

**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

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

**For the fiscal year ended** December 31, 2007

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

**COMPANIA 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)

Vitacura 2670, Twenty-Third Floor, Santiago, Chile

(Address of principal executive offices)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares Representing Common Stock	New York Stock Exchange
Common Stock, without par value	New York Stock Exchange*

\* Not for trading, but only in connection with the registration of American Depositary Shares which are evidenced by American Depositary Receipts

**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

Not applicable

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

Not applicable

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:** **318,502,872**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES \_\_\_ NO X

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

YES \_\_\_ NO X

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  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

ITEM 17  ITEM 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

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## Introduction

In this annual report on Form 20-F, all references to the “we”, “us” or “CCU” are to Compañía Cervecerías Unidas S.A., an open stock corporation (sociedad anónima) organized under the laws of the Republic of Chile, and its consolidated subsidiaries. Chile is divided into regions, each of which is known by its roman number (e.g. “Region XI”). Our fiscal year 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. We prepare our financial statements in accordance with Chilean generally accepted accounting principles, or “Chilean GAAP”, which differs in certain important respects from accounting principles generally accepted in the United States of America (“U.S. GAAP”). See Note 24 to the audited consolidated financial statements as of December 31, 2006 and 2007 and for the years ended December 31, 2005, 2006 and 2007 (together with the notes thereto the “consolidated financial statements”, or the “financial statements”), contained elsewhere in this annual report, which provides a description of the principal differences between Chilean GAAP and U.S. GAAP as they relate to us and a reconciliation to U.S. GAAP of net income and total shareholders’ equity for the years ended December 31, 2005, 2006 and 2007. We publish our financial statements in Chilean pesos, which are adjusted to reflect changes in purchasing power due to inflation and/or changes in exchange rates. Unless otherwise specified, financial data regarding us is presented in this annual report in constant Chilean pesos of December 31, 2007 purchasing power. See the notes to our consolidated financial statements included in pages F-8 through F-73 of this annual report. We use the metric system of weights and measures in calculating our operating and other data. The United States equivalent units of the most common metric units used by us are as shown below:

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

This annual report contains various estimates made by us of market share data and related sales volume information. These estimates are based on statistics published or made available by A.C. Nielsen Chile S.A., or Nielsen, in the case of beer, soft drinks, mineral water, wine and pisco sales in Chile; the *Cámara de la Industria Cervecera Argentina* (Argentine Beer Industry Chamber, or CICA) in the case of beer sales in Argentina; the *Asociación Nacional de Bebidas Refrescantes* (National Association of Soft Drinks, or ANBER) in the case of soft drinks and mineral water; the *Servicio Agrícola Ganadero* (Agricultural and Livestock Service, or SAG) in the case of wine sales in Chile; and the *Asociación de Viñas de Chile, A.G.* (the Wineries of Chile Association) in the case of Chilean wine exports. We believe that, due to the methodologies used, the statistics provided by these sources in some cases do not accurately reflect our market share or industry sales volumes. For example, the Nielsen sampling frame includes only the metropolitan areas of Chile and not the rural areas of the country, where we believe our beer market share is higher than in the metropolitan areas, due to our distribution system. Likewise, the sales of one of our Argentine competitors are not reflected in CICA’s statistics because this company is not a member 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 our sales volume and our competitors. As a consequence, we have revised the share estimates from the sources identified above for Chilean and Argentine beer sales and soft drink and mineral water sales to reflect what we believe is a more accurate measure of market shares, taking into account:

- reports published by the *Instituto Nacional de Estadísticas* (the Chilean National Institute of Statistics, or the INE),
- our internal sales data,
- sales information filed publicly by our competitors, and
- import and export reports made available by Chilean and Argentine customs authorities.

However, our revised estimates have not been confirmed by independent sources. Certain amounts, including percentage amounts, which appear in this annual report have been rounded and may not sum exactly to the totals shown.

## **Forward Looking Statements**

This annual report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to as the Securities Act, and Section 21E of the Securities and Exchange Act of 1934, which we refer to as the Exchange Act. These statements relate to analyses and other information, which are based on forecasts of future results and estimates of amounts not yet determinable. They also relate to our future prospects, development and business strategies.

These forward-looking statements are identified by the use of terms and phrases such as “anticipate”, “believes”, “could”, “expects”, “intends”, “may”, “plans”, “predicts”, “projects”, “will” and similar terms and phrases. We caution you that actual results could differ materially from those expected by us, depending on the outcome of certain factors, including, without limitation:

- our success in implementing our investment and capital expenditure program;
- the nature and extent of future competition in our principal marketing areas;
- political and economic developments in Chile, Argentina and other countries where we currently conduct business or may conduct business in the future, including other Latin American countries; and
- other factors discussed under “Risk factors”, “Our business” and “Management’s discussion and analysis of financial condition and results of operations”.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this annual report. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date of this annual report, including, without limitation, changes in our business strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

## **PART I**

### **ITEM 1: Identity of Directors, Senior Management and Advisers**

Not applicable

### **ITEM 2: Offer Statistics and Expected Timetable**

Not applicable

### **ITEM 3: Key Information**

#### **Selected Financial Data**

The following table presents selected consolidated financial data as of December 31, 2006 and 2007, and for each of the years ended December 31, 2005, 2006 and 2007, which has been derived from our consolidated financial statements included elsewhere in this annual report. Selected consolidated financial data as of December 31, 2003, 2004 and 2005, and for the two years ended December 31, 2003 and 2004 has been derived from our consolidated financial statements not included in this annual report. The financial data set forth below should be read in conjunction with the consolidated financial statements and related notes and "Item 5: Operating and Financial Review and Prospects" included elsewhere in this annual report.

The financial information as of and for the years ended December 31, 2003, 2004, 2005, 2006 and 2007 shown below is presented in constant Chilean pesos as of December 31, 2007:

	<u>2003</u>	<u>Year ended December 31,</u>		<u>2006</u>	<u>2007</u>
		<u>2004</u>	<u>2005</u>		
	<u>(millions of constant Ch\$) (1)</u>				
<b>Income Statement Data:</b>					
Chilean GAAP:					
Total revenues	Ch\$447,216	Ch\$477,750	Ch\$539,556	Ch\$586,186	Ch\$628,284
Operating income	53,404	66,693	72,888	85,589	101,384
Interest expense	(6,592)	(6,737)	(8,128)	(8,177)	(8,731)
Other income	28,517	4,966	3,561	8,398	20,248
Income tax	(5,795)	(6,701)	(9,995)	(15,288)	(16,668)
Net income	62,982	51,569	52,829	59,964	79,199
Net earnings per share	197.7	161.9	165.9	188.3	248.7
Net earnings per ADS (2)	988.7	809.5	829.3	941.3	1,243.3
Dividends per share (3)	614.26	89.80	97.37	112.62	149.20
Dividends per ADS in US\$ (2) (3)	4.47	0.78	0.94	1.06	1.61
Weighted average shares					
Outstanding (000s)	318,503	318,503	318,503	318,503	318,503
U.S. GAAP:					
Total revenues	Ch\$447,216	Ch\$477,750	Ch\$539,556	Ch\$586,186	Ch\$628,284
Operating income	48,121	58,298	68,517	73,204	102,302
Net income	64,287	51,571	54,363	56,860	84,560
Basic and diluted earnings per share	201.8	161.9	170.7	178.5	265.5
Basic and diluted earnings per ADS (2)	1,009.2	809.6	853.4	892.6	1,327.5
<b>Balance Sheet Data:</b>					
Chilean GAAP:					
Total assets	Ch\$672,148	Ch\$672,803	Ch\$705,633	Ch\$749,475	Ch\$826,616
Long-term liabilities	161,795	143,386	191,990	176,662	219,511
Total debt (4)	162,990	154,103	160,854	157,396	173,436
Total stockholders' equity	324,610	343,199	349,834	375,070	401,796
Capital stock	197,925	197,925	197,925	197,925	197,925
U.S. GAAP:					
Total assets	Ch\$677,739	Ch\$677,673	Ch\$713,302	Ch\$759,905	Ch\$841,326
Long-term liabilities	165,565	148,361	197,421	188,741	227,909
Total debt (4)	163,495	162,489	169,436	166,156	177,506
Total stockholders' equity	320,515	337,393	347,416	369,998	399,547
Capital stock	197,925	197,925	197,925	197,925	197,925
<b>Other Data:</b>					
Sales volume (in millions of liters):					
Beer (Chile)	371.8	380.7	417.0	470.8	491.1
Beer (Argentina)	190.4	210.1	226.9	244.4	272.2
Soft drinks, nectars and mineral water (5)	428.6	442.4	474.2	518.3	544.9
Wine (6)	95.8	95.1	92.5	86.3	91.8
Spirits (7)	3.2	7.0	20.3	20.5	21.6
Change in consumer price index applicable for the restatement of financial statements (8)	1.0%	2.5%	3.6%	2.1%	7.4%

(1) Except shares outstanding, net earnings per share and per ADS, sales volume and inflation data.

(2) Per ADS amounts are determined by multiplying per share amounts by 5, as one ADS is equal to 5 shares of Common Stock.

(3) Dividends per share are expressed in pesos as of payment dates. Dividends per ADS are expressed in U.S. dollars at the conversion rate in effect on the date in which payment is made.

(4) Includes short-term and long-term financial debt.

(5) Includes sales of soft drinks, nectars, mineral and purified water, isotonic and energy drinks, and tea in Chile.

(6) Includes sales of wine in Chile and Argentina.

(7) Since the year 2005, includes operations of Compañía Píscuera de Chile S.A., established in March 2005

(8) 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.

**Exchange Rates.** Prior to 1989, Chilean law permitted the purchase and sale of foreign currency only in those cases explicitly authorized by the Central Bank of Chile. The Central Bank Act, which was enacted in 1989, liberalized the rules that govern the ability to buy and sell foreign currency. The Central Bank Act now empowers the Central Bank of Chile to determine that certain purchases and sales of foreign currency specified by law must be carried out in the formal exchange market. The formal exchange market is formed by banks and other entities authorized by the Central Bank. All payments and distributions made to our holders of ADSs must be transacted in the formal exchange market.

In order to keep fluctuations in the average exchange rate within certain limits, the Central Bank of Chile has in the past intervened by buying or selling foreign currency on the formal exchange market. In September 1999, the Central Bank of Chile decided to limit its formal commitment to intervene and decided to exercise it only under extraordinary circumstances, which are to be informed in advance. The Central Bank of Chile also committed itself to provide periodic information about the levels of its international reserves.

On April 10, 2008, the Central Bank of Chile announced a program to buy US\$8 billion in the local exchange market between April and December 2008. Since this announcement was made, the observed exchange rate increased by 12.5%, from Ch\$434.17 to Ch\$488.62 as of June 19, 2008.

The observed exchange rate is the average exchange rate at which commercial banks conduct authorized transactions on a given date, as certified by the Central Bank of Chile. The Central Bank of Chile generally carries out its transactions at the spot market rate. Authorized transactions by banks are now generally conducted at the spot market rate.

Purchases and sales of foreign exchange effected outside the formal exchange market are carried out in the *Mercado Cambiario Informal* (the informal exchange market). The informal exchange market reflects 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. On June 19, 2008, the average exchange rate in the informal exchange market was Ch\$491.55 per U.S. dollar and the U.S. dollar observed exchange rate was Ch\$488.62 per U.S. dollar.

The following table sets forth the low, high, average and period-end observed exchange rates for U.S. dollars for each of the indicated periods starting in 2003 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.

	<b>Daily Observed Exchange Rate <sup>(1)</sup></b>			
	<b>(Ch\$ per US\$)</b>			
	<b><u>Low</u> <sup>(2)</sup></b>	<b><u>High</u> <sup>(2)</sup></b>	<b><u>Average</u> <sup>(3)</sup></b>	<b><u>Period-end</u></b>
2003.....	593.10	758.21	690.90	593.80
2004.....	557.40	649.45	609.41	557.40
2005.....	509.70	592.75	559.68	512.50
2006.....	511.44	549.63	530.34	532.39
2007.....	493.14	548.67	522.55	496.89
December 2007.....	495.49	506.79	498.83	496.89
January 2008.....	463.58	498.05	479.46	465.34
February 2008.....	453.95	476.44	466.67	453.95
March 2008.....	431.22	454.94	442.13	437.71
April 2008.....	433.98	461.49	447.51	461.49
May 2008.....	464.83	479.66	471.00	479.54
(June 2008, through June 19)	482.53	500.55	489.01	488.62

Source: Central Bank of Chile

(1) Historical pesos.

(2) Rates shown are the actual low and high, on a day-by-day basis for each period.



(3) The average of monthly average rates during the period reported.

## **Capitalization and Indebtedness**

Not applicable

## **Reasons for the Offer and Use of Proceeds**

Not applicable

## **Risk Factors**

### **RISKS RELATING TO CHILE**

#### **We are substantially dependent on economic conditions in Chile, which may adversely impact our results of operations and financial condition.**

We are predominantly engaged in business in Chile and 87.8% of our revenues in 2007 were generated from our Chilean operations, of which 90.7% came from the domestic market and 9.3% from exports. Thus, our results of operations and financial condition are dependent to a large extent on the overall level of economic activity in Chile. The Chilean economy has experienced an average annual growth of 3.8% between 1998 and 2007. In the past, slower economic growth in Chile has slowed down the rate of consumption of our products and adversely affected our profitability. Chile's recent economic performance may change, and therefore it should not be extrapolated into the future.

#### **Our financial statements are reported and our dividends are declared, based on Chilean GAAP, which generally differs from U.S. GAAP.**

There are important differences between Chilean and U.S. accounting and reporting standards. As a result, Chilean financial statements and reported earnings generally differ from those reported based on U.S. accounting and reporting standards. See Note 24 to our consolidated financial statements for a description of the main differences between Chilean GAAP and U.S. GAAP as they relate to us and the reconciliation to U.S. GAAP of our net income and total shareholders' equity statements from the Chilean standards.

#### **The relative liquidity and volatility of Chilean securities markets may increase the price volatility of our ADSs and adversely impact a holder's ability to sell any shares of our common stock withdrawn from our ADR facility.**

The Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. For example, the Santiago Stock Exchange, which is Chile's main stock exchange, had a market capitalization of approximately US\$213 billion as of December 31, 2007, while The New York Stock Exchange had a market capitalization of approximately US\$15.7 trillion and the NASDAQ National Market had a capitalization of approximately US\$4.0 trillion as of the same date. In addition, the Chilean securities markets can be materially affected by developments in other emerging markets, particularly other countries in Latin America.

The lower liquidity and greater volatility of the Chilean markets relative to markets in the United States could increase the price volatility of the ADSs and may impair a holder's ability to sell shares of our common stock withdrawn from the ADR facility in the Chilean market in the amount and at the price and time the holder wishes to do so. See "Item 9: The Offer and Listing".

#### **Chilean economic policies, currency fluctuations, exchange controls and currency devaluations may adversely affect the price of our ADSs.**

The Chilean government's economic policies and any future changes in the value of the Chilean peso relative to the U.S. dollar could adversely affect the dollar value of and the return on any investment in our ADSs. The Chilean peso has been subject to large nominal devaluations in the past and may be subject to significant fluctuations in the future. For example, in the period from December 31, 2000 to December 31, 2002, the value of the Chilean peso relative to the U.S. dollar declined by 25.3% in

nominal terms, or an average of 11.9% per year, based on the observed exchange rate for U.S. dollars on those dates. On the other hand, the average value of the Chilean peso relative to the U.S. dollar increased 24.4% in nominal terms between 2003 and 2007, or an average of 6.7% a year. See “Exchange Rates”.

Chilean trading in the shares of our common stock underlying our ADSs is conducted in Chilean pesos. Cash distributions to be received by the depositary for the shares of our common stock underlying our ADSs will be denominated in Chilean pesos. The depositary will translate any Chilean pesos received by it to U.S. dollars at the then-prevailing exchange rate with the purpose of making dividend and other distribution payments for the ADSs. If the value of the Chilean peso declines relative to the U.S. dollar, the value of our ADSs and any distributions to holders of our ADSs received from the depositary may be adversely affected. See “Item 8: Financial Information – Dividend Policy and Dividends”.

**We are subject to different corporate disclosure requirements and accounting standards than U.S. companies.**

Although the securities laws of Chile which govern open stock corporations and publicly listed companies such as us, have as a main objective promoting disclosure of all material corporate information to the public, Chilean disclosure requirements differ from those in the United States in certain important respects. In addition, although Chilean law imposes restrictions on insider trading and price manipulation, the Chilean securities market is not as highly regulated and supervised as the U.S. securities market. We have been subject to the periodic reporting requirements of the Exchange Act since our initial public offering of ADSs in September 1992.

**RISKS RELATING TO ARGENTINA**

**We have significant operations in Argentina and the prolonged recession and economic crisis in Argentina between 1999 and 2002 has adversely affected our results of operations.**

In addition to our operations in Chile, we maintain substantial assets in Argentina and derive significant revenue from our operations in Argentina. In 2007, we derived Ch\$76,547 million, or 12.2%, of our revenues from our Argentinean operations, and, as of December 31, 2007, Ch\$117,725 million, or 14.2%, of our assets were located in Argentina. From 1999 through 2002, Argentina suffered a prolonged recession, which culminated in an economic crisis, with negative growth rates of -3.4% in 1999, -0.8% in 2000, -4.4% in 2001 and -10.9% in 2002. Although the economic situation in Argentina has improved during the last five years – GDP grew 8.8%, 9.0%, 9.2%, 8.5% and 8.7% in 2003, 2004, 2005, 2006 and 2007, respectively – it could continue to materially and adversely affect our Argentine operations. See “Item 5: Operating and Financial Review and Prospects – Trend Information”.

The Argentine peso devaluation in 2002 resulted in a loss of Ch\$3,479 million for the year 2002 and our subsidiary, Finca La Celia, reported a loss due to the devaluation in 2002 of Ch\$1,159 million. Additionally, according to accounting pronouncements regulating the conversion of Argentine financial statements to Chilean GAAP, fixed assets and their depreciation are considered in historical dollars. As a result, a devaluation of the Argentine peso adversely affects our operating results, as our revenues from our Argentine operations are impacted by the devaluation of the Argentine peso. In spite of the appreciation of the Argentine peso against the U.S. dollar in recent years, we cannot predict whether the Argentine economy will continue to recover or will face a recession, and if there is a recession whether it will affect our operations in Argentina.

**Argentina’s legal regime and economy are susceptible to changes that could adversely affect our Argentinean operations.**

The measures taken by the Argentine government to address the Argentine economic crisis, which began in 1998, have severely affected the Argentine financial system’s stability and have had a materially negative impact on its reputation. From December 2001 through December 2003, the consumer price index, the wholesale price index and the *Coeficiente de Estabilización de Referencia*, or CER, exhibited annual cumulative increases of 44.6%, 115.1% and 45.7%, respectively. If Argentina were to experience a new fiscal and economic crisis, the Argentine government could implement economic and political reforms, which could adversely impact our business. The unpredictability, timing and scope of possible measures enacted by the Argentine government, including expropriations, higher taxes and exchange control measures, could adversely affect our Argentinean operations and our future results of operations.

## **RISKS RELATING TO OUR BUSINESS**

### **Fluctuations in the cost of our raw materials may adversely impact our profitability if we are unable to pass those costs along to our customers.**

We purchase malt, rice and hops for beer, sugar for soft drinks and grapes for wine from local producers or through purchases in the international market. The prices of those commodities have experienced significant fluctuations over time and are determined by the global supply and demand for those commodities as well as other factors, such as fluctuations in exchange rates, over which we have no control.

Although we historically have been able to increase our selling prices in response to increases in raw material costs and thus have not sought to hedge our exposure to increases in raw material prices, we cannot assure you that our ability to recover increases in the cost of raw materials will continue in the future. If we are unable to increase our selling prices in response to increases in raw material costs, any future increases may reduce our margins, if we could not improve efficiencies to offset them.

### **We are controlled by one majority shareholder, whose interests may differ from those of holders of our ADSs and this shareholder may take actions which adversely affect the value of a holder's ADSs or common stock.**

As of May 31, 2008, Inversiones y Rentas S.A., or IRSA, a Chilean closed corporation, owned directly and indirectly, 66.1% of our shares of common stock. Accordingly, IRSA has the power to control the election of most members of our board of directors and its interests may differ from those of the holders of our ADSs. IRSA also has a significant influence in determining the outcome of any corporate transaction or other matters submitted to our shareholders for approval, including mergers, consolidations, the sale of all or substantially all of our assets and going-private transactions. In addition, actions by IRSA with respect to the disposition of the shares of common stock that it owns, or the perception that such actions may occur, may adversely affect the trading prices of our ADSs or common stock.

### **Competition in the Chilean beer market may erode our market share and lower our profitability.**

In 2007, our market share of the Chilean beer market by volume was approximately 87%. Our largest competitor in the Chilean beer market by volume is Cervecería Chile S.A., or Cervecería Chile, a subsidiary of Quilmes Industrial S.A., or Quilmes, the largest Argentine brewer and, a subsidiary of Companhia de Bebidas das Américas, or AmBev, since January 2007. We estimate that Cervecería Chile decreased by one point its market share by volume in Chile to approximately 12% in 2007. In the past, Cervecería Chile has engaged in aggressive price discounting. If Cervecería Chile were to engage in aggressive price discounting in the future, there can be no assurance, given the current environment, that any such discounting or other competitive activities will not have a material adverse impact on our profitability.

Additionally, if business conditions in the beer market continue to be relatively favorable in Chile, other enterprises may attempt to enter the Chilean beer market either by producing beer locally or through imports. We expect that additional competitors could erode our market share or lead to price discounting.

### **Our 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.**

Historically, beer consumption in Chile 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. Wine prices increased during the second half of 2007 and the beginning of 2008 due to higher exports and a smaller grape harvest. Similarly, over the past few years, the price of soft drinks has decreased relative to the price of beer due to lower packaging costs, the introduction of larger packaging formats and the launch of low-price brands, which we believe have affected the growth in beer consumption. As a result of our lower market share in the Chilean wine and soft drinks markets as compared to the Chilean beer market, if beverage consumers were to shift their consumption from beer to either wine or soft drinks, we expect that it would adversely affect our profitability.

**Quilmes dominates the beer market in Argentina and we may not be able to maintain our current market share.**

In Argentina, we face competition from Quilmes, Cervecería Argentina S.A. Isenbeck, a subsidiary of Warsteiner Brauerei Hans Cramer GmbH & Co., or Warsteiner, and Cervecería Estrella de Galicia S.A., or Galicia. We estimate that, in 2007, Quilmes had a market share of 73%, Warsteiner had a market share of 5% and Galicia had a market share of less than 1%. We estimate that our year-end market share of the Argentine beer market was 16% in 2007. As a result of its dominant position in Argentina, Quilmes' large size enables it to benefit from economies of scale in the production and distribution of beer throughout Argentina. Therefore, we can make no assurances that we will be able to grow or maintain our current market share of the Argentine beer market.

