)	(68,424,918)
Operating income	29,682,881	(7,921,231)	21,761,650	(1,283,384)	20,478,266
NON-OPERATING RESULTS					
Non-operating income	7,315,917	3,328,837	10,644,754	(2,842,709)	7,802,045
Non-operating expenses	(11,525,891)	1,191,736	(10,334,155)	3,019,407	(7,314,748)
Price-level restatements	(413,958)	120,726	(293,232)	-	(293,232)
Income before income tax and minority interest	25,058,949	(3,279,932)	21,779,017	(1,106,686)	20,672,331
Income tax	(2,464,146)	-	(2,464,146)	5,968,196	3,504,050
Minority interest	(3,276,175)	3,279,932	3,757	-	3,757
NET INCOME	19,318,628	-	19,318,628	4,861,510	24,180,138
	========	=======	========	=======	=========

CONSOLIDATED STATEMENT OF INCOME

Adjusted for general price-level changes and expressed in thousands
of constant Chilean pesos of December 31, 1997

	As of December 31, 1997				
	Consolidated statement of income under GAAP	Adjustments to desconsolidate 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	261,813,188	(80,993,988)	180,819,200	-	180,819,200
Cost of sales	(121,120,286)	42,480,926	(78,639,360)	180,297	(78,459,063)
Gross margin	140,692,902	(38,513,062)	102,179,840	180,297	102,360,137
Selling and administrative expenses	(98,638,018)	27,445,286	(71,192,732)	(1,962,805)	(73,155,537)
Operating income	42,054,884	(11,067,776)	30,987,108	(1,782,508)	29,204,600
NON-OPERATING RESULTS					
Non-operating income	16,553,077	4,322,820	20,875,897	1,366,961	22,242,858
Non-operating expenses	(11,274,752)	429,697	(10,845,055)	3,754,595	(7,090,460)
Price-level restatements	(348,931)	249,240	(99,691)	-	(99,691)
Income before income tax and minority interest	46,984,278	(6,066,019)	40,918,259	3,339,048	44,257,307
Income tax	(4,125,655)	1,601,826	(2,523,829)	458,460	(2,065,369)
Minority interest	(5,468,856)	4,464,193	(1,004,663)	-	(1,004,663)
NET INCOME	37,389,767	-	37,389,767	3,797,508	41,187,275
	=========	========	========	========	========

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:

	1995	1996	1997
	ThCh$	ThCh$	ThCh$
Basic earnings per share (under US GAAP)			
Net income per share	96.49	92.33	133.42
	======	======	=====
Weighted average number of Common stock outstanding (in thousands)	261,394	261,881	308,705
	======	======	======

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.

During 1997 the Company adopted Statement of Financial Accounting Standards No. 128 (“Earnings per Share”) which replaced Accounting Principles Board Opinion No. 15, also entitled “Earnings per Share”. However, this change had no effect on the per share amounts disclosed above for 1997 and prior years.

b) Income taxes

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

	1995	1996	1997
	ThCh$	ThCh$	ThCh$
Current tax expense	1,778,335	1,574,058	1,853,394
Deferred tax under Chilean GAAP	907,034	890,088	670,435
Additional deferred tax to conform with US GAAP	4,386,150	(5,968,196)	(458,460)
Total provision for US GAAP	7,071,519	(3,504,050)	2,065,369
	=======	=======	=======

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

	1995	1996	1997
	ThCh$	ThCh$	ThCh$
Property, plant, equipment and depreciation	(9,793,849)	(6,579,045)	(7,093,248)
Staff severance indemnities	(167,886)	(212,162)	(180,738)
Deposits on bottles and containers	(1,208,476)	(1,135,467)	-
Goodwill on investments	(3,655,508)	(1,233,328)	(1,375,420)
Gross deferred tax liabilities	(14,825,719)	(9,160,002)	(8,649,406)
Accounts receivable	314,763	538,063	406,425
Inventories	133,124	407,945	335,704
Investments in other companies	385,944	212,348	206,675
Other assets	862,666	878,658	860,093
Tax loss carryforwards	7,714,850	6,383,434	5,929,750
Others	299,029	514,964	474,193
Gross deferred tax assets	9,710,376	8,935,412	8,212,840
Net deferred tax assets (liabilities)	(5,115,343)	(224,590)	(436,566)
	========	=======	======