**Consolidation in the beer industry may impact our market share.**

In January 2007, AmBev assumed control of Quilmes. Additionally, on March 2004, AmBev and Interbrew announced an agreement to merge, creating the world's largest brewer under the name InBev. This deal was completed in August 2004. In Chile, Quilmes sells its beer through Cervecería Chile, which had a market share of approximately 12% in 2007, and in Argentina, AmBev sells its beer through Quilmes, which had a market share of approximately 73% in 2007.

In July 2005, SABMiller plc. announced the agreement to buy Bavaria S.A., a Colombian brewer with operations in Colombia, Peru, Ecuador and Panama, forming the second largest brewer in the world.

In June 2008, InBev sent a proposal to Anheuser-Busch's board of directors, to combine the two companies, forming the world's leading global brewer. Consolidation in the beer industry has resulted in larger and more competitive participants, which could change the current market conditions under which we operate.

**Restrictions in the gas supply from Argentina have increased our energy costs and higher oil prices have increased our distribution expenses.**

Since 2005, the Argentine government has restricted gas exports to Chile due to supply problems in that country. This has increased the cost of operating our beer production plants in Chile and Argentina, as well as our soft drinks plants in Chile. Additionally, these restrictions have increased electrical power costs related to these same gas restrictions. We do not need additional investments because our boilers can work with gas or with alternative fuels, such as diesel oil. Considering current energy prices, we estimate that the cost increase at a consolidated level should be approximately Ch\$4,000 million for 2008.

Recent increases in oil prices may reduce our margins if we are unable to improve efficiencies or increase our prices to offset them.

**We depend upon the renewal of certain license agreements to maintain our current operations.**

Most of our license agreements include certain conditions that must be met during their term, as well as provisions for their renewal at expiry date. We can make no assurances that such conditions will be fulfilled, and therefore that the agreements will be renewed, expire at end of term or undergo early termination. Termination of, or failure to renew our existing license agreements could have an adverse impact on our operations.

**Increase in negotiation power of same clients.**

In recent years, the Chilean supermarket industry has gone through a consolidation process, increasing the importance and purchasing power of a few supermarket chains. The importance of supermarkets is disclosed in each one of our business segments.

**Dependence on a unique supplier for some important raw materials.**

In the case of glass bottles, both in Chile and Argentina, we purchase most of our bottles from a unique local supplier. In case of some problem with one of these suppliers we will need to use suppliers outside each country.

**Water supply is essential to the development of our businesses.**

Water is an essential component for beer, soft drinks and mineral water. A failure in our water supply could negatively affect our sales and profitability.

**The supply, production and logistics chain is key to the timely supply of our products to consumer centers.**

An interruption or a significant failure in this chain may negatively affect the Company's results, if the failure is not quickly resolved. An interruption could be caused by various factors, many of which are beyond our control.

**Possible restrictions on the sale and promotion of alcoholic beverages in Chile.**

Senators and congressmen from different political parties have submitted to Congress proposed bills to restrict the consumption, sale and promotion of alcoholic beverages. The main modifications proposed in these bills are the incorporation of warnings on product labels of the possible dangers of excessive alcohol consumption on human health, similar to those required in the United States, restrictions on television advertising and a prohibition of alcoholic beverages at sports, cultural or related events. If the proposed bills are passed, this could affect alcoholic beverage consumption and, as a consequence, could negatively affect our further business development.

**Our businesses are taxed with different duties, particularly with excise taxes on the consumption of alcoholic and non-alcoholic beverages.**

An increase in the rate of these taxes could negatively affect our sales and profitability.

**Chilean peso fluctuations may affect our profitability.**

Because we purchase some of our supplies at prices set in U.S. dollars, and export wine in U.S. dollars, we are exposed to foreign exchange risks that may adversely affect our financial condition and results of operations. Therefore, any future changes in the value of the Chilean peso against the U.S. dollar would affect the revenues of our wine export business, as well as the cost of several of our raw materials, especially in the beer and soft drink businesses where raw materials are purchased in U.S. dollars.

**A fine related to a legal proceeding may affect our profitability.**

In March 2008, the National Economic Prosecutor notified our subsidiary, Cervecera CCU Chile Ltda., or CCU Chile, of a complaint filed with the Free Competition Defense Court, which claimed the abuse by CCU Chile of its dominant market position, as evidenced by exclusivity clauses imposed on hotels, restaurants, pubs, bars and discotheques, which prohibit the commercialization by these establishments of beers produced by CCU Chile's competitors. The complaint requested that the Free Competition Defense Court impose on CCU Chile, the maximum fine permitted under Chilean antitrust law, which is approximately Ch\$8,420 million, or a fine which the Court considers appropriate. Such a fine may affect our profitability. See "Item 4: Information on the Company – Government Regulation - Government Regulation in Chile".

**RISKS RELATING TO OUR ADSs**

**The price of our ADSs and the U.S. dollar value of any dividends will be affected by fluctuations in exchange conditions.**

Our ADSs trade in U.S. dollars. Fluctuations in the exchange rate between Chilean and Argentine currencies and the U.S. dollar are likely to affect the market price of our ADSs. For example, since our financial statements are reported in Chilean pesos, a decline in the value of the Chilean peso against the dollar would reduce our earnings as reported in U.S. dollars. Any dividend we may pay in the future would be denominated in Chilean pesos. A decline in the value of the Chilean peso against the U.S. dollar would reduce the U.S. dollar equivalent of any such dividend. Additionally, in the event of a dividend or other distribution, if exchange rates fluctuate during any period of time when the ADS depositary cannot convert a foreign currency into dollars, a holder of our ADSs may lose some of the value of the distribution. Also, since dividends in Chile are subject to withholding taxes, which we retain until the following year when the exact amount to be paid is determined, if part of the retained amount is refunded to the shareholders, the amount received by holders of our ADSs would be subject to exchange rate fluctuations between the two dates.

**Holder of ADSs may be subject to certain risks due to the fact that holders of our ADSs do not hold shares of our common stock directly.**

In order to vote at shareholders' meetings, if a holder is not registered on the books of the ADS depository, the holder of our ADSs is required to transfer its ADSs for a certain number of days before a shareholders' meeting into a blocked account established for that purpose by the ADS depository. Any ADS transferred to this blocked account will not be available for transfer during that time. If a holder of our ADSs is registered on the books of the ADS depository, it must give instructions to the ADS depository not to transfer its ADSs during this period before the shareholders' meeting. A holder of our ADSs must therefore receive voting materials from the ADS depository sufficiently in advance in order to make these transfers or give these instructions. There can be no guarantee that a holder of our ADSs will receive voting materials in time to instruct the ADS depository how to vote. It is possible that a holder of our ADSs will not have the opportunity to exercise a right to vote at all. Additionally, a holder of our ADSs may not receive copies of all reports from us or the ADS depository. A holder of our ADSs may have to go to the ADS depository's offices to inspect any reports issued.

**Controls on foreign investment and repatriation of investments in Chile may adversely impact a holder of our ADSs ability to obtain and dispose of the shares of our common stock underlying its ADRs.**

Equity investments in Chile by persons who are not Chilean residents are generally subject to exchange control regulations that restrict the repatriation of investments and earnings from Chile. Our ADSs are subject to an ADR foreign investment contract among us, the depository and the Central Bank of Chile which is intended to grant holders of our ADSs and the depository access to Chile's formal exchange market. See "Exchange Rates". Pursuant to current Chilean law, our ADR foreign investment contract may not be amended unilaterally by the Central Bank of Chile. However, we cannot make any assurances that additional Chilean restrictions applicable to holders of our ADSs, the disposition of underlying shares of our common stock or the repatriation of the proceeds from the disposition of the underlying common stock could not be imposed in the future, nor can we assess the duration or impact of the restrictions if imposed. If for any reason, including changes to our ADR foreign investment contract or Chilean law, the depository is unable to convert Chilean pesos to U.S. dollars, investors would receive dividends or other distributions in Chilean pesos. Transferees of shares of our common stock withdrawn from the ADR facility will not be entitled to access to the formal exchange market unless the withdrawn shares are redeposited with the depository. See "Item 10: Additional Information – Exchange Controls in Chile".

**A holder of our ADSs' right to force us to purchase its underlying shares of our common stock pursuant to Chilean corporate law upon the occurrence of certain events may be limited.**

In accordance with Chilean laws and regulations, any shareholder that votes against certain corporate actions or does not attend the meeting at which certain corporate actions are approved and communicates to the corporation its dissent in writing within the term established by law, may exercise a withdrawal right, tender its shares to the company and receive cash compensation for its shares, provided that the shareholder exercises its rights within the prescribed time periods. See "Item 10: Additional Information – Memorandum and Articles of Association – Rights, preferences and restrictions regarding shares". In our case, the actions triggering a right of withdrawal include the approval of:

- our transformation into a different type of legal entity;
- our merger with and/or into another company;
- the transfer of 50% or more of our corporate assets, whether or not liabilities are also transferred, or the proposal or amendment of any business plan that contemplates the transfer of assets exceeding said percentage;
- the granting of real or personal guarantees to secure third party obligations exceeding 50% of the corporate assets;
- the creation of preferences for a series of shares or the increase or reduction in the already existing ones. In this case, only dissenting shareholders of the affected series shall have the right to withdraw;
- curing certain formal defects in our charter which otherwise would render it null and void or any modification of our by-laws that grant this right; and
- other cases provided for by statute or in our bylaws, if any.

Because of the absence of legal precedent as to whether a shareholder that has voted both for and against a proposal, such as the depositary of our ADSs, may exercise withdrawal rights with respect to those shares voted against the proposal, there is doubt as to whether a holder of ADSs will be able to exercise withdrawal rights either directly or through the depositary for the shares of our common stock represented by its ADSs. Accordingly, for a holder of our ADSs to exercise its appraisal rights, it may be required to surrender its ADRs, withdraw the shares of our common stock represented by its ADSs, and vote the shares against the proposal.

**Preemptive rights to purchase additional shares of our common stock may be unavailable to holders of our ADSs in certain circumstances and, as a result, their ownership interest in us may be diluted.**

The Chilean Corporations Act requires us, whenever we issue new shares for cash, to grant preemptive rights to all holders of shares of our common stock, including shares of our common stock represented by ADSs, giving those holders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. We may not be able to offer shares to holders of our ADSs pursuant to preemptive rights granted to our shareholders in connection with any future issuance of shares unless a registration statement under the Securities Act is effective with respect to those rights and shares, or an exemption from the registration requirements of the Securities Act is available.

We intend to evaluate at the time of any future offerings of shares of our common stock the costs and potential liabilities associated with any registration statement as well as the indirect benefits to us of enabling U.S. owners of our ADSs to exercise preemptive rights and any other factors that we consider appropriate at the time, and then make a decision as to whether to file such a registration statement. We cannot make any assurances that any registration statement would be filed.

To the extent a holder of our ADSs is unable to exercise its preemptive rights because a registration statement has not been filed, the depositary will attempt to sell the holder's preemptive rights and distribute the net proceeds of the sale, net of the depositary's fees and expenses, to the holder, provided that a secondary market for those rights exists and a premium can be recognized over the cost of the sale. A secondary market for the sale of preemptive rights can be expected to develop if the subscription price of the shares of our common stock upon exercise of the rights is below the prevailing market price of the shares of our common stock. In addition, Chilean income tax laws provide a tax deduction to an individual resident taxpayer in an amount equal to a percentage of the individuals' investment in newly issued shares. Nonetheless, we cannot make any assurances that a secondary market in preemptive rights will develop in connection with any future issuance of shares of our common stock or that if a market develops, a premium can be recognized on their sale. Amounts received in exchange for the sale or assignment of preemptive rights relating to shares of our common stock will be taxable in Chile and the United States. See "Item 10: Additional Information – Taxation – Chilean Tax Considerations – Capital Gains" and "– United States Tax Considerations – Capital Gains". If the rights cannot be sold, they will expire and a holder of our ADSs will not realize any value from the grant of the preemptive rights. In either case, equity interest in us will be diluted proportionately.

## **ITEM 4: Information on the Company**

### **History and Development of the Company**

Our current legal and commercial name is Compañía Cervecerías Unidas S.A. We were incorporated in the Republic of Chile in 1902 as an open stock corporation, following the merger of two existing breweries, one of which had its origins back in 1850, when Mr. Joaquín Plagemann founded one of the first breweries in Chile in the port of Valparaíso. By 1916, we owned and operated the largest brewing facilities in Chile. Our operations have also included the production and marketing of soft drinks since the beginning of the last century, the bottling and selling of mineral water products since 1960, the production and marketing of wine since 1994, the production and marketing of beer in Argentina since 1995, the

production and marketing of pisco since 2003, the production and marketing of confectionery products since 2004 and the production and marketing of rum since 2007.

We are subject to a full range of governmental regulation and supervision generally applicable to companies engaged in business in Chile and Argentina. These regulations include labor laws, social security laws, public health, consumer protection and environmental laws, securities laws, and anti-trust laws. In addition, regulations exist to ensure healthy and safe conditions in facilities for the production and distribution of beverages and confectionery products.

Our principal executive offices are located at Vitacura 2670, Santiago, Chile. Our telephone number in Santiago is (56-2) 427-3000, the fax number is (56-2) 427-3333 and the website is [www.ccu-sa.com](http://www.ccu-sa.com). Our authorized representative in the United States is Puglisi & Associates, located at 850 Library Avenue, Suite 204, Newark, Delaware 19715, USA, telephone number (302) 738-6680 and fax number (302) 738-7210.

In 1986, IRSA, our current main shareholder, acquired its controlling interest in us through purchases of common stock at an auction conducted by a receiver who had assumed control of us following the economic crisis in Chile in the early 80's, which resulted in our inability to meet our obligations to our creditors. IRSA, at that time, was a joint venture between Quiñenco S.A. and the Schörghuber Group from Germany through its wholly owned subsidiary Finance Holding International B.V., or FHI of the Netherlands.

To our knowledge, none of our common stock is currently owned by governmental entities. Our common stock is listed and traded on the principal Chilean stock exchanges. See "Item 7: Major Shareholders and Related Party Transactions".

In September 1992, we issued 4,520,582 ADSs, each representing five shares of our common stock, in an international American Depositary Receipt, or ADR, offering. The underlying ADSs were listed and traded on the National Association of Securities Dealers Automated Quotation National Market System, or NASDAQ, until March 25, 1999. Since that date, the ADSs have been listed and traded on the New York Stock Exchange.

In 1994, we diversified our operations both in the domestic and international markets. In that year, we purchased a 48.4% interest in the Chilean wine producer Viña San Pedro S.A., or VSP. As of December 31, 2007, that interest amounted to 58.1%. In November 1994, we and Buenos Aires Embotelladora S.A., or BAESA, (the PepsiCo bottler in Chile at that time) merged to create Embotelladoras Chilenas Unidas S.A., or ECUSA, for the production, bottling, distribution and marketing of soft drinks and mineral water products in Chile. In November 1999, we bought BAESA's interest in ECUSA and thereafter have controlled 100% of that company.

In addition, in 1994 through Southern Breweries Establishment, or SBE, in which we had a 50%-investment, we acquired a 26.9% indirect equity interest in Karlovacka Pivovara d.d., or Karlovacka, a Croatian brewery. Between 1994 and 1998, we increased our indirect equity stake in Karlovacka to 34.4%. On March 31, 2003, SBE sold its interest in Karlovacka to Heineken Adria d.o.o, a subsidiary of Heineken International B.V., or Heineken International, generating a profit of Ch\$23,422 million, and on April 10, 2003, we bought the remaining 50% interest of SBE through Inversiones Ecusa S.A.

Through Compañía Cervecerías Unidas Argentina S.A., or CCU Argentina, we began our expansion into Argentina by acquiring an interest in two Argentine breweries: 62.7% of the outstanding shares of Compañía Industrial Cervecera S.A., or CICSA, were acquired during January and February 1995 and 98.8% of the outstanding shares of Cervecería Santa Fe S.A., or CSF, were acquired in September 1995. In 1997, CCU Argentina increased its interest in CICSA to 97.2% and in CSF to 99.9% through the purchase of minority interests. In January 1998, we decided to merge these two breweries into one company operating under the name of CICSA. Following the merger, CCU Argentina's interest in CICSA was 99.2%. In April 1998, CCU Argentina completed the purchase of the brands and assets of Cervecería Córdoba for US\$8 million. After subsequent capital increases, the last one in June 2008, our interest in CCU Argentina reached 95.9%, with Anheuser-Busch Incorporated's, or Anheuser-Busch, interest at 4.1%.



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

After a capital increase approved by our shareholders in October 1996, we raised approximately US\$196 million between December 1996 and April 1999. Part of this capital expansion was accomplished between December 1996 and January 1997 through our second ADR offering in the international markets.

During 2000, VSP, through its subsidiary Finca La Celia S.A., or FLC, acquired the winery Finca La Celia in Mendoza, Argentina, initiating its international expansion, allowing VSP to include fine quality Argentine wines into its export product portfolio. VSP began consolidating this operation on its financial statements as of January 2003. Prior to January 2003, FLC was in development stage.

To increase our presence in the premium beer segment, we acquired in November 2000 a 50% stake in Cervecería Austral S.A., located in the city of Punta Arenas, with an annual production capacity of 6.1 million liters. Further, in May 2002, we acquired a 50% stake in Compañía Cervecera Kunstmann S.A., located in the city of Valdivia, with a current annual production capacity of 5.9 million liters. See “– Our Beer Business – Our Beer Business in Chile – Beer Production and Marketing in Chile”.

In February 2003, we began the sale of a new product for our beverage portfolio, pisco, under the brand Ruta Norte. Pisco is a grape spirit very popular in Chile that is produced in the northern part of the country and the southern part of Peru. Our pisco, at that time, was only produced in the “Elqui Valley” in the IV Region of Chile and it was sold throughout the country by our beer division sales force. In March 2005, we entered into an association with the second largest pisco producer at that time, Cooperativa Agrícola Control Pisquero de Elqui y Limarí Ltda., or Control. This new joint venture was named “Compañía Pisquera de Chile S.A.”, to which the companies contributed principally with assets, commercial brands and – in the case of Control – also some financial liabilities. Currently we own 80% of Compañía Pisquera de Chile and Control owns the remaining 20%. According to Nielsen numbers as of December 2007, Compañía Pisquera de Chile has a 46% market share of the Chilean pisco industry.

On April 17, 2003, the Schörghuber Group, an indirect owner of 30.8% of our ownership interest, gave Quiñenco S.A., also an indirect owner of 30.8% of our ownership interest, formal notice of its intent to sell 100% of its interest in FHI to Heineken Americas B.V., a subsidiary of Heineken International B.V. As a result of the sale, Quiñenco and Heineken Americas B.V., the latter through FHI, became the only two shareholders of IRSA, the owner of 61.6% of our equity at that time, each with a 50% interest in IRSA. Heineken International B.V. and FHI subsequently formed Heineken Chile Ltda., to hold the latter’s 50% interest in IRSA. Therefore, Quiñenco and Heineken Chile Ltda. are the only two current shareholders of IRSA, with a 50% equity each. On December 30, 2003, FHI merged into Heineken Americas B.V., which together with Heineken International B.V. remain as the only shareholders of Heineken Chile Ltda.

In August 2003, VSP formed Viña Tabalí S.A., a joint venture in equal parts with Sociedad Agrícola y Ganadera Río Negro Ltda. for the production of premium wines. This winery is located in the Limarí Valley, Chile’s northernmost winemaking region, which is noted for the production of outstanding wines. In January 2007, Viña Tabalí S.A. bought the assets of Viña Leyda, located in the Leyda Valley, a new winemaking region south of Casablanca Valley and close to the Pacific Ocean. Viña Leyda produces excellent wines that have won awards in different international contests. After this acquisition, Viña Tabalí S.A. changed its name to Viña Valles de Chile S.A.

In January 2004, we entered the confectionery business by means of a joint venture between our subsidiary ECUSA and Empresas Lucchetti S.A. (which has been renamed “Industria Nacional de Alimentos S.A.”), a subsidiary of Quiñenco, with a 50% interest each in Calaf S.A. (which has been renamed “Foods Compañía de Alimentos S.A.”), a corporation that acquired the trademarks, assets and know-how, among other things, of Calaf S.A.I.C. and Francisca Calaf S.A., traditional Chilean candy makers, renowned for more than a century. We sell Calaf’s products together with our soft drinks, with the potential to reach more than 90,000 clients. This new challenge offers an interesting growth potential to ECUSA in the ready-to-eat market segment.

In December 2006, we signed a joint venture agreement with Watt's S.A., or Watt's, a local fruit related product company, under which we participate in equal parts in Promarca S.A., or Promarca. This new company owns the brands "Watt's", "Ice Frut de Watt's", "Yogu Yogu" and "Shake a Shake" in Chile. Promarca granted its subsidiaries, for an indefinite period, the exclusive licences for the production and sale of the different product categories. Therefore, we now participate in new product categories such as 100% fruit juices and fruit and dairy based beverages.

In May 2007, we entered the rum market with our proprietary brand Sierra Morena in two versions: Añejado and Extra Añejado.

In December 2007, we entered into an agreement with Nestlé Chile S.A. and Nestlé Waters Chile S.A., the latter of which acquired a 20% interest in our subsidiary Aguas CCU-Nestlé Chile S.A., the company through which we develop our bottled water business in Chile. As part of this new association, Aguas CCU-Nestlé Chile S.A. will produce and sell the Nestlé Pure Life brand in Chile. Nestlé has a call option to increase its ownership in Aguas CCU-Nestlé Chile S.A. by an additional 29.9%, which expires on June 5, 2009.

In April 2008, we bought the Argentine brewer ICSA after receiving the approval of the Argentine antitrust authorities. ICSA owns, among other assets, the Bieckert, Palermo and Imperial beer brands, which together represented approximately 5.8% of the Argentine beer market, and a brewery in Luján, Buenos Aires, with a nominal production capacity of 270 million liters per year.

## **CAPITAL EXPENDITURES**

The capital expenditures figures shown below reflect amounts on the date they are recorded in our accounting records and therefore may not match cash flow figures since these reflect payments when made. Our capital expenditures for 2005, 2006 and 2007 were Ch\$42,054 million, Ch\$46,564 million and Ch\$53,219 million, respectively, totaling Ch\$141,837 million, of which Ch\$54,065 million were invested in our beer operations in Chile, Ch\$21,996 million in our Argentine beer operations, Ch\$32,151 million in our soft drink and mineral water operations, Ch\$9,196 million in our wine operations and Ch\$10,639 million in our spirits operations during the years mentioned above.

In recent years, our capital expenditures have been made primarily for the expansion of our production and bottling capacities, additional returnable bottles and crates, marketing assets (mainly coolers), improvement in management information systems, among others.

In Chile, during 2005, capital expenditures in our beer division were focused principally on increasing the amount of returnable bottles, upgrading the bottling lines and investing in marketing assets. In Argentina, our capital expenditures were primarily for the expansion of production capacity in Santa Fe, additional returnable bottles and marketing assets. Capital expenditures were incurred in our soft drink division mainly for bottles and a new bottling line. Regarding our wine operations, we upgraded bottling lines and increased the number of our wine cellars. In our pisco business, we increased the number of our pisco cellars. Additionally, we increased our plastic bottle production capacity.

In Chile, during 2006, capital expenditures in our beer division were focused principally on marketing assets, new packaging and a new canning line. In Argentina, our capital expenditures were primarily for new packaging and marketing assets. Capital expenditures were incurred in our soft drink division mainly for new proprietary and generic bottles, a new PET line for Cachantun and marketing assets. Regarding our wine operations, the remodeling of the plant and the purchase of barrels and machinery were the main expenses. In our pisco business, we increased the fermentation and storage capacity, we remodeled certain plants and we made environmental improvements.

In Chile, during 2007, capital expenditures in our beer division were focused principally on capacity expansion, new packaging, improvements and change of equipment and marketing assets. In Argentina, our capital expenditures were primarily for marketing assets, new packaging and the use of leased additional capacity at the Luján plant. Capital expenditures were incurred in our soft drink division mainly for new packages, marketing assets and equipment improvement. Regarding our wine

operations, the acquisition of equipment, tanks, the remodeling of the Molina plant, new technology on irrigation and new land were the main expenses. In our pisco business, the construction, equipment and starting operations of the new production facility in Ovalle, as well as environmental improvements, were the most relevant expenses.

Our principal capital expenditures for the period 2005-2007 are displayed in the following table. The information is presented in constant million Chilean pesos of December 31, 2007.

		<u>2005</u>
		(Million Ch\$)
<b>Beer Chile</b>		
	Machinery and equipment	5,165
	Packaging	3,132
	Packaging line improvements	2,202
	Marketing assets	1,651
	Others	<u>5,002</u>
	Total	17,152
<b>Beer Argentina</b>		
	Machinery and equipment	6,906
	Packaging	794
	Marketing assets	729
	Others	<u>224</u>
	Total	8,653
<b>Soft Drinks &amp; Mineral Water</b>		
	Packaging	3,386
	New packaging line	3,229
	Marketing assets	837
	Packaging line improvements	335
	Others	<u>1,239</u>
	Total	9,026
<b>Wine</b>		
	Machinery and equipment	1,151
	Barrels	490
	Increase in reserve wines storage capacity	360
	Environmental improvements	116
	Others	<u>1,463</u>
	Total	3,580
<b>Pisco</b>		
	Barrels	495
	Machinery and equipment	207
	Plants improvements	195
	Others	<u>10</u>
	Total	906
<b>Others</b>		
	Injection and blow molds	1,868
	Software and hardware	188
	Industrial shed extension	188
	Others	<u>493</u>
	Total	2,737
	<b>TOTAL 2005</b>	<b>42,054</b>

		<u>2006</u>
		(Million Ch\$)
<b>Beer Chile</b>		
	Marketing assets	5,911
	Packaging	5,430
	Machinery and equipment	2,597
	Packaging line improvements	2,154
	Others	<u>1,356</u>
	Total	17,448
<b>Beer Argentina</b>		
	Packaging	2,038
	Marketing assets	1,688
	Machinery and equipment	1,020
	Others	<u>1,523</u>
	Total	6,269
<b>Soft Drinks &amp; Mineral Water</b>		
	New packaging lines	3,997
	Packaging	3,436
	Marketing assets	2,525
	Machinery and equipment	1,301
	Others	<u>1,003</u>
	Total	12,262
<b>Wine</b>		
	Barrels	739
	Machinery and equipment	670
	Plants improvements	503
	Environmental improvements	238
	Others	<u>437</u>
	Total	2,587
<b>Pisco</b>		
	Improvement in production, fermentation and aged capacities	3,129
	Plants improvements	517
	Environmental improvements	266
	Others	<u>808</u>
	Total	4,720
<b>Others</b>		
	New offices interior finishing	1,743
	Software and hardware	610
	Injection and blow molds	448
	Others	<u>477</u>
	Total	3,278
	<b>TOTAL 2006</b>	<b>46,564</b>
		<u>2007</u>
		(Million Ch\$)
<b>Beer Chile</b>		
	Machinery and equipment	8,189
	Packaging	6,857
	Marketing assets	2,328
	Others	<u>2,091</u>
	Total	19,465

<b>Beer Argentina</b>		
	Marketing assets	1,793
	Packaging	1,311
	Machinery and equipment	1,243
	Others	<u>2,727</u>
	Total	7,074
<b>Soft Drinks &amp; Mineral Water</b>		
	Packaging	3,343
	Marketing assets	2,867
	Machinery and equipment	2,078
	New packaging lines	762
	Others	<u>1,812</u>
	Total	10,863
<b>Wine</b>		
	Machinery and equipment	1,031
	Barrels	286
	Plants improvements	229
	Land and plantations	134
	Others	<u>1,349</u>
	Total	3,029
<b>Spirits</b>		
	Ovalle production plant	4,330
	Environmental improvements	613
	Others	<u>69</u>
	Total	5,013
<b>Others</b>		
	Building and remodeling warehouses	3,017
	New offices interior finishing	2,020
	Software and hardware	1,150
	Injection and blow molds	406
	Others	<u>1,184</u>
	Total	7,775
	<b>TOTAL 2007</b>	<b>53,219</b>

## **Business Overview**

### **Summary**

We are mainly a diversified beverage company operating principally in Chile and Argentina. We are the largest brewery in Chile, the second largest brewery in Argentina, the third largest soft drinks producer in Chile, after the two largest Coca-Cola bottlers in Chile, the largest mineral water and bottled nectar producers in Chile, the second largest wine producer in Chile, one of the largest pisco producer in Chile and also we participate in the rum and confectionery industries in Chile. Our beer and soft drink products include a wide range of proprietary, licensed and imported brands.

In 2007, we had consolidated net sales of Ch\$628,284 million, of which 39.5% was accounted for by our beer sales in Chile, 11.0% by our beer sales in Argentina, 27.5% by our soft drinks, nectar and mineral water sales in Chile, 13.8% by wine sales, 6.3% by spirits sales and the remainder by sales of other products.

*Beer.* We estimate that our share of the Chilean beer market by volume was approximately 88% for 2005, 86% for 2006 and 87% for 2007. Our line of beers in Chile includes a full range of super-premium, premium, medium-priced and popular-priced brands, which are primarily marketed under seven different

proprietary brands and three brand extensions. Our flagship brand, Cristal, is Chile's best selling beer, accounting for an estimated 52% of all 2007 beer sales by volume in Chile. We are the only brewery in Chile with a nationwide production and distribution network. In addition, we are the exclusive producer and distributor in Chile of Heineken beer, the exclusive distributor in Chile of imported Budweiser beer and the exclusive local producer and importer of Paulaner beer. We also produce, under license, Austral beer and distribute brands.

We entered the Argentine beer market in 1995 by acquiring two breweries and their brands, CICSA and CSF. Additionally, in 1998, we bought the brands and assets of Cervecería Córdoba. Under a joint venture agreement entered into with Anheuser-Busch in 1995, we began importing, selling and distributing Budweiser beer in Argentina in March 1996. We began production and distribution of locally produced Budweiser beer in Argentina in December 1996 as part of our strategy to develop Budweiser as the flagship brand of our Argentine operations. In April 2008, we bought ICESA and as a result added to our portfolio the brands Palermo, Bieckert and Imperial. In addition, we are the exclusive producer and distributor in Argentina of Heineken brand beer and the exclusive distributor in Argentina of imported Corona, Negra Modelo, Paulaner and Guinness beer brands. Currently, we and Anheuser-Busch have 95.9% and 4.1%, respective interests, in our Argentine subsidiary, CCU Argentina. We estimate that our market share by volume of the Argentine beer market was approximately 16% in each of the three years 2005, 2006 and 2007, according to CICA.

*Soft Drinks, Mineral Water and Nectars.* We produce and sell soft drink and mineral water products in Chile, including our proprietary brands and brands produced under license from PepsiCo, Schweppes Holdings Ltd. and Promarca. We estimate that our Chilean soft drinks market share by volume, not including nectars, was approximately 18% in 2005, 18% in 2006 and 19% in 2007 and that our mineral water market share by volume was 62% in 2005, 67% in 2006 and 63% in 2007.

*Wine.* We entered the Chilean wine industry in 1994 with the acquisition of a 48.4% interest in VSP, Chile's third largest winery in the domestic market and second largest wine exporter. After making subsequent investments, we currently have a 58.1% interest in VSP. VSP produces and markets a full range of wine products for both the domestic and export markets. We believe that in 2007, VSP's sales by volume amounted to approximately 20% of total measured domestic industry sales by volume and 10% of Chile's total wine export sales by volume, excluding bulk wine, according to our estimates and those of the Wineries of Chile Association. VSP's main vineyard is located in Molina, 200 kilometers south of Santiago. VSP's domestic wine products are distributed through our nationwide distribution system with dedicated sales forces in the major cities and its export products are sold in 80 different countries through distribution agents.

*Spirits.* In February 2003, we began the sale of a new product for our beverage portfolio, pisco, under the brand Ruta Norte. Pisco is a grape spirit very popular in Chile that is produced in the northern part of the country and the southern part of Peru. Our pisco was produced in the Elqui Valley in the IV Region of Chile and it was sold throughout the country by the beer division sales force. In March 2005, we entered into an association with the second largest pisco producer at that time, Control. This new joint venture was named Compañía Pisquera de Chile S.A., or CPCh, to which the companies contributed principally with assets, commercial brands and – in the case of Control – also some financial liabilities. Currently we own 80% of Compañía Pisquera de Chile and Control owns the remaining 20%. According to Nielsen numbers, Compañía Pisquera de Chile has 46% market share of the Chilean pisco industry. In May 2007, we added new spirit category, rum, through our joint venture subsidiary CPCh under the brand name Sierra Morena.

*Confectionery.* In January 2004, we entered the confectionery business by means of a joint venture between our subsidiary ECUSA (currently, this investment belongs to our subsidiary CCU Inversiones S.A.) and Empresas Lucchetti S.A. (currently, Industria Nacional de Alimentos S.A.), a subsidiary of Quiñenco. Each company acquired a 50% interest in Calaf S.A. (which has been renamed "Foods Compañía de Alimentos S.A."), a corporation that acquired the trademarks, assets and know-how, among other things, of Calaf S.A.I.C. and Francisca Calaf S.A., traditional Chilean candy makers that have been in business for more than a century. We now sell Calaf's products together with our soft drinks, with the potential to reach more than 90,000 clients. This new challenge offers an interesting growth opportunity to ECUSA in the ready-to-eat market segment.

*Distribution Network.* In Chile, we have an extensive and integrated distribution network for the sale and distribution of beer, soft drinks, mineral water, nectars, wine, pisco, rum and confectionery products including a total of 16 owned or leased warehouses, a network of independent transportation companies and a direct sales force of approximately 950 people who sell our products to approximately 94,000 customers throughout Chile.

In Argentina, our sales and distribution network for our beer products consists of six owned or leased warehouses, a direct sales force reaching approximately 25,400 customers plus 11 supermarket chains, and 174 distributors.

## Our Beer Business

Our historical core business, our Chilean beer operation, was first established in 1850. Since that date, our management believes we have played a leadership role in the industry, with a business that in 1902, after the merger of different breweries, gave rise to our formation. In 1995, we began building our presence in Argentina through the acquisition of a majority interest in two Argentine brewing companies, CICSA and CSF.

### Our Beer Business in Chile

*The Chilean Beer Market.* We estimate that annual beer consumption in Chile was 570 million liters in 2007, or approximately 34 liters per capita. The following chart shows our estimates for total and per capita consumption levels for beer in Chile for the years 2003 - 2007:

<u>Year</u>	<u>Total Sales Volume (1)</u> (millions of liters)	<u>Per Capita (2)</u> (liters)
2003	418	26
2004	425	26
2005	479	29
2006	548	33
2007	570	34

- (1) Based on our sales data, competitors' publicly available information, equity research analyst reports, imports and export data from customs authorities.
- (2) Population estimated in accordance with the national census of April 2002.

We estimate that the total beer market increased by approximately 4% in terms of volume sold during 2007 as compared to 2006. We believe that this positive growth in the beer market is the result of the actions taken by us since 2001 to increase beer consumption in Chile with new products, new packaging and by creating new occasions for consumption, in addition to positive Chilean economic conditions.

Virtually all of the beer consumed in Chile is produced by three Chilean manufacturers: us, Cervecería Chile and Cervecería Austral S.A., or Cervecería Austral, whose principal brands of beer in Chile are Cristal, Báltica and Austral, respectively. According to our estimates, during 2007, we and Cervecería Chile accounted for approximately 87% and 12% of total beer sales in Chile, respectively. In November 2000, we acquired a 50% stake in Cervecería Austral, located in the city of Punta Arenas. This brewery has an annual production capacity of 6.1 million liters and had less than 1% market share during 2007. In October 2001, Cervecería Austral entered into a license agreement with our subsidiary, Cervecería CCU Chile Limitada, to produce and sell our brand Cristal, and also any other brand, owned by or licensed to Cervecería CCU Chile Limitada in the southern part of Chile. During 2003, Cervecería Austral began the production and sale of our brands Cristal, Escudo and Dorada 6.0. In May 2002, we acquired a 50% stake in Compañía Cervecería Kunstmann S.A., located in the city of Valdivia. In November 2006, we acquired additional shares of Kunstmann that allowed us to consolidate this subsidiary into our financial

statements since that month. This brewery has an annual production capacity of 5.9 million liters during 2007. Due to the high costs of shipping beer to Chile and Chile's returnable glass bottle system, sales of imported beer are not significant, representing an estimated 1% of total beer industry volume in 2007.

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

*Beer Production and Marketing in Chile.* The production of beer in Chile is our principal activity, generating net sales of Ch\$206,625 million, Ch\$233,767 million and Ch\$248,399 million or 38.3%, 39.9%, and 39.5% of our total net sales in 2005, 2006 and 2007, respectively. Our sales of beer by volume in Chile increased 4.3% in 2007 as a result of efforts made by us since 2001 to increase beer consumption in Chile by launching new products, developing new packaging and creating new occasions for consumption, in addition to positive Chilean economic conditions.

The following table shows our proprietary brands, brands produced under license and brands imported under license for the Chilean market:

<u>Super-Premium beer brands</u>	<u>Premium beer brands</u>	<u>Special beer brands</u>	<u>Popular-priced beer brands</u>
Royal Guard	Cristal	Lemon Stones	Dorada 6.0
Royal Light	Cristal Red Ale		
Heineken (1)	Cristal Black Lager		
Budweiser (2)	Escudo		
Paulaner (1)	Morenita		
Austral (1)			
Kunstmann			

(1) Produced under license

(2) Imported

Cristal is our principal and best selling beer brand in Chile. Cristal Red Ale and Cristal Black Lager are brand extensions of Cristal, which were launched in April 2006 and April 2007, respectively. Escudo, Chile's second most popular beer, is targeted to young-adult consumers. Royal Guard is our single, proprietary, super-premium brand. Royal Light is a light beer extension of the Royal Guard line and contains a lower alcohol content. Morenita is a dark beer and Dorada 6.0 is a discount brand. Lemon Stones is a lemon flavored sweetened beer, with a 2.5% alcohol content.

During 2007, we exported 3.2 million liters of beer from Chile. Although we continually explore export opportunities, we do not expect beer exports to be a significant source of sales in the future since our primary focus is on the Chilean domestic market.

On April 28, 2003, we, through our subsidiaries Cervecera CCU Chile Limitada and Compañía Cervecerías Unidas Argentina S.A., and Heineken Brouwerijen B.V. signed license and technical assistance agreements which provide us with the exclusive rights to produce, sell and distribute Heineken beer in Chile and Argentina commencing June 18, 2003. These agreements have an initial term of 10 years beginning in June 2003, renewable for subsequent periods of five years. Heineken beer is the leading brand in the super-premium segment, the beer segment with the highest growth in Chile in the last years.

Additionally, we produce, bottle and distribute Paulaner beer under license from Paulaner Brauerei AG, which is controlled by the BrauHolding International GmbH Group, a joint venture between Heineken and the Schörghuber Group. The current Import and License agreement, executed in 1995, which supersedes all prior agreements, provides us with the exclusive right to produce in Chile super-premium beer under the Paulaner label and distribute in Chile a variety of additional imported Paulaner products.



Its term is five years, beginning in May 1995, automatically renewable for successive five-year periods unless otherwise stated by any party. The Schörghuber Group was, until April 2003, one of the two beneficial shareholders of IRSA, our major shareholder.

In October 1996, we and Anheuser-Busch entered into an agreement granting us the exclusive right to distribute Budweiser beer in Chile. During 2004, we and Anheuser-Busch entered into a new distribution agreement, with a 12-year term, ending December 2015. See “Item 3: Key Information – Risk Factors”.

In October 2001, we signed a license agreement with Cervecería Austral S.A. for the production of the Austral brand by our beer division. This agreement has a fourteen-year term, automatically renewable for a seven-year term if certain conditions are fulfilled. This agreement can be extended for an additional seven-year period if both parties express this intention in writing.

In May 2002, we acquired a 50% ownership interest in Compañía Cervecería Kunstmann S.A., a microbrewery located in the southern city of Valdivia, with an annual production capacity of 3 million liters at that time. Since June 2003, our beer division began selling Kunstmann nationwide. In November 2006, we acquired additional shares of Kunstmann that allowed us to consolidate this subsidiary.

Our investment in Cervecería Austral S.A., the production of Austral brand by our beer division, the investment in Compañía Cervecería Kunstmann S.A., plus the production of Heineken beer since June 2003, are part of our strategy to increase our presence in the premium segment of the Chilean beer market.

Our beer products sold in Chile are bottled or packaged in returnable and non-returnable bottles, aluminum cans or stainless steel kegs at our production facilities in the Chilean cities of Santiago, Temuco and Antofagasta. During 2005, 2006 and 2007, we sold our beer products in Chile in the following packaging formats:

<u>Percentage of Total Beer Products Sold</u>			
<u>Container</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Returnable (1)	69%	64%	61%
Non-Returnable (2)	24%	30%	34%
Returnable Kegs (3)	6%	6%	5%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

- (1) Returnable beer containers include glass bottles of various sizes.
- (2) Non-Returnable beer containers include bottles and aluminum cans, both of assorted sizes.
- (3) Returnable kegs are stainless steel containers, which have a capacity of 20, 30 and 50 liters.

We obtain all of our glass bottles and cans from third party suppliers. See “– Raw Materials”.

We directly distribute our beer products throughout Chile to:

- off-premise retail: small and medium sized retail outlets, which in turn sell beer to consumers for take-out consumption;
- on-premise retail: retail establishments such as restaurants, hotels and bars for on-premise consumption;
- wholesalers; and
- supermarket chains.

In 2005, 2006 and 2007, the percentage mix of the above distribution channels for our beer products in Chile was as follows:

Percentage of Total Beer Products Sold

<u>Distribution Channels</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Off-premise retail	39%	37%	38%
On-premise retail	19%	18%	18%
Wholesalers	21%	20%	20%
Supermarkets	<u>21%</u>	<u>24%</u>	<u>24%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

As of December 31, 2007, we had more than 37,000 customers in Chile for our beer products, none of which accounted for more than 2% of our total beer sales by volume, with the exception of two large supermarket chains that represented a combined total of 11%. During 2007, the Chilean supermarket industry continued to consolidate, increasing the importance and purchasing power of a few supermarket chains. We do not maintain any long-term contractual arrangements for the sale of beer with any of our customers in Chile.

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

<u>Category</u>	<u>2003 (1)</u>	<u>2004</u>	<u>2005 (2)</u>	<u>2006</u>	<u>2007</u>
		(in millions of liters)			
Super-Premium	21.9	31.5	34.3	37.8	46.2
Premium	302.9	307.1	358.6	403.2	418.8
Special	8.7	7.4	7.2	6.0	5.5
Medium-Priced	14.7	14.6	0.0	0.0	0.0
Popular-Priced	23.5	20.1	17.0	23.8	20.7
Other Brands	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total	<u>371.8</u>	<u>380.7</u>	<u>417.0</u>	<u>470.8</u>	<u>491.1</u>

(1) Escudo beer brand has been classified as a premium beer effective January 2003; previous years were not reclassified. Since 2003, free samples for promotions are considered in sales volume.

(2) Morenita beer brand has been classified as a premium beer effective January 2005, previous years were not reclassified

The above figures do not include:

- export sales to third parties, which amounted to 0.1, 0.0, 0.0, 2.2 and 3.2 million liters in 2003, 2004, 2005, 2006 and 2007.

The average price, based on December 2007 Chilean pesos, per liter to our customers for beer products in Chile increased from an average of Ch\$462 in 2003 to Ch\$497 in 2007. The four-year compounded annual growth rate was 1.9%.

Our beer production in 2007 was centralized in the Santiago and Temuco plants in addition to the bottling facility in Antofagasta. The Temuco plant commenced in November 1999, replacing the closed plants of Concepción and Osorno. For a more detailed discussion of our capital expenditure program, see “– History and Development of the Company – Capital Expenditures”.

*Raw Materials.* The principal raw materials used in our production of beer are malt, rice, water and hops. We obtain our supply of malt from local producers and in the international market. During 2007, we renewed and signed long-term contracts with local producers for approximately 40% of our requirements. The balance for 2008 is expected to continue to be imported, from Canada, Argentina and Uruguay. During 2007, we received 35,000 tons of malt from Canada, Argentina and Uruguay, representing 100% of our imports. Rice is obtained from local and international suppliers in spot transactions and/or annual contract agreements. We pre-treat rice in order to ensure that it meets our standards of quality. We import hops mainly pursuant to contracts with international suppliers, in the United States, which permits us to secure supplies for periods of up to four years.

Water is essential in the production of beer. We obtain all of our water from wells located at our plants and/or from public utilities. The water is treated at facilities located at our plants to remove impurities and to adjust the characteristics of the water before it is used in the production process.

We maintain testing facilities at each of our plants and factories where raw materials are tested. Additionally, samples of beer are analyzed at various stages of production to ensure product quality. Samples of Heineken are periodically sent to Holland to verify the quality of the product.

We generally purchase all of the glass bottles used in packaging our beer from the major national glass supplier in Chile, Cristalerías Chile S.A. under one-year agreements. In addition, other sources, principally in Argentina, can be used when price and delivery terms are favorable. During 2007, all of our requirements for aluminum cans were purchased from a local supplier, Rexam Chile S.A., formerly Latasa Chile S.A., but if price and delivery conditions are favorable, cans can be imported. Our kegs used for draft beer, are purchased from various suppliers outside Chile. We obtain the labels for our beer products principally from local suppliers. Crowns and plastic caps are principally purchased from three suppliers in Chile.

Prices of principal raw materials used in beer production in Chile are tied to the U.S. dollar and have not been volatile. However, from time to time, prices of agricultural products vary depending on demand and supply factors.

We believe that all of the contracts or other agreements between us and third party suppliers, with respect to the supply of raw materials for beer products, contain standard and customary commercial terms and conditions. We do not believe we are dependent on any one supplier for a significant portion of our important raw materials. During the past ten years, we have not experienced any material difficulties in obtaining adequate supplies of necessary raw materials at satisfactory prices, nor do we expect to in the future.