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:

	1995	1996	1997
	ThCh$	ThCh$	ThCh$
At statutory Chilean tax rates	4,844,035	3,101,413	6,487,897
Increase (decrease) in rates resulting from:			
Non-deductible expenses	8,391,341	4,595,556	3,539,025
Non-taxable income	(6,167,120)	(9,567,941)	(6,528,579)
Tax credits	(269,698)	(103,306)	(140,905)
Difference between tax rate in Chile and Argentina	327,645	615,586	437,635
Utilization of tax loss carryforward	-	(2,096,119)	(1,687,703)
Other	(54,684)	(49,239)	(42,001)
At effective tax rates	7,071,519	(3,504,050)	2,065,369
	=======	=======	=======

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	
	1996	1997	1996	1997	1996	1997	1996	1997
	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$	ThCh$
Securities available-for-sale								
Central Bank and other securities	1,017,126	7,878,718	-	273,321	113	-	1,017,013	8,152,039
Deposits in banks	10,826,126	45,465,901	9,031	-	-	399,886	10,835,157	45,066,015
Total securities available for sale	11,843,252	53,344,619	9,031	273,321	113	399,886	11,852,170	53,218,054
	========	========	=====	======	===	======	========	========

d) Cash flows

Information for inclusion in the Statement of cash flows required by accounting principles generally accepted in the United States is as follows:

	1995	1996	1997
	ThCh$	ThCh$	ThCh$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income under US GAAP	25,222,049	24,180,138	41,187,275
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	14,119,345	17,262,246	18,446,932
Adjustment to market value of trading securities	1,079,208	-	-
Write-off of glass bottles, consumption of spare parts and provisions	1,641,947	3,924,545	5,620,715
Deferred income taxes	5,293,184	(5,078,108)	211,975
Loss (gain) on sale of land and properties held for sale	(8,378,242)	50,006	(4,997,071)
Gain on sale of investments and other assets	-	(74,667)	(325,927)
Gain on equity method investments	(6,260,847)	(3,210,637)	(8,433,599)
Price-level restatement	896,479	293,232	99,691
Decrease (increase) in accounts and notes receivable	7,012,081	(6,531,286)	(5,007,248)
Decrease (increase) in inventories	(1,234,261)	(3,027,306)	(1,859,729)
Decrease (increase) in other assets	1,419,632	4,321,244	(119,191)
Increase (decrease) in accounts and notes payable	3,330,653	3,944,164	(3,940,841)
Increase (decrease) in taxes and social security charges payable	(36,273)	2,556,392	3,440,260
Increase (decrease) in accrued expenses and others	17,610,568	2,196,306	(63,241)
Minority interest	(865,693)	(3,757)	1,004,663
Net cash provided by operating activities	60,849,830	40,802,512	45,264,664
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Capital expenditures	(39,552,279)	(49,069,044)	(37,603,545)
Proceeds from sale of fixed assets	10,218,198	312,948	3,926,189
Payment for purchase of subsidiaries, net of cash acquired	(35,022,924)	-	(3,896,509)
Investments in other companies	47,838	102,057	223,897
Increase in investments	22,231	717,160	154,404
Increase in accounts receivable from related companies	-	-	(126,639)
Investment in securities acquired under resale agreements	-	(7,619,504)	(38,919,671)
Net cash used in investment activities	(64,286,936)	(55,556,383)	(76,241,874)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	(13,401,925)	(11,352,567)	(9,527,075)
Increase in capital	-	21,400,032	50,012,188
Decrease in shot-term borrowings	(10,829,297)	-	-
Other debt payments	2,024,512	(79,161,375)	(24,971,802)
Proceeds from issuance of long-term debt	43,162,983	85,920,045	25,913,810
Principal payments of short-term and long-term debt	(3,650,149)	(3,513,036)	(3,676,798)
Other	1,131,746	2,482,855	4,001,889
Net cash provided by financing activities	18,437,870	15,775,954	41,752,212
Price-level restatement of cash and cash equivalents	(590,808)	(1,020,139)	(1,467,831)
Net (decrease) increase in cash and cash equivalents	14,409,956	1,944	9,307,171
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,958,032	33,367,988	33,369,932
CASH AND CASH EQUIVALENTS AT END OF YEAR	33,367,988	33,369,932	42,677,103