*Sales, Transportation and Distribution.* We distribute all of our beer products in Chile directly to retail, supermarket and wholesale customers. This system enables us to maintain a high frequency of contact with our customers, obtain more timely and accurate marketing-related information, and maintain good working relationships with our retail customers.

During 2007, after production, bottling and packaging, our beer was either stored at one of the three production facilities or transported to a network of 16 warehouses which are located throughout Chile and are either owned or leased by us. Beer products are generally shipped from the region of production to the closest warehouse, allowing us to minimize our transportation and delivery costs. In July 2002, Comercial Patagona Ltda. began selling all of our beer products in the country's Twelfth Region. Comercial Patagona Ltda. is a subsidiary of Cervecera Austral S.A. that is responsible for the sales and distribution of our products and those of Cervecera Austral in Chile's extreme south.

During 2007, we had approximately 242 salesmen, responsible for our sales of beer and other products in Chile. This sales force is divided into two categories: one exclusively responsible for sales of beer and the other responsible for sales of beer and soft drink products, all of them through a pre-sell system. As of April 2004, the sales operation of soft drinks in the cities of Iquique, Antofagasta, Calama and Copiapó was transferred from our beer division sales force to ECUSA's sales force. Therefore, currently our beer division sells soft drink products only in some rural areas of the country, representing approximately 3% of the total soft drink and mineral water sales by volume in Chile.

In October 2005, we launched Comercial CCU S.A., a pilot plan under which a single sales force sells all of our beverage and sweet snack products, so as to capture sales synergies and focus their efforts on executing sales. Originally, this plan was piloted in the rural areas and small cities in southern Chile. During 2008, it is expected to expand to northern Chile.

In 2007, beer represented 98% of the volume sold by our beer division in Chile. The remaining 2% of sales volume was accounted for by soft drinks and mineral water sales. Our customers make payment for our products either in cash at the time of delivery or in accordance with one of various credit arrangements. Payment on credit sales for beer is generally due 25 days from the date of delivery. Credit

sales accounted for 25%, 28% and 28% of our beer sales in Chile in 2005, 2006 and 2007, respectively. Losses on credit sales of beer in Chile have not been significant.

Beginning in October 2001, all of the warehouses and transportation companies used to store and deliver all of our products, are managed on a consolidated basis by our subsidiary Transportes CCU Ltda.

*Seasonality.* As a result of the seasonality of the beer industry, our 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 calendar quarters (i.e., those months corresponding to the holidays as well as the summer vacation season in Chile).

The following table shows our annual sales volume of beer in Chile, including exports, by quarter in 2005, 2006 and 2007:

<u>Year</u>	<u>Quarter</u>	<u>Sales Volume</u> (millions of liters)	<u>% of Annual</u> <u>Sales Volume</u>
2005	1 <sup>st</sup> quarter	126.8	30.4
	2 <sup>nd</sup> quarter	71.6	17.2
	3 <sup>rd</sup> quarter	79.9	19.2
	4 <sup>th</sup> quarter	<u>138.7</u>	<u>33.3</u>
	Total	<u>417.0</u>	<u>100.0</u>
2006	1 <sup>st</sup> quarter	137.0	29.1
	2 <sup>nd</sup> quarter	86.5	18.4
	3 <sup>rd</sup> quarter	97.6	20.7
	4 <sup>th</sup> quarter	<u>149.7</u>	<u>31.8</u>
	Total	<u>470.8</u>	<u>100.0</u>
2007	1 <sup>st</sup> quarter	145.1	29.6
	2 <sup>nd</sup> quarter	88.1	17.9
	3 <sup>rd</sup> quarter	100.7	20.5
	4 <sup>th</sup> quarter	<u>157.2</u>	<u>32.0</u>
	Total	<u>491.1</u>	<u>100.0</u>

*Geographical Markets.* Our main beer production facility is located in Santiago. Santiago and the surrounding areas (referred to as the Metropolitan Region) account for approximately 40% of the population of Chile and accounted for approximately 37% of our beer sales by volume in 2007. We also have one additional beer production facility (Temuco) and one additional bottling facility (Antofagasta) located outside the Santiago metropolitan area. Virtually all of our brands are distributed to customers located within the geographic areas of the corresponding production facilities.

*Competition.* Our principal competitor in the beer business is Cervecería Chile (a subsidiary of InBev), which commenced operations in Chile during the second half of 1991, resulting in a loss of market share for us. Nevertheless, after experiencing a market share low of 86% in both 1994 and 1995, we were able to recapture our lost market share, reaching 90% market share in 2004. However, in 2005, Cervecería Chile launched a new product which negatively affected our market share, and in 2006, we had 86% market share. This downturn was reversed in 2007, as we began to recapture some of the lost market, obtaining 87% market share.

Our estimated share of the Chilean beer market over the last five years is as follows:

<u>Year</u>	<u>Our Chilean Market Share for Beer (*)</u>
2003	89%
2004	90%
2005	88%
2006	86%
2007	87%

(\*) Considers beer sold directly by Austral and Kunstmann

Our competitor, Cervecería Chile has one production facility located in Santiago and distributes its products throughout the country. Cervecería Chile uses third party distributors in Region I in the north, and from the city of Castro in the Region X to the south. We estimate that the sales of Cervecería Chile's brands of beer by volume accounted for approximately 13% of total beer sales in 2006 and 12% in 2007. In 2007, we estimate that Cervecería Chile had an annual production capacity of approximately 105 million liters which represents approximately 16% of our annual nominal production capacity 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 system, imported beer is not a significant component of the Chilean beer market. We estimate that imports and microbreweries accounted for approximately 1% of total beer sales by volume during 2007.

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 Chilean beer market. In addition, our 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.

### **Our Beer Business in Argentina**

*Overview.* In December 1994, we established CCU Argentina in order to develop a presence in the Argentine beer market. During January and February 1995, we, 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 1995, we entered into a joint venture agreement pursuant to which Anheuser-Busch acquired a 4.4% interest in CCU Argentina. The agreement involved two kinds of contracts: an investment and a licensing contract. Under the investment contract, Anheuser-Busch had an option, which expired in 2005, to increase its interest in CCU Argentina to 20%. The licensing contract has a duration of 20 years and grants CCU Argentina the exclusive right to produce, package, market, sell and distribute Budweiser beer in Argentina. In June 2008, after the last capital expansion, Anheuser-Busch reduced its interest in CCU Argentina to 4.1% and we increased our participation to 95.9%. See "Item 3: Risk Factors".

Between 1996 and June 2008, we and Anheuser-Busch invested approximately US\$301 million and US\$23 million in CCU Argentina, respectively. Among other things, this capital was used to prepay debt incurred to acquire the initial stake in CICSA and CSF, increase CCU Argentina's stake in these same subsidiaries, increase plant capacity, purchase land in Zárate (a region close to Buenos Aires), purchase the brands and assets of Cervecería Córdoba, reduce short term debt, buy a canning line for the Santa Fe plant, and acquire ICESA.

In January 1998, we merged two of our subsidiaries, CICSA and CSF. Currently both plants operate under the CICSA name. As a result of the merger of CICSA and CSF, CCU Argentina holds a 99.6% interest in CICSA as of December 2007.

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

In April and June 2008, CICSA paid an aggregate amount of US\$88 million to acquire ICOSA. Among other assets, ICOSA owns, the Bieckert, Palermo and Imperial beer brands, and a brewery in Luján, Buenos Aires, which has a nominal production capacity of 270 million liters per year.

*The Argentine Beer Market.* The Argentine beer market is estimated by us to be almost three times the size of Chile's. Traditionally, beer and wine have been the principal alcoholic beverages consumed in the country. We estimate that annual beer consumption in Argentina was 1,579 million liters, or approximately 40 liters per capita in 2007.

The table below sets forth our estimates of beer consumption in Argentina during each of the last five years:

<u>Year</u>	<u>Volume</u> (in millions of liters)	<u>Per Capita (*)</u> (liters)
2003	1,292	34
2004	1,333	35
2005	1,389	36
2006	1,472	38
2007	1,579	40

(\*) Population estimated based on Argentina's national census of 2001.

We estimate that total beer consumption in Argentina increased at a four-year compounded annual growth rate of 5.1% between 2003 and 2007. During 2007, the Argentine beer market increased 7.2%, due to a recovery in consumption and an increase in consumer confidence.

Since January 2006, the Argentine Government has adopted different methods to directly and indirectly regulate price increases of various consumer goods, including bottled beer, in an effort to slow inflation. Once the government approves a price increase for each beer company, wholesale prices are negotiated between the producer and the purchaser. Prices to consumers are determined by the negotiated wholesale price, as impacted by the producer's product pricing strategy. In order to optimize its profit margins, the producer must carefully manage its product and channel mix and trade discounts.

*Beer Production and Marketing in Argentina.* Our production of beer in Argentina generated net sales of Ch\$51,248 million, Ch\$62,084 million and Ch\$69,269 million representing 9.5%, 10.6% and 11.0% of our total net sales in 2005, 2006 and 2007, respectively. The increases during this period were the result of higher prices and volumes, as a consequence of a better economic environment in Argentina.

We produce and market super-premium, premium, medium-priced and popular-priced beer brands in Argentina. The following table shows our principal brands produced and imported under license in Argentina:

<u>Super-Premium beer brands</u>	<u>Premium beer brands</u>	<u>Medium-priced beer brands</u>	<u>Popular-priced beer brands</u>
Heineken (1)	Budweiser (1)	Schneider	Río Segundo
Corona (2)	Salta	Schneider Fuerte 6.0°	Rosario
Guinness (2)	Santa Fe	Córdoba	
Negra Modelo (2)			
Paulaner (2)			

(1) Produced under license

(2) Imported

Schneider is our principal proprietary brand in Argentina, accounting for 35% of our Argentine sales volume in 2007. We began local production of Budweiser brand beer in December 1996. Budweiser beer represented 30% of our Argentine sales volume in 2007. Since February 2002, our Budweiser one-liter returnable bottle, the main format in the market, has been priced at the same level as the leading brand in the market. In June 2003, we began selling locally produced Heineken beer. Our Schneider brand is sold in three varieties, regular lager, dark and Schneider Fuerte 6.0°, a brand extension with 6.0% of alcohol; the Salta brand is sold in regular and strong lager, and dark varieties, and the Santa Fe brand is sold in regular lager and dark varieties. The Córdoba brand is sold only as a regular lager. During 1997, we began to import Guinness beer from Ireland, making Argentina the only country in South America where Guinness draught is sold. During 2001, we began importing Corona beer from Mexico, and during 2005 and 2007, we also began importing Negra Modelo beer from Mexico and Paulaner beer from Germany. During 2007, we exported 18.7 million liters of beer from Argentina, representing 6.9% of CCU Argentina's beer sales volume.

Our beer products are bottled or packaged in returnable and non-returnable glass bottles, aluminum cans, or stainless steel kegs at our production facilities. During 2005, 2006 and 2007, we sold our beer products in Argentina in the following packaging formats:

Percentage of Total Beer Products Sold

<u>Container</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Returnable (1)	91%	88%	85%
Non-Returnable (2)	8%	10%	13%
Returnable Kegs (3)	<u>2%</u>	<u>2%</u>	<u>2%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

- (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 in assorted sizes.

We obtain all of our glass bottles from third-party suppliers located in Argentina and Brazil, and stainless steel kegs from third-party suppliers in Germany and Spain.

In Argentina, though most beer is sold to wholesalers, we also sell our products to retailers and supermarket chains. In 2005, 2006 and 2007, the percentage mix of the above distribution channels for our beer products in Argentina was as follows:

Percentage of Total Beer Products Sold

<u>Distribution Channels</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Wholesalers	78%	77%	76%
Retailers	14%	15%	14%
Supermarkets	<u>8%</u>	<u>9%</u>	<u>10%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

In 2007, we sold to approximately 25,400 customers in Argentina, none of which individually accounted for more than 3% of our total beer sales by volume, with the exception of two large distributors that represented a combined total of 16%.

The following table sets forth our beer sales volume in Argentina by category during each of the last five years:

<u>Category</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(in millions of liters)				
Super-premium	9.4	20.3	25.7	30.8	38.3
Premium	77.5	80.5	85.8	96.2	109.5
Medium-priced	91.8	103.0	106.3	104.6	104.6
Popular-priced	<u>6.6</u>	<u>1.1</u>	<u>2.5</u>	<u>1.8</u>	<u>1.1</u>
Total	<u>185.3</u>	<u>204.9</u>	<u>220.2</u>	<u>233.4</u>	<u>253.5</u>

The average price, based on December 2007 Chilean pesos, to our customers for our beer products in Argentina has increased at a four-year compounded annual rate of 6.9%, from Ch\$192 per liter in 2003 to Ch\$251 per liter in 2007, mainly due to the effect of the Argentine peso's devaluation and a higher sales mix of super-premium brands.

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, had an initial term of 20 years commencing in December 1995, which in March 2008, was extended to December 2025. 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 certain 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 Budweiser beer, without the prior written consent of Anheuser-Busch. We began distribution of our locally produced Budweiser in December 1996. See “– Sales, Transportation and Distribution”. In addition, the license agreement is subject to certain specified market share targets and marketing expenditures. During the third quarter 2000, we and Anheuser-Busch signed an export agreement to supply Budweiser from Argentina to Paraguay, Chile and Brazil. In August 2003, the license agreement was modified, with regard to certain targets, to adjust it to the current economic situation of the Argentine market. See “Item 3: Risk Factors”.

On April 28, 2003, CCU Argentina and Heineken Brouwerijen B.V., a subsidiary of Heineken International B.V., signed license and technical assistance agreements which provide us with the exclusive rights to produce, sell and distribute Heineken beer in Argentina commencing June 18, 2003. These agreements have an initial term of 10 years beginning in June 2003, renewable for subsequent periods of five years. Heineken beer is the leading brand in the super-premium segment in Argentina.

In October 2006, we signed a long-term contract with ICSA to brew, bottle and package beer in the former AmBev plant in Luján, near Buenos Aires, that was purchased by ICSA. In January 2007, we began brewing our local brands in this plant, obtaining enough production capacity to ensure future growth. In April 2008, we acquired ICSA.

*Raw Materials.* The principal raw materials used in the production of our beer products in Argentina are malt, corn syrup, rice, water and hops. During 2007, we continued obtaining malt and rice from regional suppliers, benefiting from lower costs as compared to imported materials. We obtain rice from suppliers in Argentina and Uruguay and malt from suppliers in Argentina and Chile.

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 our standards of quality.

Water is essential in the production of beer. Our 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 our plants to remove impurities and adjust the characteristics of the water before it is used in the production process.

We maintain testing facilities at each of our plants and factories in which raw materials are analyzed according to our standards. Additionally, samples of beer are analyzed at various stages of production to ensure product quality. Samples of Heineken and Budweiser are periodically sent to Holland and to



Anheuser-Busch facilities in the United States, respectively, to verify the consistency and quality of the products.

We generally purchase all of our glass bottles from the major national glass supplier in Argentina, Rigolleau/Cattorini, and from Saint Gobain in Brazil. During 2007, all of our requirements for aluminum cans were purchased from a local supplier, Rexam Argentina S.A., but if price and delivery conditions are favorable, cans can be imported. 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 and international suppliers.

Prices of principal raw materials used in beer production in Argentina have not been volatile in dollar terms. However, from time to time, prices of agricultural products vary depending on demand and supply factors.

We believe that all contracts or other agreements between us and third party suppliers, with respect to the supply of raw materials for beer products, contain standard and customary commercial terms and conditions. We do not believe we are dependent on any one supplier for a substantial portion of our raw materials in Argentina. We have not experienced any significant difficulties in obtaining adequate supplies of necessary raw materials at satisfactory prices and do not expect to in the future.

*Sales, Transportation and Distribution.* After production, bottling and packaging, our beer is either stored at the production facilities or transported to a network of six warehouses leased or owned by us. Beer products are generally shipped to those warehouses, which are located within the region in which the beer products are sold.

Most of our beer in Argentina is sold and distributed through third party sales and distribution chains in the regions surrounding the cities of Santa Fe, Salta, Córdoba, Rosario and Buenos Aires. During the last years, we reduced the number of our distributors and replaced some of them by larger ones, among which there are currently three Coca-Cola bottlers, one in the south, another one in the north and the third one in the northeastern regions of Argentina. As of December 31, 2007, we had a direct sales force which sold our beer products to approximately 25,400 customers within the Salta, Santa Fe, Córdoba, Rosario, the Federal Capital and its outlying metropolitan area, in addition to 11 supermarket chains throughout the country.

Our Argentine beer customers either make payments for our products in cash at the time of delivery or through one of our various credit arrangements. Payment on credit sales is currently due 7 days from the date of delivery to wholesalers, and an average of 60 days of delivery to supermarkets. Credit sales accounted for 50%, 52% and 61% of our beer sales in Argentina in 2005, 2006 and 2007, respectively. Losses on credit sales of beer in Argentina have not been significant.

*Seasonality.* As a result of the seasonality of the beer industry, our sales and production volumes are normally at their lowest in the second and third calendar quarters and at their highest in the first and fourth quarters (i.e., those months corresponding to the summer and holiday seasons in Argentina).

The following table shows the annual sales volume of beer in Argentina, including exports, during each quarter in 2005, 2006 and 2007:

<u>Year</u>	<u>Quarter</u>	<u>Sales Volume</u> (millions of liters)	<u>% of Annual</u> <u>Sales Volume</u>
2005	1 <sup>st</sup> quarter	66.6	29.3
	2 <sup>nd</sup> quarter	38.3	16.9
	3 <sup>rd</sup> quarter	46.0	20.3
	4 <sup>th</sup> quarter	<u>76.1</u>	<u>33.5</u>
	Total	<u>226.9</u>	<u>100.0</u>
2006	1 <sup>st</sup> quarter	67.3	27.5
	2 <sup>nd</sup> quarter	41.6	17.0
	3 <sup>rd</sup> quarter	51.0	20.9
	4 <sup>th</sup> quarter	<u>84.6</u>	<u>34.6</u>
	Total	<u>244.4</u>	<u>100.0</u>
2007	1 <sup>st</sup> quarter	76.4	28.1
	2 <sup>nd</sup> quarter	50.2	18.4
	3 <sup>rd</sup> quarter	54.5	20.0
	4 <sup>th</sup> quarter	<u>91.2</u>	<u>33.5</u>
	Total	<u>272.2</u>	<u>100.0</u>

*Geographical Markets.* Our beer production facilities in Argentina are located in Santa Fe and Salta. Santa Fe and its surrounding areas account for approximately 8.2% of the population of Argentina and for approximately 18.4% of total beer sales of CCU Argentina by volume in 2007. The region surrounding and including the cities of Salta and Jujuy account for approximately 4.9% of the population of Argentina and for approximately 8.9% of total beer sales of CCU Argentina by volume in 2007. The region surrounding and including the city of Córdoba accounts for approximately 8.5% of the Argentine population and represents approximately 12.3% of CCU Argentina's sales by volume. Lastly, the province of Buenos Aires accounts for approximately 44.6% of the population of Argentina and for approximately 26.1% of total beer sales of CCU Argentina by volume in 2007.

*Competition.* Since 2003, after the agreement between Quilmes and AmBev, the Argentine beer market consisted of four brewing groups: AmBev-Quilmes, us, Warsteiner and Galicia. The principal brands of these companies are Quilmes, Schneider, Isenbeck and San Carlos, respectively. In December 2006, ICSA, a new competitor, entered the Argentine beer market. ICSA began its operations at the former AmBev brewery in Luján producing three beer brands: Palermo, Bieckert and Imperial, which had previously belonged to Quilmes. These assets were sold by AmBev-Quilmes in response to requirements of the antitrust authorities in Argentina. According to the information made public by our competitors and our estimates for Isenbeck, the different brewing groups had the following market shares in 2007: AmBev-Quilmes, 73%; us, 16%; ICSA, 6%; Warsteiner, 5%; and Galicia, less than 1%.

The following table shows our market share in the Argentine market over the past five years:

Our Argentine Market Share for Beer

<u>Year</u>	<u>Estimated Market Share</u>
2003	14%
2004	15%
2005	16%
2006	16%
2007	16%

Source: CICA

Quilmes, the beer market leader in Argentina and our 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 that acquisition, increased its production capacity by approximately 170 million liters,

increasing its market share by an estimated 4.9%. As of December 31, 2007, Quilmes had five breweries in Argentina with an estimated total annual production capacity of 1.2 billion liters. Quilmes' large size enables it to benefit from economies of scale in the production and distribution of beer throughout Argentina.

We estimate that Quilmes' average market share in 2007 decreased to 73% from 82% market share in late 1994. At that time, Companhia Cervejaria 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, with an annual production capacity estimated to be approximately 140 million liters. Prior to commencing production in Argentina, Companhia Cervejaria Brahma and Warsteiner competed in the Argentine market with imported beer. The other competitor, Galicia, has one plant with a total annual capacity of approximately 17 million liters. In July 1999, the merger of Companhia Cervejaria Brahma and Companhia Antarctica Paulista was announced, creating AmBev. This merger was finally approved in March 2000, creating one of the largest beverage producers in the world.

More recently, in May 2002, AmBev and Quilmes announced that pursuant to an agreement between both parties, AmBev would transfer all of its beer assets in Argentina, Bolivia, Paraguay and Uruguay to Quilmes in exchange for 26.4 million new B shares of Quilmes. Additionally, according to the announcement AmBev would purchase from the controlling shareholders of Quilmes 230.92 million class A shares for US\$346.4 million. Also the agreement stipulates that AmBev can purchase at the end of a seven-year period the remaining Quilmes shares owned by the current controlling group, the Bemberg family, with AmBev shares. The Bemberg family had the option to sell to AmBev their remaining class A shares during a period beginning with the end of the first year and ending with the seventh year after the agreement was announced. This option was exercised in April 2006. This transaction was approved by the Argentine antitrust authorities on January 13, 2003, subject to the condition that AmBev and Quilmes divest themselves of certain brands and the AmBev plant in Luján, near Buenos Aires, to a company currently not present in the Argentine beer market. On February 14, 2003, through our subsidiary CICSA, we filed a complaint before the Argentine federal courts in order to be eligible to participate in the acquisition of these assets. In February 2006, the Argentinean Supreme Court of Justice ruled against our complaint. In December 2006, the Argentine authorities approved the sale of these assets to ICESA, a company owned by local investors. On March 3, 2004, AmBev and Interbrew announced an agreement to merge the two companies, creating the world's largest brewer under the name InBev. This merger was closed in August 2004. Consolidation in the beer industry has resulted in larger and more competitive participants, which could change the current market conditions under which we operate.

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 system, we estimate that imported beer sales accounted for less than 1% of the total sales volume in 2007.