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. On that basis, cash and cash equivalents at each year end are as follows:

	1995	1996	1997
	ThCh$	ThCh$	ThCh$
Cash	6,328,113	20,161,341	4,984,512
Time deposits	12,225,185	3,747,139	18,334,141
Marketable securities	-	1,646,001	730,385
Securities purchases under resale agreements (Note 6)	15,337,123	10,548,715	26,088,999
Subtotal	33,890,421	36,103,196	50,138,037
Less cash and cash equivalents from Joint Venture	(522,433)	(2,733,264)	(7,460,934)
Total cash and cash equivalents	33,367,988	33,369,932	42,677,103
	========	========	========

Companies acquired in 1995:

	Viña San Pedro S.A.	Cervecería Santa Fe S.A.	Compañía Industrial Cervecera S.A.
	ThCh$	ThCh$	ThCh$
Assets acquired	28,801,681	24,158,707	9,078,513
Cash paid	465,587	19,874,339	14,682,998
Liabilities assumed	19,031,421	18,339,679	2,620,395

e) Fair value

The following methods and assumptions were used to estimate the fair value of each class of financial instrument at December 31, 1996 and 1997 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.

- Staff severance indemnities
  Fair value of staff severance indemnities was estimated based on the present value of the total obligation, which was determined using the market interest rate for obligations of the Central Bank of Chile with similar maturities.

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

	December 31, 1996		December 31, 1997	
Assets	Carrying amounts	Fair value	Carrying amounts	Fair value
	ThCh$	ThCh$	ThCh$	ThCh$
Cash	20,161,341	20,161,341	4,984,512	4,984,512
Time deposits and marketable securities	16,696,454	16,704,524	64,799,368	64,798,510
Investments in other companies	702,208	702,208	186,772	186,772
Other current assets	11,564,253	11,565,101	33,967,195	33,841,488
Other assets - other	5,684,880	5,684,880	4,991,626	4,991,626
Total assets	54,809,136	54,818,054	108,929,473	108,802,908
	========	========	=========	=========
Liabilities				
Bank borrowings (short-term)	18,358,013	18,358,013	17,142,708	17,142,708
Bonds payable (short-term)	4,430,691	4,423,891	4,504,670	4,498,202
Current portion of long-term bank borrowings	3,143,064	3,143,064	2,088,476	2,085,836
Staff severance indemnities (short - term)	211,307	180,085	110,680	97,927
Bank borrowings (long-term)	45,014,307	45,014,307	37,436,005	37,435,381
Bonds payable (long-term)	35,313,435	34,329,522	31,423,952	28,458,475
Staff severance indemnities (long-term)	2,122,124	1,808,559	2,504,410	2,215,837
Total liabilities	108,592,941	107,257,441	95,210,901	91,934,366
	=========	========	========	========

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, 1997 were not significant.

3 Recent accounting pronouncements

Statement of Financial Accounting Standards No. 130 (FAS 130), “Reporting Comprehensive Income”, is effective for fiscal years beginning after December 15, 1997. FAS 130 establishes standards for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. “Comprehensive income” is defined in this statement as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period (including net income) except those resulting from investments by owners and distributions to owners. The adoption of this new standard will result in the presentation of components of other comprehensive income which, in the case of the Company for the years ended December 31, 1995, 1996 and 1997 would include only changes in gross unrealized gains or losses on investments that are available-for-sale at each year end.

Statement of Financial Accounting Standards No. 131 (FAS 131), “Disclosures about segments of an enterprise and related information”, is effective for fiscal years beginning after December 15, 1997. This standard establishes guidance related to segment disclosure utilizing the “management approach,” whereby external segment reporting is aligned with segment reporting for internal management purposes. The previous standard followed a “product and services” model. The effect of this standard is in the process of being analyzed by the Company.

Signatures

Pursuant to the requirements of Section 12 of the Securities Act of 1924, 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.)

Francisco Perez Mackenna
Chief Executive Officer

Date: June 2, 1998