Our 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. The last modification was in 1999 and has been applicable since January 2000. The following table shows current Argentine excise beverage taxes:

<u>Product Type</u>	<u>1999 Excise Taxes</u>	<u>Current Excise Taxes</u>
<u>Non-Alcoholic Beverages</u>		
Cola soft drinks	4%	8%
Flavored soft drinks, mineral water and juices	0%	4%
<u>Alcoholic Beverages</u>		
Beer	4%	8%
Whisky	12%	20%
10-29% alcohol content	6%	12%
30% or more alcohol content	8%	15%
Wine	0%	0%

Future changes in excise taxes in Argentina could adversely affect our sales volume, market share and operating margins.

## Our Soft Drinks and Mineral Water Business

*Overview.* We have produced and sold soft drinks in Chile since 1902. Prior to November 1994, we independently produced, bottled and distributed carbonated and non-carbonated soft drinks in Chile. Our line of soft drink products included our own proprietary brands, in addition to brands produced under license from Cadbury Schweppes plc. (currently Crush, Crush Light, Canada Dry Agua Tónica, Canada Dry Agua Tónica Light, Canada Dry Ginger Ale, Canada Dry Ginger Ale Light, Canada Dry Limón Soda and Canada Dry Limón Soda Light). Under a similar licensing arrangement with Watt's, a local fruit related product company, we bottled and distributed Watt's nectar products in Chile from 1987 until December 2006. In addition, under our two proprietary brand names, Cachantun and Porvenir, we bottled and nationally distributed mineral water from our own two natural sources located within the central region of Chile.

In November 1994, we merged our soft drink and mineral water businesses with the one owned by BAESA in Chile (PepsiCo's bottler at that time) creating ECUSA for the production, bottling, distribution and marketing of soft drink and mineral water products in Chile. Therefore, we began producing PepsiCo brands under license (currently Pepsi, Pepsi Light, Seven Up, Seven Up Light, Mirinda, Gatorade and Lipton Ice Tea). On November 29, 1999, we purchased 45% of ECUSA's shares owned by BAESA for approximately Ch\$49,695 million. Since that date, we have owned 100% of ECUSA's shares. However, we have had control of ECUSA since January 1998 after the shareholders agreement was amended. In January 2001, ECUSA and Schweppes Holdings Ltd. signed an agreement to continue bottling Crush and Canada Dry brands. See "– Our Soft Drinks, Mineral Water and Nectar Production and Marketing in Chile".

*The Chilean Soft Drinks and Mineral Water Market.* Commercial soft drink production was first established in Chile by us in 1902, and mineral water production began in 1960. In 2007, we estimate that annual carbonated soft drinks consumption in Chile was 1,940 million liters or approximately 117 liters per capita. We estimate that consumption of fruit nectars and juices was 255 million liters or approximately 15 liters per capita, in 2007. We also estimate that consumption of mineral water, including both carbonated and non-carbonated, was 174 million liters or approximately 10 liters per capita, in 2007.

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, which are estimated to have accounted for approximately 17% of our total soft drink and mineral water sales by revenues in 2007.

The table below sets forth our estimates of total and per capita carbonated soft drinks, fruit nectars and mineral water sales in Chile during each of the last five years:

Year	Soft Drink and Mineral Water Sales							
	Volume (1) (millions of liters)				Liters Per Capita (2)			
	Carbonated Soft Drinks	Nectars (3)	Mineral Water	Total	Carbonated Soft Drinks	Nectars (3)	Mineral Water	Total
2003	1,606	144	135	1,885	101	9	8	118
2004	1,667	154	138	1,959	104	10	9	122
2005	1,750	185	169	2,104	108	11	10	129
2006	1,866	223	169	2,257	114	14	10	137
2007	1,940	255	174	2,369	117	15	10	143

(1) Based on our sales data, publicly available information from competitors, equity research

- analyst reports, information from Nielsen and ANBER.
- (2) Population estimated in accordance with the national census of April 2002.
- (3) Includes liquid juices, nectars, fruit beverages and artificial juices.

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

<u>Type</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Colas	58%	58%	58%
Non-colas	42%	42%	42%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Since the creation of the ECUSA joint venture in November 1994, the two main soft drinks producer groups in Chile have been (i) the licensees of The Coca-Cola Company (consisting of three companies with 13 bottling plants) and (ii) us. Since August 1998, private labels have had an increasing participation in the industry, representing 3% of the total carbonated soft drink sales in Chile in 2007. Distribution of these brands is concentrated in the supermarket channel where they constituted a 11% market share in 2007. Additionally, discount brand producers have entered the market and represented 7% of the soft drinks market in 2007. Due to the strong presence of local producers, the high cost of transportation and the existing returnable bottle system that accounts for a large portion of soft drink sales volume, we believe 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 2007.

The mineral water market in Chile is comprised of both carbonated and non-carbonated water. As with the soft drink market, approximately 95% of all mineral water in Chile is processed and marketed by two entities, us and Vital Aguas S.A., a subsidiary of the three licensees companies of The Coca-Cola Company in Chile. Our mineral water products have been produced by ECUSA since November 1994.

Wholesale and retail prices of both soft drinks and mineral water products are not regulated in Chile. We believe 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 applicable tax structure, the desired profit margins and the geographical location of the retailer.

*Our Soft Drinks, Mineral Water and Nectar Production and Marketing in Chile.* Our soft drinks, nectar and mineral water production and marketing in Chile generated net sales of Ch\$148,704 million, Ch\$161,602 million and Ch\$172,945 million, or 27.6%, 27.6% and 27.5% of our total net sales, in 2005, 2006 and 2007, respectively.

The following table shows the soft drink and mineral water brands produced and/or sold by us through ECUSA during 2007:

<u>Brand</u>	<u>Product</u>	<u>Category</u>	<u>Affiliation</u>
Bilz	Soft Drink	Non-Cola Proprietary	CCU Proprietary
Pap	Soft Drink	Non-Cola Proprietary	CCU Proprietary
Bilz Light	Soft Drink	Non-Cola Proprietary	CCU Proprietary
Pap Light	Soft Drink	Non-Cola Proprietary	CCU Proprietary
Kem Piña	Soft Drink	Non-Cola Proprietary	CCU Proprietary
Kem Xtreme	Soft Drink	Functional	CCU Proprietary
Slice by Kem	Soft Drink	Non-Cola	CCU and PepsiCo
Nobis	Soft Drink	Non-Cola Proprietary	CCU Proprietary
Canada Dry Ginger Ale	Soft Drink	Non-Cola Licensed	Schweppes Holdings Ltd.
Canada Dry Ginger Ale Light	Soft Drink	Non-Cola Licensed	Schweppes Holdings Ltd.
Canada Dry Agua Tónica	Soft Drink	Non-Cola Licensed	Schweppes Holdings Ltd.
Canada Dry Agua Tónica Light	Soft Drink	Non-Cola Licensed	Schweppes Holdings Ltd.
Canada Dry Limón Soda	Soft Drink	Non-Cola Licensed	Schweppes Holdings Ltd.
Canada Dry Limón Soda Light	Soft Drink	Non-Cola Licensed	Schweppes Holdings Ltd.
Crush	Soft Drink	Non-Cola Licensed	Schweppes Holdings Ltd.

Crush Light	Soft Drink	Non-Cola Licensed	Schweppes Holdings Ltd.
Pepsi	Soft Drink	Cola Licensed	PepsiCo
Pepsi Light	Soft Drink	Cola Licensed	PepsiCo
Seven-Up	Soft Drink	Non-Cola Licensed	PepsiCo
Seven-Up Light	Soft Drink	Non-Cola Licensed	PepsiCo
Lipton Ice Tea	Ice Tea	Non-Cola Licensed	PepsiCo
Mirinda	Soft Drink	Non-Cola Licensed	PepsiCo
Gatorade	Isotonic	Functional	PepsiCo
SoBe Adrenaline Rush	Energy	Functional	PepsiCo
Watt's	Nectars	Licensed	Watt's
Watt's Light	Nectars	Licensed	Watt's
Watt's Ice Fruit	Nectars	Licensed	Watt's
Cachantun	Mineral Water	Proprietary	CCU Proprietary
Cachantun O <sub>2</sub>	Mineral Water	Functional	CCU Proprietary
Mas de Cachantun	Mineral Water	Proprietary	CCU Proprietary
Porvenir	Mineral Water	Proprietary	CCU Proprietary
Glacier	Purified Water	Proprietary	CCU Proprietary

In 1994, ECUSA and Cadbury Schweppes plc, or Cadbury Schweppes, the latter through its subsidiaries CS Beverages Ltd. and Canada Dry Corporation Ltd., entered into license agreements for all Cadbury Schweppes products.

On December 11, 1998, The Coca-Cola Company, or TCCC, announced an agreement with Cadbury Schweppes to acquire certain of the latter's international beverage brands, including those licensed to ECUSA, and in August 1999 the agreement was reported to have been consummated. In September 2000, after more than a year's litigation, both in Chile (suits at civil courts and antitrust authorities) and England (arbitration under ICC rules), ECUSA and TCCC reached an agreement superseding ECUSA's previous license contracts with CS Beverages Ltd. and Canada Dry Corporation Ltd. The new agreement, referred to as the "Bottler Contract", was executed between ECUSA and Schweppes Holdings Ltd., concerning the Crush and Canada Dry brands, and was approved by the Chilean antitrust commission, thus putting an end to the proceeding regarding the Cadbury Schweppes brands issue and dismissing all complaints filed in consideration of the agreement. The "Bottler Contract" is valid as from January 2, 2001, with an initial ten-year term, renewable for consecutive five-year periods provided that certain conditions are fulfilled.

In March 2006, ECUSA signed new exclusive bottling agreements with PepsiCo, Inc. and its subsidiary Seven-Up International, respectively, authorizing ECUSA to produce, sell and distribute Pepsi products in Chile. The contracts terminate on March 31, 2020.

Likewise, in March 2006, a new exclusive bottling agreement was executed between ECUSA and Stokely Van-Camp, Inc., a subsidiary of PepsiCo, Inc., authorizing ECUSA to bottle, sell and distribute Gatorade products in Chile, for an initial term ending on March 31, 2010, automatically renewable for successive two or three-year periods if certain conditions set forth in the contract are met. In August 2002, we began importing, selling and distributing Gatorade, the world's number one isotonic drink. Since October 2006, we have been producing Gatorade locally.

In November 2007, ECUSA signed an exclusive bottling agreement with Pepsi Lipton International Limited, authorizing ECUSA to produce, sell and distribute ready to drink tea beverages in Chile. This agreement terminates on March 31, 2020.

In addition, ECUSA has been granted the exclusive license to produce and distribute our proprietary brands Bilz, Pap and Kem. This license agreement had an initial ten-year term commencing November 1994, and is automatically renewable for six additional five-year periods. The license agreement was renewed in 2004.

The license agreement for nectar products with Watt's, which granted us exclusive production rights, was first signed in June 1987 and originally had a 33-year term. In February 1999, a new license agreement was signed allowing us to produce new flavors and bottle Watt's nectars in non-returnable packaging (wide mouth glass and plastic bottles). A new license agreement between us and Watt's was signed in

July 2004. This new contract provided us with a ten-year license renewable automatically for three consecutive periods of three years if the conditions set forth in the contract are fulfilled at the date of renewal. In December 2006, we signed a joint venture agreement with Watt's, under which we participate in equal parts in Promarca S.A., or Promarca. This new company owns the brands "Watt's", "Ice Frut de Watt's", "Yogu Yogu" and "Shake a Shake" in Chile. Promarca granted its subsidiaries, for an indefinite period, the exclusive licences for the production and sale of the different product categories. Therefore, we now participate in new product categories such as 100% fruit juices and fruit and dairy based beverages.

In October 1994, ECUSA, at that time our 55%-owned subsidiary, entered into two license agreements with Aguas Minerales Cachantun S.A. and Agua Mineral Porvenir S.A.I., respectively, 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 had initial ten-year terms, automatically renewable for six additional five-year periods. The license agreements were renewed in 2004.

On June 14, 2001, ECUSA and Life O<sub>2</sub> Beverages LLP entered into an exclusive technology and trademark license agreement for the production, sale and distribution of water products with high concentrations of oxygen. The agreement has an initial term of five years as from June 2001, renewable for one-year periods, unless otherwise stated by any party in writing.

In June 2003, we entered into the purified water business with our proprietary brand Glacier, increasing our water selection and reaching a larger amount of population with a more affordable product.

In October 2004, we relaunched Nobis, a traditional proprietary soft drink brand, to be used strategically against discount brands.

In February 2005, we launched a new Cachantun product, under the trademark Mas, a sugar free product made of mineral water, calcium and citric flavor, creating a new category of flavored water.

In December 2007, we entered into an agreement with Nestlé Chile S.A. and Nestlé Waters Chile S.A., the latter of which acquired a 20% interest in our subsidiary Aguas CCU-Nestlé Chile S.A., the company through which we develop our bottled water business in Chile. As part of this new association, Aguas CCU-Nestlé Chile S.A. will produce and sell the Nestlé Pure Life brand in Chile. Nestlé has a call option to increase its ownership in Aguas CCU-Nestlé Chile S.A. by an additional 29.9%, which expires on June 5, 2009.

Under each license agreement, we have the exclusive right to produce, sell and distribute the respective licensed products in Chile. Generally, under our license agreements, we are required to maintain certain standards of quality with respect to the production of licensed products, to achieve certain levels of marketing and, in certain cases, to fulfill minimum sales requirements. We believe that we are in compliance with the material requirements of all our license agreements.

During 2005, 2006 and 2007, we sold our soft drink and mineral water products in the following packaging formats:

Container	Soft Drinks and Nectars			Mineral Water		
	2005	2006	2007	2005	2006	2007
Returnable (1)	42%	41%	38%	7%	6%	6%
Non-Returnable (2)	56%	57%	60%	93%	94%	94%
"Post-Mix" (3)	2%	2%	2%	-	-	-
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(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, and aluminum cans of assorted sizes. Non-returnable mineral water containers include plastic bottles of assorted sizes.

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

We manufacture most of our returnable and non-returnable plastic bottles and obtain all of our glass bottles and cans from third party suppliers. See “– Raw Materials” and “– Our Other Businesses”.

We directly distribute our soft drinks and mineral water products throughout Chile to:

- off-premise retail: small and medium sized retail outlets, which in turn sell to consumers for take-out consumption;
- on-premise retail: retail establishments such as restaurants, hotels and bars for on-premise consumption;
- wholesalers; and
- supermarket chains.

In 2005, 2006 and 2007, the percentage mix of the above distribution channels for our soft drinks and mineral water products in Chile was as follows:

<u>Distribution Channels</u>	<u>Percentage of Total Soft Drinks and Mineral Water Products Sold</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Off-premise retail	51%	54%	54%
On-premise retail	8%	8%	9%
Wholesalers	9%	8%	9%
Supermarkets	<u>32%</u>	<u>30%</u>	<u>28%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

During 2007, we had no single customer that accounted for more than 2% of our sales by volume, with the exception of two large supermarket chains that represented a combined total of 19%. During 2007, the Chilean supermarket industry continued to consolidate, increasing the importance and purchasing power of a few supermarket chains. We do not maintain any long-term contractual arrangements for the sale of soft drinks and/or mineral water with any of our customers.

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

<u>Category</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
		(millions of liters)	
Colas			
Licensed	52.7	61.3	66.8
Non-colas			
Proprietary	153.7	161.2	165.1
Licensed	116.2	124.1	132.9
Nectars	<u>44.5</u>	<u>54.8</u>	<u>65.8</u>
Soft Drinks Total	<u>367.0</u>	<u>401.4</u>	<u>430.4</u>
Mineral Waters			
Cachantun	100.6	110.0	107.8
Porvenir	3.6	3.5	2.7
Purified Water	<u>2.9</u>	<u>3.4</u>	<u>4.0</u>
Total Waters	<u>107.1</u>	<u>116.9</u>	<u>114.4</u>
Total	<u>474.2</u>	<u>518.3</u>	<u>544.9</u>

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



<u>Affiliation</u>	<u>2005</u>	<u>2006</u> (millions of liters)	<u>2007</u>
Proprietary	153.7	161.2	165.1
Schweppes	105.0	112.2	119.5
PepsiCo	63.8	73.2	80.1
Watt's/Promarca (1)	<u>44.5</u>	<u>54.8</u>	<u>65.8</u>
Total	<u>367.0</u>	<u>401.4</u>	<u>430.4</u>

(1) As of December 2006, we own 50% of the rights to the Watt's brand, currently held through our affiliate Promarca.

The average price, based on December 2007 Chilean pesos, per liter to our customers for soft drink products was almost constant from an average of Ch\$325 in 2003 to Ch\$327 in 2007. The four-year compounded annual growth rate increased 0.2%. For mineral water products, the average price, based on December 2007 Chilean pesos, per liter increased from an average of Ch\$256 in 2003 to Ch\$272 in 2007 and experienced a four-year compounded annual growth rate of 1.6%.

*Raw Materials.* The principal raw materials used in the production of soft drinks are water, sugar, flavoring concentrates and in the case of carbonated products, carbon dioxide gas. We generally purchase our sugar requirements from Empresas Iansa S.A., the sole producer of sugar in Chile, and from imports. We purchase flavoring concentrates for our licensed soft drink brands from the respective licensing companies. See “– Our Soft Drinks and Mineral Water Production and Marketing in Chile”. Flavoring concentrates for our proprietary brands are purchased from third party suppliers in Chile and Germany, which manufacture the concentrates under contract with us. We obtain carbon dioxide gas from local suppliers in Chile.

We also require fruit pulp, juices, citric acid, other artificial and natural flavors, and chemical substances. Although water does not represent a major raw material cost, it is nonetheless essential in the production of soft drinks. We obtain all of our water from wells located at our plants and/or from public utilities. The water is treated at facilities located at our plants to remove impurities and adjust the characteristics of the water before it is added in the production process.

We own 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 our mineral water products are bottled at their respective sources and distributed throughout the country.

We maintain testing facilities at each of our 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.

We generally purchase 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, Peru and Colombia, can be used when price and delivery terms are favorable; however, no significant purchases were made in either of these countries during 2007. While aluminum cans used in packaging our soft drinks are generally purchased from a local supplier, we manufacture most of our own plastic returnable and non-returnable bottles from imported polyethylene terephthalate resins, or PET, which we purchase from various suppliers. See “– Our Other Businesses”. We obtain the labels for our soft drinks and water products principally from local suppliers. Crowns and plastic caps are principally purchased from two suppliers in Chile.

Prices of principal raw materials used in soft drink production in Chile are tied to the U.S. dollar and have not been volatile, except for PET resins that depend on oil prices as well as market factors, and sugar due to market factors.

We believe that all of the contracts or other agreements between us and third party suppliers with respect to the supply of raw materials for soft drinks and water products contain standard and customary commercial terms and conditions. Without considering the soft drinks concentrates purchased from Schweppes Holdings Ltd. and PepsiCo under the license agreements described under “– Our Soft Drinks and Mineral Water Production and Marketing in Chile”, we believe we are not dependent on any one supplier for a significant portion of our raw materials. Historically, we have experienced no significant difficulties in obtaining adequate supplies of necessary raw materials at satisfactory prices and expect that we will be able to continue to in the future.

*Sales, Transportation and Distribution in Chile.* Since April 2004, ECUSA manages its own sales force that is directly responsible for the exclusive servicing of soft drinks and water clients in all the cities of Chile. In October 1999, ECUSA began delivering its products in Concepción through our logistic division (currently, Transportes CCU Ltda.) while keeping its sales force separated. Due to its success, this system was implemented in Valparaíso and Viña del Mar since July 2000 and in Santiago since October 2001, through Transportes CCU Ltda., the entity in charge of delivering all of our products throughout Chile. The ECUSA sales force of 387 salesmen as of December 2007, directly sells to approximately 72,400 customers, accounting for 97% of our total soft drink and mineral water sales by volume in Chile in 2007. The area served by ECUSA accounts for approximately 75% of the Chilean population. In some rural areas of the country, ECUSA has contracted the sales services of our beer division, which sells soft drinks and mineral water products in connection with the sales of our beer products. Such sales accounted for the remaining 3% of our total soft drinks and mineral water sales by volume in Chile in 2007.

In October 2005, we launched Comercial CCU S.A., a pilot plan under which a single sales force sells all of our beverage and sweet snack products, so as to capture sales synergies and focus their efforts on executing sales. Originally, this plan was piloted in the rural areas and small cities in southern Chile. During 2008, it is expected to expand to northern Chile.

Our Chilean soft drinks and mineral water customers make payments for our products either in cash at the time of delivery or in accordance with one of our credit arrangements. Payment on credit sales is generally due 33 days from the date of delivery. Credit sales accounted for 41%, 42% and 42% of ECUSA's soft drink and mineral water sales to third parties in Chile in 2005, 2006 and 2007, respectively. Losses on credit sales of soft drinks and mineral water in Chile have not been significant.

*Seasonality in Chile.* Due to the seasonality of sales for both soft drinks and mineral water products, our 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 calendar quarters (i.e., those months corresponding to holidays and summer vacation season in Chile).

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

<u>Year</u>	<u>Quarter</u>	<u>Soft Drinks &amp; Mineral Water</u>	
		<u>Sales Volume</u> (million liters)	<u>% of Annual</u> <u>Sales Volume</u>
2005	1 <sup>st</sup> quarter	132.5	27.9
	2 <sup>nd</sup> quarter	97.2	20.5
	3 <sup>rd</sup> quarter	102.0	21.5
	4 <sup>th</sup> quarter	<u>142.5</u>	<u>30.1</u>
	Total	<u>474.2</u>	<u>100.0</u>
2006	1 <sup>st</sup> quarter	141.2	27.2
	2 <sup>nd</sup> quarter	106.7	20.6
	3 <sup>rd</sup> quarter	115.2	22.2
	4 <sup>th</sup> quarter	<u>155.2</u>	<u>29.9</u>
	Total	<u>518.3</u>	<u>100.0</u>
2007	1 <sup>st</sup> quarter	151.2	27.8
	2 <sup>nd</sup> quarter	106.6	19.6
	3 <sup>rd</sup> quarter	117.8	21.6
	4 <sup>th</sup> quarter	<u>169.2</u>	<u>31.1</u>
	Total	<u>544.9</u>	<u>100.0</u>

*Competition in Chile.* Our principal competitors in the soft drink business are companies, which produce, bottle and distribute soft drinks in Chile under licenses from The Coca-Cola Company and its affiliates. The Coca-Cola Company's products are produced, bottled and distributed in Chile through three separate licensees which market soft drinks under the Coca-Cola, Coca-Cola Light, Coca-Cola Zero, Fanta, Fanta Light, Sprite, Sprite Zero, Quatro Light, Nordic Mist, Taí, Andina nectars and juices, and Kapo juice brand names. According to store audits conducted by Nielsen, Coca-Cola and related brands accounted for approximately 67% of total carbonated soft drink sales volume in 2007. However, calculations made by us are higher than the Nielsen estimates. During 1998, a few supermarket chains began selling soft drinks products under private labels. Additionally, discount brand producers entered the market and represented, along with private labels, approximately 10% of the soft drink market in 2007 according to Nielsen. However, calculations made by us are higher than the Nielsen estimates. Even though these brands are not a significant portion of the industry, they may increase their presence in the future.

Since the formation of ECUSA, our market share has decreased as a consequence of increasing marketing activity on the part of our competitors and the entrance of private labels and discount brand producers to the market. During 2007, our market share was approximately 19%.

Our market share for our carbonated soft drink products over the last five years is presented in the following table based on store audits conducted by Nielsen and our own estimates. These Nielsen results are, for each year, higher than our own estimates.

Our Chilean Carbonated Soft Drink Market Share

<u>Year</u>	<u>Nielsen</u>	<u>Company Estimates (*)</u>
2003	23%	19%
2004	22%	19%
2005	22%	18%
2006	22%	18%
2007	23%	19%

(\*) Based on our sales data, publicly available information from competitors, equity research analyst reports, information from Nielsen and ANBER.

Our domestic competitors in the soft drinks business have benefited from both internationally recognized brand labels (especially with regard to the Coca-Cola product line) and a large number of local bottling companies distributing their products throughout Chile. As a result of the formation of ECUSA, we also similarly benefited from the internationally recognized Pepsi brand as well as our previous competitive strengths, which include a portfolio of nationally well known brands and a nationwide distribution system. Additionally, during 2002, we launched Bilz Light, Pap Light, Agua Tónica Light and Gatorade, the world's number one isotonic drink. Gatorade is classified as a functional product, since in addition to refreshing, it hydrates the body and replenishes mineral salts lost during sports or other physical activities. In April 2003, we introduced to the market Kem Xtreme, a soft drink with a high level of caffeine, which also is considered a functional product because it gives more energy. In September 2004, we launched Canada Dry Ginger Ale Light, and in October 2004, we re-launched Nobis, a traditional proprietary soft drink brand, to be used strategically against discount brands. In September 2006, we launched Canada Dry Limón Soda Light. In January 2007, we introduced two new products into the market: (i) Slice by Kem, a tropical fruit flavored soft drink, and (ii) SoBe Adrenaline Rush, an energy drink sold under PepsiCo license. In November 2007, we entered into a new product category, ice tea, with the brand Lipton Ice Tea, produced under the PepsiCo license.

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 2007. While there are no legal barriers to entry, we believe that the existing returnable bottle system and high transportation costs may continue to deter potential competitors from exporting soft drinks to Chile.

Fruit nectars under the trade name "Watt's", a segment of our soft drink business, face competition from other liquid and powdered juices, which are provided by a variety of local companies. After just four years from the re-launch of Watt's nectar, we have attained our fifth year as market leader in the bottled category of nectars, with a market share of 56% during 2007, according to Nielsen.

Our 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). We estimate that our sales of Cachantun and Porvenir brand mineral waters accounted for approximately 63%, while those of Vital S.A. products accounted for approximately 32% of total mineral water sales by volume in 2007. Small domestic bottlers, private labels, as well as imported mineral water products, comprise the remaining 4% sales volume.

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

Our Chilean Mineral Water Market Share

<u>Year</u>	<u>Nielsen</u>	<u>Company Estimates (*)</u>
2003	64%	56%
2004	64%	57%
2005	67%	62%
2006	72%	67%
2007	69%	63%

(\*) Based on our sales data, publicly available information from competitors, equity research analyst reports, information from Nielsen and ANBER. Does not consider Glacier purified water sales.

## Our Wine Business

*Overview.* We entered the Chilean wine market in October 1994 with the purchase of 48.4% of VSP's equity for approximately Ch\$16,042 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 Ch\$13,406 million, of which we contributed approximately Ch\$7,303 million. During August-October 1997, VSP's capital was increased again by approximately Ch\$10,902 million, of which we contributed approximately Ch\$6,076 million, plus approximately Ch\$175 million in additional shares bought during October 1997 in the local stock market. Furthermore, in October 1998 and during 1999, we purchased additional shares in VSP through the local stock exchanges for an amount of approximately Ch\$5,074 million. During March-June 1999, VSP's capital was increased by approximately Ch\$16,037 million, of which we contributed approximately Ch\$9,915 million. Between November 2000 and March 2001, VSP's capital was increased by approximately Ch\$20,458 million, of which we contributed approximately Ch\$12,307 million. During October and November 2005, VSP's capital was increased by approximately Ch\$318 million. We did not participate in this capital increase. Between April and June 2007, VSP's capital was increased by approximately Ch\$12,573 million, of which we contributed approximately Ch\$4,877 million. As a result of these activities, as of June 2008, our total ownership interest in VSP was 58.1%.

We believe that expansion into the Chilean wine business provides us with the opportunity to further exploit our nationwide distribution system through the expansion of our beverage portfolio. We also believe that further development of our domestic wine business may help reduce the seasonality of our sales, as wine sales in Chile tend to be stronger during the winter months when beer and soft drinks consumption decline.

The proceeds from VSP's capital increase during 1995 were used to reduce debt, expand capacity and add new hectares of vineyards in the Maipo Valley for producing premium red wines. Part of VSP's capital increases during 1997 was used to add new hectares of vineyards in Requinoa, Chépica and Molina during 1997, and in Pencahue during 1998. These purchases of land more than doubled the number of hectares of our vineyards. The winery also increased its total vinification and wine storage capacity in both tanks and barrels from to 52.1 million liters as of December 31, 1998, to 62.1 million liters as of December 31, 2007, as well as its peak bottling and packaging capacity from 35,100 liters per hour in 1998 to 67,500 liters per hour as of December 31, 2007. The capital increase in 1999, was used to pay debts related to the winery's expansion process. The proceeds from VSP's capital increase during November 2000 and March 2001 were used to finance the winery's acquisition of FLC, in Mendoza, Argentina, to plant the hectares of this new winery and improve its production facilities, as well as to refinance debt. The proceeds from VSP's 2007 capital increase were used mainly to acquire shares in Viña Altaïr S.A. and Viña Tabalí S.A. due to respective increases in the capital of both of these entities, to acquire from Château Dassault the remaining interest in Viña Altaïr S.A. and for working capital.

In December 2001, Viña Santa Helena, or VSH, created its own commercial and productive winemaking operation, distinct from its parent, VSP, under the Viña Santa Helena label in the Colchagua Valley.

In August 2003, VSP formed Viña Tabalí S.A., a joint venture in equal parts with Sociedad Agrícola y Ganadera Río Negro Ltda. for the production of premium wines. This winery is located in the Limarí valley, Chile's northernmost winemaking region, which is noted for the production of outstanding wines. In January 2007, Viña Tabalí S.A. acquired Viña Leyda, a boutique winery located in the Leyda Valley that produces well-regarded quality wines. Consequently, Viña Tabalí S.A. changed its name to Viña Valles de Chile S.A.

In October 2004, VSP acquired the well-known Manquehuito Pop Wine brand, a sparkling fruit-flavored wine with low alcohol content, broadening its range of products.

In September 2007, VSP bought a 50% interest in Viña Altaïr S.A. which belonged to Château Dassault, in line with our strategy of focusing on premium wines.

In Argentina, we sell a small amount of wine, which generated net sales of Ch\$783 million, Ch\$1,017 million and Ch\$1,625 million in 2005, 2006 and 2007, respectively. These sales represented less than

0.3% of our total net sales each year. FLC has consolidated its results on VSP's financial statements since January 2003.

At VSP's Extraordinary Shareholders meeting held on July 7, 2005, the shareholders voted to increase the number of board members from 7 to 9 and approved a capital increase that will be partially used for stock option programs.

VSP is a publicly traded company that, at December 31, 2007, had a market capitalization of Ch\$107,918 million. VSP's shares trade on the Santiago Stock Exchange, the Valparaíso Stock Exchange and the Chile Electronic Stock Exchange.

*The Chilean Wine Market.* We estimate that wine consumption in Chile amounted to approximately 15 liters per capita in 2007. Given that the Chilean wine industry is fragmented, no single wine producer accounts for the majority of production and/or sales. The leading wineries include Viña Concha y Toro S.A., or Concha y Toro, Viña Santa Rita S.A., or Santa Rita, VSP and Bodegas y Viñedos Santa Carolina S.A., or Santa Carolina. In addition, there are numerous medium-sized wineries, including Viña Undurraga S.A., or Undurraga, Cousiño Macul S.A., or Cousiño Macul, Viña Cánepa y Cía., or Cánepa and Viña Tarapacá S.A., or Tarapacá. All wineries, which sell wine products that comply with industry and tax regulations, make up Chile's formal wine market. VSP is a member of the formal wine market, as are most other principal wineries in Chile. The SAG is the entity in charge of wine industry regulation and principally oversees inventory records and product quality. We estimate that the formal market wineries produced and sold approximately 249 million liters of wine during 2007.

The following chart shows our estimates for the formal wine market and per capita consumption levels for wine in Chile for the last five years:

<u>Year</u>	<u>Total Volume (1)</u> (millions of liters)	<u>Per Capita (2)</u> (liters)
2003	270	17
2004	274	17
2005	265	16
2006	238	14
2007	249	15

Sources: SAG, Central Bank and the Wineries of Chile Association

(1) Includes wine sales from pisco producers in the III and IV Regions of Chile.

(2) Population estimated in accordance with the national census of April 2002.

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

*VSP's Production and Marketing.* VSP was founded in 1865. Its principal vineyards are located in Molina, approximately 200 kilometers south of Santiago. The VSP estate in Molina is one of the largest single-site vineyards in Chile with an area of 1,200 hectares. As of December 31, 2007, VSP's vineyards covered an aggregate of 2,484 hectares in Chile, distributed among six different plantations, including additional property acquired in Requinoa, Chépica, Molina and Pencahue. The winery also has 469 hectares under long-term lease. In Argentina, FLC's vineyards are located in San Carlos, Mendoza, with an area of 400 hectares.

VSP is one of Chile's largest producers and distributors of wine in terms of sales volume and net sales. In 2005, 2006 and 2007 our wine segment sales amounted to Ch\$92,106 million, Ch\$81,888 million and Ch\$87,003 million representing 17.1%, 14.0% and 13.8% of our total net sales, respectively. The above net sales figures for wine include exports of bulk wine which amounted to Ch\$4,923 million, Ch\$3,324 million and Ch\$4,678 million in 2005, 2006 and 2007, respectively.

The following chart indicates the breakdown of VSP's volume in the domestic and export markets, including sales of FLC:

<u>Year</u>	<u>Domestic Volume</u> (million liters)	<u>Export Volume</u> (million liters)	<u>Total Volume</u> (million liters)
2003	53.4	67.7	121.0
2004	52.1	54.3	106.3
2005	54.3	51.4	105.7
2006	47.5	46.7	94.2
2007	50.7	55.1	105.8

We estimate that VSP's share by volume of Chile's formal wine market was approximately 20% in 2005, 19% in 2006 and 20% in 2007. According to the Wineries of Chile Association, VSP's share of Chile's total wine export sales by volume was 11% in 2005, 9% in 2006 and 7% in 2007; excluding bulk wine VSP's export market share by volume was 12% in 2005, 11% in 2006 and 10% in 2007. Specifically, in 1998, VSP became the second largest exporter of Chilean wines measured by both volume and revenues.

VSP, VSH, Viña Altaïr and FLC produce and market premium, varietal and popular-priced wines as set forth below:

<u>Brand</u>	<u>Icon</u>	<u>Premium</u>	<u>Varietal</u>	<u>Popular-priced</u>
Viña San Pedro				
Cabo de Hornos		X		
1865		X		
Castillo de Molina		X		
Las Encinas		X		
35 South			X	
Urmeneta			X	
Gato			X	X
Manquehuito Pop Wine				X
Tradición de Familia				X
Etiqueta Dorada				X
Viña Santa Helena				
D.O.N. (De Origen Noble)		X		
Notas de Guarda		X		
Vernus		X		
Selección del Directorio		X		
Santa Helena Reserva			X	
Santa Helena Varietal				X
Siglo de Oro			X	
Gran Vino				X
Viña Altaïr				
Altaïr	X			
Sideral		X		
Finca La Celia				
Supremo		X		
La Celia		X		
La Consulta			X	
Furia				X

The following table presents our breakdown of total sales volume in thousands of liters by category of VSP's Chilean wines during 2007:

<u>Category</u>	<u>Domestic</u>	<u>Export</u>	<u>Total</u>
	(thousands of liters)		
Premium	469	2,868	3,337
Varietal	1,763	2,360	4,124
Popular-Priced	46,788	32,381	79,169
Bulk	<u>0</u>	<u>11,023</u>	<u>11,023</u>
Total	<u>49,020</u>	<u>48,632</u>	<u>97,653</u>

The following table presents our breakdown of total sales volume in thousands of liters by category of VSP's Argentine wines during 2007:

<u>Category</u>	<u>Domestic</u>	<u>Export</u>	<u>Total</u>
	(thousands of liters)		
Premium	52	431	483
Varietal	112	332	444
Popular-Priced	1,029	3,127	4,157
Bulk	<u>443</u>	<u>2,558</u>	<u>3,001</u>
Total	<u>1,636</u>	<u>6,448</u>	<u>8,084</u>

As of December 31, 2007, VSP's storage capacity totaled 62.1 million liters and its peak bottling and packaging capacity totaled 67,500 liters per hour.

*Domestic Market.* Our Chilean domestic wine is packaged in bottles, jugs, cartons, and bag-in-box containers at VSP's production facilities in Lontué and Molina. The following chart shows our packaging mix for domestic wine sales for the last three years:

<u>Container</u>	<u>Percentage of Total Domestic Wine Sold in Chile</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Carton	83%	77%	75%
Jug	0%	0%	0%
Glass Bottles	16%	21%	24%
Bag-in-Box	<u>1%</u>	<u>1%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

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

The average price, based on December 2007 Chilean pesos, for our domestic wine customers was Ch\$541 and Ch\$556 per liter in 2003 and 2007, respectively, experiencing a four-year compounded annual growth rate of 0.7%. Our wine price policy is mainly determined as a consequence of four factors: a) market prices, b) change in sales mix, c) inflation rate and d) desired profit margin in relation to costs of raw materials.

*Export Market.* According to industry sources, exports of Chilean wine increased from approximately 43 million liters in 1990 to 607 million liters in 2007, at a compounded annual growth rate of 16.8%. During 2006 and 2007, Chilean wine exports reached 472 million liters and 607 million liters, respectively. This increase is due to a 41.2% and a 21.9% increase in bulk and bottled wine exports, respectively. We



believe that Chilean wine exports have grown steadily due to their comparatively low prices and positive international image, as well as due to external factors, such as low wine production in the Northern Hemisphere in certain years.

VSP exported 51.4 million liters, 46.7 million liters and 55.1 million liters of wine in 2005, 2006 and 2007, respectively. During 2007, VSP exported wine to 80 countries worldwide. These exports accounted for net sales of Ch\$54,675 million, Ch\$51,239 million and Ch\$56,657 million in 2005, 2006 and 2007, respectively. In 2007, VSP's primary export markets included the United Kingdom, the United States, Finland, Brazil and Sweden.

Most exported wine is sold in glass bottles, except for a certain quantity of unbranded wine that is occasionally sold in bulk and the amount that is sold in bag-in-box containers. The following chart shows our packaging mix for export Chilean wine volume in the last three years:

<u>Container</u>	<u>Percentage of Total Export Wine Volume from Chile</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Glass Bottles (1)	61%	65%	63%
Bulk	22%	14%	23%
Carton	17%	20%	14%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) Includes jugs

We experienced a negative four-year compounded annual growth rate of 1.2% from Ch\$1,311 in 2003 to Ch\$1,252 per liter in 2007 in the average price, based on December 2007 Chilean pesos, to our Chilean export wine customers.

*Raw Materials.* The principal raw materials that VSP uses in its production process are purchased and harvested grapes, purchased wine, bottles, carton containers, corks and cardboard boxes. VSP obtained approximately 61% of the grapes used for export wines from its own vineyards during 2007. The majority of the wine sold in the domestic market is purchased from third parties, tested to assure compliance with our quality standards, and blended at the winery before packaging. In 2007, approximately 67% of wine for domestic sale was purchased from eight local producers: Corretajes Torres y Cía. Ltda., Agrícola y Comercial Bodegas Las Mercedes Ltda., CPCh, Agro Comercial Metropolitana Ltda., Viña Santa Irene Ltda., Sociedad Comercial y Vitivinícola Los Maitenes y Cía. Ltda., Agrícola Comercial y Vitivinícola Los Tilos Ltda. and Vinícola Patacón Ltda. VSP has various alternative sources of supply, which can be used when they are attractive. VSP's bottles are principally purchased from Cristalerías Chile; however, when prices have been favorable, VSP has purchased bottles from other local and international suppliers. Carton containers are purchased either from Tetra Pak de Chile Comercial Ltda. or from SIG Combibloc Inc. and are assembled in VSP's own automated packing lines.

The prices of the principal raw materials used in the production of wine in Chile, have experienced some recent volatility. In addition, from time to time, prices of grapes and wine can vary depending on fluctuations in demand and supply factors.

*Domestic Sales, Transportation and Distribution.* After production, bottling, and packaging, wine is either stored at the production facilities or transported to one of the 16 warehouses. The warehouses are part of our warehouse network and are located throughout Chile. VSP wines used to be distributed and sold in Chile through our sales and distribution network, under the same system and payment terms as our beer products. In May 2000, VSP organized a new sales force to directly offer its products in the city of Concepción. However, it continued delivering the products through our beer distribution network. After the success of this new system, it was implemented in the cities of Viña del Mar and Valparaíso in November 2000, and in Santiago in May 2001. This system was further implemented in the cities of Temuco, Chillán, Los Angeles and Valdivia. See “– Our Beer Business – Our Beer Business in Chile – Sales, Transportation and Distribution”.

In October 2005, we launched Comercial CCU S.A., a pilot plan under which a single sales force sells all of our beverage and sweet snack products, so as to capture sales synergies and focus their efforts on executing sales. Originally, this plan was piloted in the rural areas and small cities in southern Chile. During 2008, it is expected to expand to northern Chile.

We directly distribute our wine products throughout Chile to:

- off-premise retail: small and medium sized retail outlets, which in turn sell wine to consumers for take-out consumption;
- on-premise retail: retail establishments such as restaurants, hotels and bars for on-premise consumption;
- wholesalers; and
- supermarket chains.

For the last three years, the percentage mix of the above distribution channels for our wine products in Chile was as follows:

<u>Distribution Channels</u>	<u>Percentage of Total Wine Products Sold</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Off-premise retail	22%	25%	26%
On-premise retail	4%	2%	2%
Wholesalers	38%	33%	33%
Supermarkets	<u>36%</u>	<u>40%</u>	<u>39%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

VSP sales force of 70 salesmen as of December 2007, sells our wine products directly to approximately 10,000 customers, none of which accounted for more than 3% of our total wine sales by volume, with the exception of two supermarket chains that represented 19%. We do not maintain any long-term contractual arrangements for the sale of wine with any of our customers.

*Export Sales, Transportation and Distribution.* Internationally, VSP has arrangements with 206 agents who facilitate the export of its wine to 80 countries. In 2002, we signed a distribution agreement with the Swedish company Vin & Sprit AB, the owner of Absolut Vodka, to distribute VSP's wines in Sweden, Finland, Norway and Estonia, improving our position in those markets and taking advantage of synergies between both companies. We have signed distribution agreements with Schenk, one of the largest distributors in Europe, Asian Breweries, one of the largest beverage companies in Asia, and Shaw Ross International, a subsidiary of Southern Wine and Spirits, the main liquor wholesale distributor for the United States, as well as other distributors. In 2007, we began distributing with Les Grands Chais de France in both the United Kingdom and Germany.

*Geographical Markets.* In Chile, Santiago and surrounding areas (referred to as the Metropolitan Region), which account for approximately 40% of the Chilean population, represented approximately 42% of total domestic sales of VSP products by volume in 2007.

The following table provides the distribution of VSP's exports from Chile during 2007 by geographical markets:

<u>Market</u>	<u>Volume</u> (thousands of liters)	<u>Percentage</u> <u>of Total Exports</u>
Europe	28,701	59.0%
Latin America	10,496	21.6%
USA and Canada	5,909	12.2%
Others	<u>3,527</u>	<u>7.3%</u>
Total	<u>48,633</u>	<u>100.0%</u>

*Competition.* The wine industry is highly competitive in both the domestic and the export markets. VSP's domestic market share was approximately 20% in 2007. In Chile, VSP competes directly against all other Chilean wineries. We believe 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. In 2007, Santa Rita and Concha y Toro had a market share of approximately 27% and 29%, respectively. VSP also competes with Santa Carolina and numerous medium-sized wineries, including Undurraga, Cousiño Macul and Tarapacá, and many small wine producers that make up Chile's "informal market".

Internationally, VSP competes against Chilean producers as well as with wine producers from other parts of the world. According to information compiled by the Wineries of Chile Association, VSP is the second largest exporter of Chilean wines with a market share of approximately 10% in 2007, excluding bulk wine. Our other principal Chilean competitors, namely Concha y Toro, Santa Rita and Santa Carolina had market shares of 35%, 5% and 4%, respectively.

## **Our Spirits Business**

*Overview.* In February 2003, we added a new product to our beverage portfolio, pisco, which began selling under the brand Ruta Norte, and which was produced by our subsidiary Pisonor S.A. Pisco is a grape spirit very popular in Chile that is produced in the northern part of the country and the southern part of Peru. Our pisco was produced in the Elqui Valley in the IV Region of Chile and it was sold throughout the country by our beer division sales force. During 2003, we participated in the 35% alcohol category, the larger of the pisco markets. In January 2004, we introduced Ruta Sour, a traditional Chilean drink that combines pisco, lemon and sugar, and in November 2004 we launched Ruta Sour Light, a cocktail with less sugar and a lower alcohol content than Ruta Sour.

In March 2005, we entered into an agreement with the second largest pisco producer in Chile, Control. A new entity was created under the name of "Compañía Písquera de Chile S.A.", and each company contributed assets and commercial brands. As part of this agreement, we assumed some of Control's financial liabilities. Currently we own 80% of Compañía Písquera de Chile and Control owns the remaining 20%.

In May 2007, we added a new spirit category, rum, the second most consumed spirit in Chile and the fastest growing spirit category during the last six years. The alcohol to produce the rum is imported and we finish the production process locally. We sell rum under our proprietary brand "Sierra Morena" in two varieties: Añejado and Extra Añejado.

*The Chilean Pisco and Rum Markets.* Traditionally, beer, wine and pisco have been the principal alcoholic beverages consumed in Chile. During the last six years, rum consumption has been growing. We estimate that annual pisco consumption in Chile was 40 million liters, or approximately 2.4 liters per capita in 2007. In addition, we estimate that annual rum consumption in Chile was 12 million liters, or approximately 0.7 liters per capita during 2007.

The table below sets forth our estimates of pisco and rum consumption in Chile during each of the last five years:

<u>Year</u>	<u>Total Pisco Sales Volume (1)</u> (in millions of liters)	<u>Pisco per Capita (2)</u> (liters)	<u>Total Rum Sales Volume (1)</u> (in millions of liters)	<u>Rum per Capita (2)</u> (liters)
2003	38	2.4	3	0.2
2004	45	2.8	4	0.3
2005	47	2.9	6	0.3
2006	42	2.6	9	0.5
2007	40	2.4	12	0.7

(1) Based on our sales data and information from Nielsen.

(2) Population estimated in accordance with the national census of April 2002.

We estimate that total pisco consumption in Chile increased at a four-year compounded annual growth rate of 1.6% between 2003 and 2007. During 2007, the pisco market decreased 4.3%, due to higher competition from substitutes, mainly rum, and significant price increases. We estimate that total rum consumption in Chile increased at a four-year compounded annual growth rate of 43.1% between 2003 and 2007. During 2007, the rum market increased 40.0% from the prior year, due to higher preference from consumers, higher prices of pisco and lower rum prices.

Wholesale and retail prices of pisco are not regulated in Chile. Wholesale prices are subject to negotiation between the producer and the purchaser. Retailers establish the final consumer price. We believe that the key factors determining retailer prices include national and/or local price promotions offered by the producer, the nature of product consumption (on-premise or take-out), the applicable tax structure, the desired profit margins and the geographical location of the retailer.

*Spirits Production and Marketing in Chile.* Our production of spirits in Chile generated net sales of Ch\$31,300 million, Ch\$36,040 million and Ch\$39,832 million representing 5.8%, 6.1% and 6.3% of our total net sales in 2005, 2006 and 2007, respectively. The increases experienced during these periods, are mainly due to the agreement we entered into with Control in March 2005, and our entry into the rum market.

We produce and market ultra premium, premium, medium-priced and popular-priced pisco brands in Chile, as well as premium and medium-priced rum. The following table shows our principal pisco brands:

<u>Ultra premium pisco brands</u>	<u>Premium pisco brands</u>	<u>Medium-priced pisco brands</u>	<u>Medium-priced RTD brands</u>	<u>Popular-priced pisco brands</u>
Control C	Mistral	Campanario	Campanario Sour	La Serena
Mistral Nobel		Ruta Norte	Campanario Sour Light	
Tres Erres			Campanario Pica	
			Campanario Mango	
			Campanario Mango Light	
			Campanario Berries	
			Ruta Sour	
			Ruta Sour Pica	
			Ruta Sour Light	
			Ruta Sour Mango	
			Ruta Sour Berries	

After the completion of the Compañía Pisquera de Chile transaction with Control, we expanded our proprietary brands portfolio considerably, adding to our Ruta Norte brand family (that represented 22% of our pisco sales volume during 2007), our Campanario brand family in the mainstream and sour categories (accounting for 41% of our pisco sales), as well as Control C, Mistral Nobel and Tres Erres in the ultra premium segment, Mistral in the premium segment and La Serena in the convenience category.

In the rum market, our proprietary brands are Sierra Morena Añejado in the medium-priced segment and Sierra Morena Extra Añejado in the premium segment.

All of our spirits are bottled in non-returnable glass bottles at our production facilities. We obtain all of our glass bottles from third-party suppliers. See “– Raw Materials”.

We distribute our spirits directly throughout Chile to:

- supermarket chains,
- off-premise retail: small and medium sized retail outlets, which in turn sell spirits to consumers for take-out consumption;
- on-premise retail: retail establishments such as restaurants, hotels and bars for on-premise consumption; and
- wholesalers.

In 2005, 2006 and 2007, the percentage of spirits sales attributable to each of these distribution channels in Chile was as follows:

<u>Percentage of Total Spirits Sold</u>			
<u>Distribution Channels</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Supermarkets	49%	48%	45%
Off-premise retail	23%	25%	28%
On-premise retail	9%	5%	7%
Wholesalers	<u>19%</u>	<u>22%</u>	<u>20%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

As of December 31, 2007, we had more than 13,000 customers for our spirits in Chile, none of whom accounted for more than 2% of our total spirits sales by volume, with the exception of two large supermarket chains that represented a combined total of 26%. During 2007, the Chilean supermarket industry continued to consolidate, increasing the importance and purchasing power of a few supermarket chains. We do not maintain any long-term contractual arrangements for the sale of spirits with any of our customers in Chile.

The following table sets forth our spirits sales volume in Chile, by category, during each of the last four years:

<u>Category</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(in millions of liters)			
Ultra premium	-	-	-	0.5
Premium	-	3.7	5.1	5.8
Medium-priced	4.8	7.5	5.6	4.9
Medium-priced sour	2.2	6.3	7.1	7.7
Popular-priced	-	<u>2.8</u>	<u>2.6</u>	<u>1.3</u>
Total	<u>7.0</u>	<u>20.3</u>	<u>20.5</u>	<u>20.2</u>

The average price, based on December 2007 Chilean pesos, to our customers for our spirits in Chile has increased at a four-year compounded annual rate of 3.6%, from Ch\$1,574 per liter in 2003 to Ch\$1,811 per liter in 2007.

In 2007, our spirits were produced at four plants which are located in the Third and Fourth Regions of Chile. The bottling process was done in one bottling facility.

*Raw Materials.* The principal raw materials used in our production of pisco and rum are purchased grapes, purchased wine, cane alcohol, bottles, caps and cardboard boxes. Grapes are purchased under long-term contracts with members of Control. Nevertheless, various alternative sources of supply can be used when they are attractive. We principally purchased the bottles from Cristalerías Chile and Cristalerías Toro S.A.I.C.

Prices of principal raw materials used in pisco and rum production in Chile have not been volatile. However, from time to time, prices of grapes, wine and alcohol vary depending on demand and supply factors.

We believe that all of the contracts or other agreements between us and third party suppliers, with respect to the supply of raw materials for pisco and rum products, contain standard and customary commercial terms and conditions. We do not believe we are dependent on any one supplier for a significant portion of our important raw materials. During the past years, we have not experienced any material difficulties in obtaining adequate supplies of necessary raw materials at satisfactory prices, nor do we expect to in the future.

*Sales, Transportation and Distribution.* We distribute all of our spirits in Chile directly to retail, supermarket and wholesale customers. This system enables us to maintain frequent contact with our customers, obtain more timely and accurate marketing-related information, and maintain good working relationships with our retail customers.

Since 2003, after production, bottling and packaging, our pisco is either stored at one of our production facilities or transported to a network of 16 warehouses which are located throughout Chile and are either owned or leased by us.

When we began our pisco sales in February 2003, we distributed it through our beer sales force. However, after the creation of Compañía Pisquera de Chile we began selling our pisco products through an exclusive sales force. This same sales force began selling rum in May 2007. During 2007, we had approximately 99 salesmen, responsible for our sales of spirits in Chile.

In October 2005, we launched Comercial CCU S.A., a pilot plan under which a single sales force sells all of our beverage and sweet snack products, so as to capture sales synergies and focus their efforts on executing sales. Originally, this plan was piloted in the rural areas and small cities in southern Chile. During 2008, it is expected to expand to northern Chile.

Our customers make payment for our products either in cash at the time of delivery or in accordance with one of various credit arrangements. Payment on credit sales for spirits is generally due 58 days from the date of delivery. Credit sales accounted for 64% of our spirits sales in Chile in 2007. Losses on credit sales of spirits in Chile have not been significant.

*Geographical Markets.* Santiago and the surrounding areas (referred to as the Metropolitan Region) account for approximately 40% of the population of Chile and accounted for approximately 47% of our spirits sales by volume in 2007.

*Competition.* According to Nielsen figures our estimated share of the Chilean pisco market, over the last four years is as follows:

<u>Year</u>	<u>Our Chilean Market Share for Pisco</u>
2004	15%
2005	46%
2006	45%
2007	46%

Our principal competitor in the pisco business is Cooperativa Agrícola Pisquera Elqui Ltda., or Capel, which is the market leader. According to Nielsen numbers, in 2007 we had 46% market share.

Our competitor Capel has nine production facilities located in the Third and Fourth Regions of Chile and distributes its products throughout the country. Capel uses its own sales force, as well as third party distributors. We estimate that the sales of Capel's brands of pisco by volume accounted for approximately 54% of total pisco sales in 2006 and 53% in 2007, according to Nielsen figures. In 2007, we estimate that Capel had an annual production capacity of approximately 50 million liters of pisco which represents more than twice of our annual nominal production capacity.

Pisco is a spirit that is produced only in the northern part of Chile and the southern part of Peru. For this reason, imported pisco is not a significant component of the Chilean pisco market. We estimate that imports accounted for less than 1% of total pisco sales by volume during 2007.

According to Nielsen calculations, our estimated average share of the Chilean rum market was 4% for all of 2007 and 9% for October-November 2007. Our principal competitors in the rum business are Mitjans S.A. and certain imported brands such as Pampero, Bacardi and Barceló.

## **Our Other Businesses**

### **Plastic Bottles**

Through our subsidiary Fábrica de Envases Plásticos S.A., or PLASCO, we own and operate a plastic bottle factory which supplies most of the returnable and non-returnable plastic bottles primarily used by us in the packaging of our 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 PET resin. The second step involves blowing plastic bottles from the molded pre-forms. We purchase resin and complete the two-step process in order to fulfill the majority of our bottling requirements. In some cases, we purchase pre-forms manufactured by third party suppliers and complete only the bottle-blowing step at our own facilities.

Prices of principle raw materials required by our PLASCO subsidiary have not been volatile except for the PET resins that depend on oil prices as well as market factors. However, from time to time, prices of various materials vary depending on demand and supply factors.

In 2007, 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. During 2007, PLASCO sold 346.3 million bottles. Of all bottles supplied by PLASCO, approximately 97% were manufactured by PLASCO into pre-forms and then blown into bottles and approximately 2% were semi-manufactured by PLASCO while a third party made the injection or the blowing processes. The remaining 1% were bought by PLASCO and transferred to ECUSA. PLASCO has, to date, not made any bottle sales to third parties.

Plastic bottle and pre-form sales decreased from 355.1 million in 2006 to 346.3 million in 2007. PLASCO's net sales of Ch\$24,939 million, operating income of Ch\$1,906 million and net income of Ch\$1,231 million in 2007, represented an increase of 3.8%, an increase of 3.9% and a decrease of 15.9%, respectively, over 2006.

### **Confectionery**

In January 2004, we entered the confectionery business by means of a joint venture between our subsidiary ECUSA (currently, this investment belongs to our subsidiary CCU Inversiones S.A.) and Empresas Lucchetti S.A. (currently, Industria Nacional de Alimentos S.A.), a subsidiary of Quiñenco, with a 50% interest each in Calaf S.A. (which has been renamed "Foods Compañía de Alimentos S.A."), a corporation that acquired the trademarks, assets and know-how, among other things, of Calaf S.A.I.C. and Francisca Calaf S.A., traditional Chilean candy makers, renowned for more than a century. In August 2005, Calaf acquired the assets and know-how of Bortolaso S.A., a cookie factory with more than 50 years of existence in the country, enabling Calaf to increase its presence in the most important segment of the confectionery business. In October 2007, Calaf acquired the traditional cereal brand Natur, allowing Calaf to enter and commence growing in the quickly developing healthy foods category. We sell Calaf's and Natur's products together with our soft drinks, with the potential to reach more than 90,000 clients. This new challenge offers an interesting growth potential to ECUSA in the ready-to-eat market segment.

## **Government Regulation**

### **Government Regulation in Chile**

We are 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, environmental laws, securities laws, and anti-trust laws. In addition, regulations exist to ensure healthy and safe conditions in facilities for the production, bottling, and distribution of beverages. As for environmental laws, see “– Environmental Matters”.

Regulations specifically concerning the production and distribution of “alcoholic beverages” are contained in Chilean Law N°18.455 and its Ordinance, which set the standards for human consumption of such beverages, by minutely describing the different types of alcohol; the minimum requirements that must be met by each class of beverage; raw materials and additives that may be used in their manufacture; their packaging and the information that must be provided by their labels; the procedure for their importation, among others.

Additional regulations concerning wine origin denominations are contained in Executive Decree N°464 of the Ministry of Agriculture, dated December 14, 1994, which also laid out the wine-growing regions and set rules regarding grape varieties, vintage year, labeling and selling requirements. Pisco origin denominations, also applicable to us, are regulated in Executive Decree N°521 dated May 27, 2000 of the Ministry of Agriculture and likewise contains provisions relating to pisco producing regions, raw material standards, manufacturing procedures, packaging and labeling.

The large-scale production of alcoholic beverages does not need any licenses or permits other than those required for the general run of commercial and industrial enterprises engaged in the manufacture of consumer commodities.

On January 19, 2004 Law N°19.925 was published, which amended and restated the Act on Sale and Consumption of Alcoholic Beverages (former Law N°17.105).

All establishments dealing in alcoholic beverages, whether wholesale or retail, require a special municipal license, the cost of which is fixed by the law and varies according to the nature of the outlet or point of sale (i.e. liquor store, tavern, restaurant, hotel, warehouse, etc.). We are in possession of all licenses necessary for our wholesale operations.

Law N°19.925 set new opening and closing hours; limited geographical areas for the sale of alcohol; reduced the maximum number of licenses to be granted by zones and population; increased criminal liability for selling alcohol to persons under eighteen years of age; and tightened the restrictions, imposing prison sentences and higher fines, for violations formerly deemed lighter. One of its most important innovations is to forbid the sale of alcohol to minors at all outlets, and not just for on-premise drinking (the only exception retained is the case of children who are served meals when accompanied by their parents).

The regulatory agency for alcoholic beverages is the SAG (the *Servicio Agrícola Ganadero*, or Agricultural and Livestock Service).

The production, bottling and marketing of non-alcoholic beverages is subject to applicable sanitary legislation and regulations, particularly the Sanitary Code and the Food Ordinance (the *Reglamento Sanitario de los Alimentos*).

Law N°19.937 which was enacted in February 2004, established a new structure and powers for the Sanitary Authority, became effective on January 1, 2005 and was fully operative by February 2006. The *Servicios de Salud* (“Health Services”) was replaced by the Ministry of Health’s Regional Offices, which constitute the new Sanitary Authorities, which inspected plants on a regular basis, taking samples for analysis, directing the adoption of new safety procedures and applying fines and other penalties for infringement of regulations.



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. The competent Sanitary Authority provides a certification of the data necessary to achieve such a designation. All of our facilities have received the required designation.

Independently of the products manufactured or services provided in each plant or facility, the premises are also regularly inspected by the Sanitary Authorities, regarding sanitary and environmental conditions, labor safety, and related matters.

There are currently no material legal or administrative proceedings pending against us in Chile with respect to any regulatory matter, with the exception of a complaint submitted before the Free Competition Defense Court. On March 24, 2008, the National Economic Prosecutor notified our subsidiary, Cervecera CCU Chile Ltda. of a complaint filed with the Free Competition Defense Court, which claimed the abuse by CCU Chile of its dominant market position, as evidenced by exclusivity clauses imposed on hotels, restaurants, pubs, bars and discotheques, which prohibit the commercialization by these establishments of beers produced by CCU Chile's competitors. The complaint requested that CCU Chile be fined the maximum permitted under Chilean antitrust law, 20,000 UTA (*Unidad Tributaria Annual*, or annual tax unit, as of May 31, 2008, approximately Ch\$8,420 million), or a fine which the Court considers appropriate. On April 16, 2008, CCU Chile filed its reply, citing economic and legal arguments in support of dismissal of the complaint. A copy of the complaint and reply thereto can be found at the web site [www.tdlc.cl](http://www.tdlc.cl).

We believe that we are in compliance in all material respects with all applicable statutory and administrative regulations with respect to our businesses in Chile.

#### **Government Regulation in Argentina**

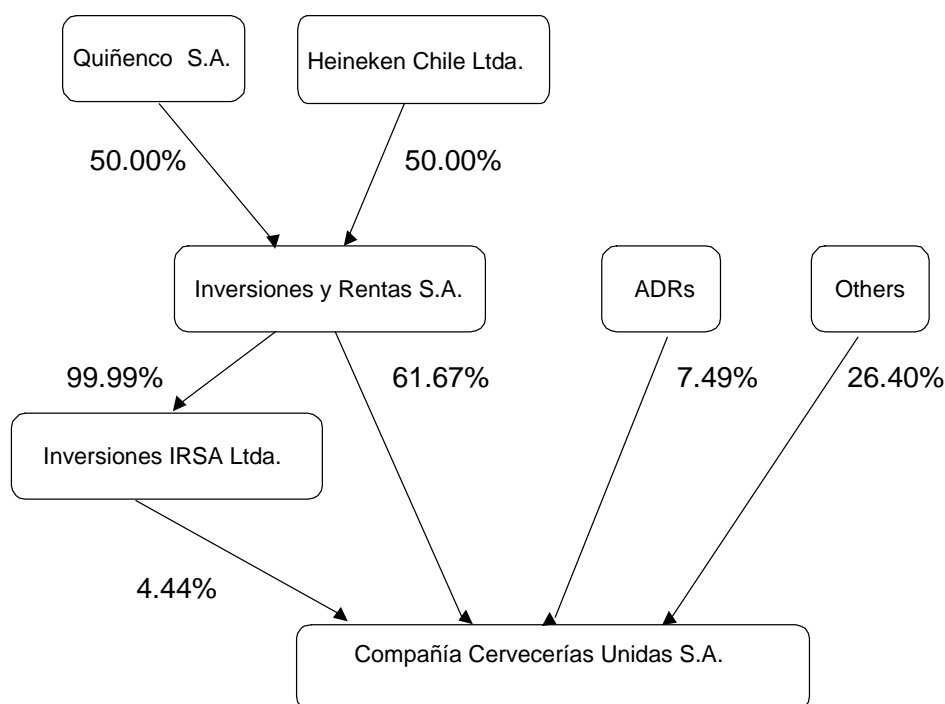
We are subject to the full range of governmental regulation and supervision generally applicable to companies engaged in business in Argentina, including social security laws, public health, consumer protection and environmental laws, securities laws and anti-trust laws.

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 manufacturing plants must comply and regulates the production of food and beverages 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 health authorities of each province undertake the enforcement of the Code, and 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 Federal Capital and many provinces of Argentina, 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 minimum drinking age of 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.

There are currently no material legal or administrative proceedings pending against us in Argentina with respect to any regulatory matter. We believe that we are in compliance in all material respects with all applicable statutory and administrative regulations with respect to our business in Argentina.

## Organizational Structure

Ownership Structure as of May 31, 2008



We are controlled by IRSA, which owns directly and indirectly 66.1% of the shares of our common stock. IRSA, since 1986, was a joint venture between Quiñenco and the Schörghuber Group through its wholly owned subsidiary FHI of the Netherlands. On April 2003, the Schörghuber Group sold FHI to Heineken Americas B.V., a subsidiary of Heineken International B.V. FHI and Heineken International B.V. formed Heineken Chile Ltda., through which 50% of IRSA shares are held. On December 30, 2003, FHI merged into Heineken Americas B.V. Currently, Quiñenco and Heineken Chile Limitada, a Chilean limited corporation controlled by Heineken Americas B.V., are the only shareholders of IRSA, each with a 50% equity interest.

Quiñenco S.A. is a Chilean holding company engaged in a wide range of business activities through its subsidiaries in Chile and countries of the Southern Cone region, including Brazil, Argentina and Peru. Quiñenco's principal holdings include, among others, Banco de Chile (one of the largest and most respected banks in Chile), Madeco S.A. (a leading manufacturer of copper and aluminum-based products in Chile, Brazil, Argentina and Peru) and Compañía Nacional de Teléfonos - Telefónica del Sur S.A. (a leading provider of telecommunication services in southern Chile).

Heineken, the Dutch brewer, is one of the largest brewers in the world with operations in more than 170 countries and 54,004 employees worldwide. Heineken group beer volume was 139 million hectoliters during 2007, the main brands being Heineken and Amstel. In 2007, Heineken had 119 breweries in over 65 countries. Around 43% of its revenues were made in Western Europe.

The following table provides our significant subsidiaries as of June 2008:

<u>Subsidiaries</u>	<u>Country</u>	<u>Ownership Interest</u>
CCU Chile	Chile	99.99%
CCU Argentina	Argentina	95.86%
ECUSA	Chile	99.94%
VSP	Chile	58.15%

## **Property, Plant and Equipment**

Set forth below is information concerning our production facilities as of December 31, 2007, all of which are owned and operated by us or our subsidiaries:

	<u>Nominal Installed Monthly Production Capacity (in million liters)</u>	<u>Utilized Capacity During Peak Month (1)</u>	<u>Average Utilized Capacity During 2007 (2)</u>	<u>Facility Size (square meters)</u>
<i>Beer Production Facilities</i>				
Santiago	44.4	113.2%	74.6%	74,209
Antofagasta (3)	3.0	75.9%	67.4%	20,836
Temuco	11.5	99.5%	76.8%	32,202
Valdivia	0.5	100.0%	93.1%	1,866
Chile Total	<u>59.4</u>	108.6%	74.8%	<u>129,113</u>
Santa Fe	27.5	92.1%	70.6%	60,233
Salta	6.0	80.5%	45.6%	<u>10,077</u>
Argentina Total	<u>33.5</u>	84.4%	66.1%	<u>70,310</u>
<i>Soft Drink Production Facilities</i>				
Santiago	88.7	49.9%	41.0%	40,747
Talcahuano	12.1	35.7%	22.2%	14,600
Antofagasta	4.4	45.1%	32.8%	<u>3,523</u>
Total	<u>105.2</u>	48.1%	38.5%	<u>58,870</u>
<i>Mineral Water Production Facilities</i>				
Coinco	26.8	53.6%	36.3%	12,175
Casablanca	2.0	20.0%	12.6%	<u>2,884</u>
Total	<u>28.8</u>	51.3%	34.6%	<u>15,059</u>

(1) Based on the year ended December 31, 2007. Utilized Capacity During Peak Month is equal to production output as a percentage of Nominal Installed Production Capacity during our peak month for each respective plant. The implicit slack (spare) capacity does not necessarily measure real slack capacity. We believe 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, we believe that the peak monthly capacity utilization rates shown above understate real capacity utilization and that slack capacity is overstated. We estimate that during the peak month in 2007, the real slack capacity amounted to approximately -7.1 million liters in Chilean beer, 1.7 million liters in Argentine beer, 17.8 million liters in soft drinks and 6.0 million liters in Chilean mineral water.

(2) Average Utilized Capacity during 2007 equals the plant's total production output as a percentage of nominal installed annual production capacity in 2007. 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 our beer production and sales, these figures underestimate capacity utilization during peak months.

(3) Information represents bottling capacity

Our installed vinification and storage capacity is shown in the table below:

	<u>Installed Vinification Capacity (million liters)</u>	<u>Storage Capacity in Tanks and Barrels (million liters)</u>	<u>Facility Size (square meters)</u>
<i>Wine Production Facilities</i>			
Lontué	0.0	14.0	20,625
Molina	23.0	38.0	31,643
Santa Helena	2.1	2.0	7,134
Totihue	<u>0.7</u>	<u>0.6</u>	<u>3,500</u>
Chile Total	<u>25.8</u>	<u>54.6</u>	<u>62,902</u>
Finca La Celia	<u>7.6</u>	<u>7.5</u>	<u>9,675</u>
Argentina Total	<u>7.6</u>	<u>7.5</u>	<u>9,675</u>

As of December 31, 2007, VSP had a nominal filling capacity of 34,500 liters per hour at its Lontué plant and a bottling capacity of 27,000 liters per hour at its Molina plant. At Finca La Celia in Argentina, VSP had a nominal filling capacity of 6,000 liters per hour.

Our installed spirits production capacity is shown in the table below:

	<u>Installed Production Capacity (million liters)</u>	<u>Facility Size (square meters)</u>
<i>Spirits Production Facilities</i>		
Pisco Elqui	1.2	10,350
Sotaquí	8.6	13,165
Monte Patria	8.6	16,413
Salamanca	2.9	8,746
Ovalle	<u>4.5</u>	<u>10,905</u>
Total	<u>25.9</u>	<u>59,579</u>

As of December 31, 2007, we had a nominal bottling capacity of 9,000 liters per hour at our Ovalle plant (10,905 square meters).

For information regarding environmental matters, see “Environmental Matters”.

## **Environmental Matters**

### **Chile**

Our operations are subject to both national and local regulations in Chile relating to the protection of the environment. Regarding the human health, the fundamental law in Chile is the Health Code, which establishes minimum health standards and regulates air and water quality, as well as sanitary landfills. The local Sanitary Authority is the governmental entity in charge of the enforcement of these rules and has the faculty to impose fines.

The environmental framework is given by Law N°19,300, enacted in 1994, as amended, which includes not only environmental protection rules but also ones concerning the preservation of natural resources. Among other matters, it creates the environmental impact assessment system which requires any future project or major amendment of an existing activity that may affect the environment to evaluate the possible impacts, in order to fulfill related regulations and to implement mitigation, compensation and restoration measures. Our latest projects have been successfully submitted to this system, where the environmental national public entity, the National Environmental Commission, have given the respective authorizations.

The Law N°19,300 also creates a mechanism of point sources emission limits and environmental quality standards that are developed and detailed by specific regulations. In this sense, there is a special

regulation for wastewater discharges into sewage system, and another regulation for wastewater discharges into superficial water bodies, in both cases pursuant to a schedule of deadlines. In all material respects, we are in compliance with the Act and the regulations, having fulfilled at each relevant stage all requirements prescribed by them.

Due to the high levels of air pollution in the Santiago metropolitan area, the Administration has implemented a decontamination plan, which includes different levels of air quality, and certain measures that can be imposed to industries. In case of emergency situations, those companies comprising the industries classified as producing the highest emissions of particle and gas emissions must suspend their activities. In all material respects, we comply with current regulations applicable to both our beer and soft drink facilities in the Santiago metropolitan area.

There are currently no material legal or administrative proceedings pending against us in Chile with respect to any environmental matter. We believe that we are in compliance in all material respects with all applicable environmental regulations.

## **Argentina**

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

The most important environmental statute in Argentina is the Hazardous Waste Act (Law 24,051) which, although a federal law, has been strictly adhered to in no more than three provinces. When certain federal tests indicate the need, the provisions of the Hazardous Waste Act are enforced. The application of the provisions of the Hazardous Waste Act are applied depending upon the magnitude of the public health risk and whether those conditions exist in more than one province. Hazardous waste is defined so as to cover any residue that may cause harm, directly or indirectly, to human beings that 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 we operate 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.

In November 1999, the province of Santa Fe approved the Environmental and Sustainable Development Act (Law 11,717). This Act regulates all the environmental issues in this province. In November 2002, the Federal Congress approved the General Environmental Act (Law 25,675), enforceable throughout the country. This law prevails over all provincial and municipal laws and regulations. CCU Argentina complies with all the environmental Argentine laws, rules and regulations.

In the year 2000, CCU Argentina invested US\$1.2 million to install a wastewater treatment plant. The plant is designed to treat 140 cubic meters per hour of liquid residuals and generates 260 cubic meters of biogas, which is used as boiler fuel. The main features of this plant are its minimum space requirements and its low electric power consumption, which make it perfectly suitable for the urban context where it is located.

In the year 2002, CCU Argentina implemented a complete program for the treatment of its solid waste, which involves the separation, collection, and reuse of such waste. This program is part of our constant effort to improve environment-related conditions.

The regulation of matters related to the protection of the environment is not as well developed in Argentina as in the United States and certain other countries. Accordingly, we anticipate that additional laws and regulations will be enacted over time with respect to environmental matters. While we believe that we 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 us, which could result in material adverse effects.

## ITEM 5: Operating and Financial Review and Prospects

### Overview

We are a diversified beverage company operating principally in Chile and Argentina. We are the largest brewery in Chile, the second largest brewery in Argentina, the third largest soft drinks producer in Chile, the largest mineral water and bottled nectar producer in Chile, the second largest wine producer in Chile, one of the largest pisco producer in Chile, and we also participate in the confectionery industry in Chile. Our beer and soft drink products include a wide range of proprietary, licensed and imported brands.

We face certain key challenges and risks associated with our business. These risks include competition within the market place, managing operating costs and the integration and expansion of new products. We currently have approximately 87% of the Chilean beer market; however, competitors are investing in this market and launching new products, therefore, we must concentrate on competitive pricing and marketing strategies to maintain our market share. Operating costs are subject to variations depending on plant efficiency, product mix and production cycles. Our main costs include cost of raw materials, distribution and marketing costs. We continue to sell and deliver new products to our customers, including products through new licensing agreements and new products through internal development.

In 2007, we reached historical records in sales volumes, net sales revenues and operating income, obtaining a net income of Ch\$79,199 million. We had consolidated net sales of Ch\$628,284 million, of which 39.5% was accounted for by our beer sales in Chile, 11.0% by our beer sales in Argentina, 27.5% by our soft drinks, nectar and mineral water sales in Chile, 13.8% by wine sales, 6.3% by spirits sales and the remainder by sales of other products. Our sales revenues increased 7.2% over the prior year as we increased sales of existing products, incorporated new lines of pisco into our portfolio and introduced new products into the market, such as rum and ice tea. Operating income increased 18.5% as a result of our efforts to reduce costs, and net income grew 32.1% mainly due to better operating and non-operating results, partially offset by higher income taxes and minority interest.

*Outlook.* We had a very successful 2007. All of our business segments in Chile improved their results. The results of our beer segment in Argentina, measured in U.S. dollars, also improved, however, when measured in Chilean pesos, results decreased due to the appreciation of the Chilean peso against the U.S. dollar. The expected evolution of almost all of our categories, positions us favorably for future growth. Nevertheless, during 2008 we continue to face pressures from escalating costs for certain raw materials and energy.

### Operating Results

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto included in this annual report. As discussed below, our 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 to the totals shown.

We prepare our 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 us and a reconciliation to U.S. GAAP of net income and total shareholders' equity for the years ended December 31, 2005, 2006 and 2007. Although Chilean inflation was moderate during the periods covered by the consolidated financial statements, as discussed below, Chile has experienced high levels of inflation in the past. Chilean GAAP requires that our consolidated financial statements

recognize certain effects of inflation. Accordingly, except where otherwise indicated, financial data have been restated in constant pesos of December 31, 2007 purchasing power.

The following table presents the net sales and operating income, and related percentage as a component of net sales, for each of our product segments, expressed in millions of Chilean pesos as of December 31, 2007:

	Year Ended December 31,					
	2005		2006		2007	
	(millions of Ch\$, except percentages)					
Net Sales						
Beer Chile Segment (1) .....	Ch\$206,625	38.3%	Ch\$233,767	39.9%	Ch\$248,399	39.5%
Beer Argentina Segment (1) .....	51,248	9.5%	62,084	10.6%	69,269	11.0%
Soft Drinks and Mineral						
Water Segment (2) .....	148,704	27.6%	161,602	27.6%	172,945	27.5%
Wine Segment (3) .....	92,106	17.1%	81,888	14.0%	87,003	13.8%
Spirits Segment (4)	31,300	5.8%	36,040	6.1%	39,832	6.3%
Other (5) .....	9,573	1.8%	10,805	1.8%	10,837	1.7%
Total .....	<u>Ch\$539,556</u>	<u>100.0%</u>	<u>Ch\$586,186</u>	<u>100.0%</u>	<u>Ch\$628,284</u>	<u>100.0%</u>
Operating Income						
Beer Chile Segment (1) .....	Ch\$54,699	75.0%	Ch\$64,465	75.3%	Ch\$69,461	68.5%
Beer Argentina Segment (1) .....	2,612	3.6%	4,096	4.8%	4,034	4.0%
Soft Drinks and Mineral						
Water Segment (2) .....	12,368	17.0%	13,022	15.2%	16,906	16.7%
Wine Segment (3) .....	1,835	2.5%	1,277	1.5%	5,690	5.6%
Spirits Segment (4)	(1,638)	(2.2)%	766	0.9%	3,108	3.1%
Other (5) .....	3,011	4.1%	1,962	2.3%	2,185	2.2%
Total .....	<u>Ch\$72,888</u>	<u>100.0%</u>	<u>Ch\$85,589</u>	<u>100.0%</u>	<u>Ch\$101,384</u>	<u>100.0%</u>

- (1) Includes sales of beer, beer by-products and other products such as malt, spent grain and yeast.
- (2) Includes sales of carbonated and non-carbonated soft drinks, nectar, mineral and purified water, and related merchandise.
- (3) Includes sales of wine, by-products and other products such as labels and corks.
- (4) Includes sales of pisco, rum and by-products.
- (5) Includes sales of confectionery products and the operating income of the plastic bottle division.

The following table presents operating results in millions of pesos and as a percentage of net sales:

	Year Ended December 31,					
	2005		2006		2007	
	(millions of Ch\$, except percentages and sales volume data)					
Net Sales.....	Ch\$539,556	100.0%	Ch\$586,186	100.0%	Ch\$628,284	100.0%
Cost of Sales.....	(258,468)	(47.9%)	(279,121)	(47.6%)	(295,282)	(47.0%)
Gross Profit.....	Ch\$281,088	52.1%	Ch\$307,065	52.4%	Ch\$333,002	53.0%
Selling and Administrative Expenses.....	(208,201)	(38.6%)	(221,475)	(37.8%)	(231,618)	(36.9%)
Operating Income.....	Ch\$72,888	13.5%	Ch\$85,589	14.6%	Ch\$101,384	16.1%
Non-Operating Income.....	3,561	0.7%	8,398	1.4%	20,248	3.2%
Non-Operating Expenses.....	(13,507)	(2.5%)	(18,308)	(3.1%)	(19,062)	(3.0%)
Price-Level Restatement and Exchange Differences.....	(211)	(0.0%)	(681)	(0.1%)	(4,522)	(0.7%)
Income Taxes.....	(9,995)	(1.9%)	(15,288)	(2.6%)	(16,668)	(2.7%)
Minority Interest.....	93	0.0%	253	0.0%	(2,180)	0.3%
Net Income.....	<u>Ch\$52,829</u>	<u>9.8%</u>	<u>Ch\$59,964</u>	<u>10.2%</u>	<u>Ch\$79,199</u>	<u>12.6%</u>
Sales volume (1):						
Beer (Chile) (2).....	417.0		470.8		491.1	
Beer (Argentina).....	226.9		244.4		272.2	
Soft drinks and mineral water.....	474.2		518.3		544.9	
Wine (3).....	105.7		94.2		105.8	
Spirits (4).....	20.3		20.5		21.6	
Confectionery (5).....	6.0		6.9		7.2	

(1) In millions of liters, with the exception of confectionery that are in thousands of tons.

(2) Free samples for promotions are considered in sales volume.

(3) Includes sales of wine in Argentina for the domestic market, which equaled 1.1 million liters in 2005, 1.1 million liters in 2006 and 1.7 million liters in 2007, and wine exports from Argentina, totaling 4.7 million liters in 2005, 4.7 million in 2006 and 6.4 million in 2007.

(4) Includes sales of pisco in 2005 and 2006, and sales of pisco and rum since 2007.

(5) Volume in thousands of tons, including sales made directly by Foods Compañía de Alimentos S.A.

## FISCAL YEAR ENDED DECEMBER 31, 2007 COMPARED TO FISCAL YEAR ENDED DECEMBER 31, 2006

### Net Sales

Our net sales were Ch\$628,284 million in 2007 compared to Ch\$586,186 million in 2006, representing a 7.2% increase, which is mainly due to higher sales volumes and prices in all our categories, with the exception of prices of beer Argentina – measured in Chilean pesos – and the average price for the wine segment. The net sales performance of each of our business segments during 2007 is described below:

**Beer Chile:** Our net sales of beer in Chile increased 6.3% to Ch\$248,399 million in 2007, from Ch\$233,767 million in 2006. This increase was due to a 4.3% increase in sales volume and a 1.9% increase in unit price. Higher sales volumes were mainly a result of our ACC Plan (*Aumento de Consumo de Cerveza*, or increase in beer consumption) which was implemented in 2001 and which comprises a range of strategic measures, including product and packaging innovations, the development of new distribution channels and improvements in marketing and point-of-sale execution.

**Beer Argentina:** Our net sales of beer in Argentina increased 11.6% to Ch\$69,269 million in 2007, from Ch\$62,084 million in 2006. This increase was due to 11.4% higher beer sales volume, partially offset by a 0.5% decrease in per unit price in Chilean pesos. In US dollar terms, per unit price increased 15.1%. Higher volumes are due to an improvement in the Argentine economy. Higher prices were mainly due to price increases implemented during the year and a higher premium product mix.

**Soft Drinks and Mineral Water:** Our net sales of soft drinks and mineral water increased 7.0% to Ch\$172,945 million in 2007, from Ch\$161,602 million in 2006. This increase in sales was due to a 5.1% increase in sales volume and a 1.8% increase in unit price. Higher sales volume is due to increases of 5.2% and 20.1% in soft drinks and nectars volumes, respectively, partially offset by a 2.1% decrease in mineral water volumes. Higher soft drinks sales are mainly due to positive effects from increased consumer spending and increased sales of Watt's nectars due to the strength of the brand. Lower mineral water sales volume is due to the poor performance of the Cachantun product "Mas", a flavored



mineral water launched in 2005, which experienced higher competition from flavored purified waters. Higher prices were due to a price increase of 1.6% in soft drinks, partially offset by 0.6% and 0.1% lower per unit prices for nectars and mineral water, respectively.

*Wine:* Our net sales of wine increased 6.2% to Ch\$87,003 million in 2007, from Ch\$81,888 million in 2006. This increase in sales is mainly due to a 4.5% increase in sales of bottled wine and a 40.7% increase in sales of bulk wine. The increase in sales of bottled wine is due to a 6.3% increase in sales volume, partially offset by a 1.7% decrease in unit prices. The increase in sales volume was the result of 5.8%, 4.7% and 26.0% higher sales volume in Chilean exports, Chilean domestic market and Argentine wine, respectively. The decrease in unit prices is due to 9.2% lower unit prices in the domestic market, partially offset by a 1.4% and a 12.5% higher unit price of Chilean exports and Argentine wine, respectively.

*Spirits:* Our net sales of spirits increased 10.5% to Ch\$39,832 million in 2007, from Ch\$36,040 million in 2006. This increase in sales is due to a 5.5% increase in sales volume and a 3.9% higher per unit price. Higher volume and price is mainly due to our entry into the rum market in May 2007.

### **Cost of Goods Sold**

Our cost of goods sold consists primarily of the cost of raw materials, packaging, labor costs for production personnel, depreciation of assets related to production, depreciation of returnable bottles, licensing fees, bottle breakage and costs of operating and maintaining plants and equipment. Our cost of goods sold in 2007 was Ch\$295,282 million compared to Ch\$279,121 million in 2006. As a percentage of net sales, cost of goods sold was 47.0% in 2007 and 47.6% in 2006. Our cost of goods sold for each business segment during 2007 is described below:

*Beer Chile:* Our cost of goods sold for our Chilean beer segment increased by 9.5% to Ch\$94,940 million in 2007, from Ch\$86,716 million in 2006. This increase was due to higher costs of raw materials, higher sales mix of premium and one-way products and energy costs, partially offset by higher adjustments related to bottle warranties. Cost of goods sold as a percentage of net sales increased from 37.1% in 2006 to 38.2% in 2007.

*Beer Argentina:* Our cost of goods sold for our Argentine beer segment increased by 16.1% to Ch\$35,031 million in 2007, from Ch\$30,175 million in 2006. Cost of goods sold as a percentage of net sales increased from 48.6% in 2006 to 50.6% in 2007, mainly due to higher costs of raw materials, higher sales of Heineken, Budweiser and one-way products, higher personnel and energy costs, in addition to the costs related to the agreement with ICOSA to produce in the Luján plant.

*Soft Drinks and Mineral Water:* Our cost of goods sold for our soft drinks and mineral water segment increased by 5.7% to Ch\$81,695 million in 2007, from Ch\$77,292 million in 2006. This increase was due to the higher direct costs due to higher sales volume and higher energy costs, partially offset by lower personnel costs. Cost of goods sold as a percentage of net sales decreased from 47.8% in 2006 to 47.2% in 2007.

*Wine:* Our cost of goods sold for our wine segment decreased by 3.6% to Ch\$54,562 million in 2007, from Ch\$56,609 million in 2006. This decrease in cost of goods sold was mainly due to lower costs of grapes in 2007. Cost of goods sold as a percentage of net sales decreased from 69.1% in 2006 to 62.7% in 2007.

*Spirits:* Our cost of goods sold for our spirits segment increased by 3.1% to Ch\$22,203 million in 2007, from Ch\$21,539 million in 2006. Cost of goods sold as a percentage of net sales decreased from 59.8% in 2006 to 55.7% in 2007, mainly due to the lower costs of grapes in 2007.

### **Gross Profit**

Our gross profit increased 8.4% to Ch\$333,002 million in 2007, from Ch\$307,065 million in 2006. This increase was due to an increase in our sales. As a percentage of net sales, gross profit increased from 52.4% in 2006 to 53.0% in 2007.

## **Selling, General and Administrative Expenses**

Our selling, general and administrative expenses, or SG&A, primarily include advertising and promotional expenses, salaries of administrative personnel, maintenance, general expenses, transportation costs and services provided by third parties. Our SG&A increased 4.6% in 2007 to Ch\$231,618 million, from Ch\$221,475 million in 2006. As a percentage of net sales, our SG&A decreased from 37.8% in 2006 to 36.9% in 2007. The SG&A performance of each business segment during 2007 is described below:

*Beer Chile:* The SG&A of our Chilean beer segment increased 1.7% to Ch\$83,999 million in 2007, from Ch\$82,585 million in 2006. The increase in SG&A is mainly due to higher distribution expenses, partially offset by lower depreciation charges and investment in marketing. As a percentage of net sales, our SG&A decreased from 35.3% in 2006 to 33.8% in 2007, mainly due to the dilution of fixed expenses as a result of higher sale volumes.

*Beer Argentina:* The SG&A of our Argentine beer segment increased 8.6% to Ch\$30,205 million in 2007, from Ch\$27,813 million in 2006. The increase in SG&A resulted mainly due to higher distribution expenses, higher investment in marketing and higher personnel expenses. As a percentage of net sales, our SG&A decreased from 44.8% in 2006 to 43.6% in 2007, mainly due to the dilution of fixed expenses as a result of higher sale volumes.

*Soft Drinks and Mineral Water:* The SG&A of our soft drinks and mineral water segment increased 4.3% to Ch\$74,344 million in 2007, from Ch\$71,288 million in 2006. This increase resulted mainly due to higher investment in marketing and distribution expenses, partially offset by lower depreciation charges. As a percentage of net sales, our SG&A for this segment decreased from 44.1% in 2006 to 43.0% in 2007, mainly due to the dilution of fixed expenses as a result of higher sale volumes.

*Wine:* The SG&A of our wine segment increased 11.5% to Ch\$26,750 million in 2007, from Ch\$24,002 million in 2006. This increase in SG&A is mainly due to higher investment in marketing, higher expenses related to personnel and higher distribution expenses. As a percentage of net sales, our SG&A for this segment increased from 29.3% in 2006 to 30.7% in 2007.

*Spirits:* The SG&A of our spirits segment increased 5.7% to Ch\$14,520 million in 2007, from Ch\$13,735 million in 2006. This increase in SG&A is mainly due to higher investment in marketing, personnel and distribution expenses. As a percentage of net sales, our SG&A for this segment decreased from 38.1% in 2006 to 36.5% in 2007, mainly due to the dilution of fixed expenses as a result of higher sale volumes.

## **Operating Income**

Our operating income increased by 18.5% in 2007 to Ch\$101,384 million as compared to Ch\$85,589 million in 2006. As a percentage of net sales, operating income, or operating margin, increased from 14.6% in 2006 to 16.1% in 2007. The operating income performance of each of our business segments during 2007 is described below:

*Beer Chile:* The operating income from our Chilean beer segment increased by 7.7% to Ch\$69,461 million in 2007, from Ch\$64,465 million in 2006. Our operating margin for this segment increased from 27.6% in 2006 to 28.0% in 2007.

*Beer Argentina:* The operating income from our Argentine beer segment, measured in Chilean pesos, decreased by 1.5% to Ch\$4,034 million in 2007, from Ch\$4,096 million in 2006. The results of this business segment are affected by the appreciation of the Chilean peso. Therefore, measured in US dollars, operating income increased 14.8%. Our operating margin for this segment decreased from 6.6% in 2006 to 5.8% in 2007.

*Soft Drinks and Mineral Water:* The operating income from our soft drinks and mineral water segment increased by 29.8% to Ch\$16,906 million in 2007, from Ch\$13,022 million in 2006. Our operating margin for this segment increased from 8.1% in 2006 to 9.8% in 2007.

*Wine:* The operating income from our wine segment increased by 345.5% to Ch\$5,690 million in 2007, from Ch\$1,277 million in 2006. Our operating margin for this segment increased from 1.6% in 2006 to 6.5% in 2007.

*Spirits*: The operating income from our spirits segment increased by 305.9% to Ch\$3,108 million in 2007, from Ch\$766 million in 2006. Our operating margin for this segment increased from 2.1% in 2006 to 7.8% in 2007.

### **Non-Operating Income**

Our non-operating income increased 141.1% to Ch\$20,248 million in 2007, as compared to Ch\$8,398 million in 2006. This increase is mainly due to a one-time gain of Ch\$14,870 million in the sale of shares of the water business to Nestlé, partially offset by a Ch\$3,023 million lower income in the sale of properties and other assets held for sale during 2007.

### **Non-Operating Expenses**

Our non-operating expenses increased 4.1% to Ch\$19,062 million in 2007 as compared to Ch\$18,308 million in 2006. This increase is mainly due to Ch\$2,020 million in higher equity in loss of unconsolidated affiliates and Ch\$1,696 million in higher severance indemnities, partially offset by Ch\$1,731 million in restructuring costs during 2006 and Ch\$1,127 million lower amortization of goodwill in 2007.

### **Price-Level Restatement and Exchange Gains**

The price-level restatement of our non-monetary assets, liabilities and equity due to Chilean inflation and foreign exchange fluctuations resulted in a net loss of Ch\$4,522 million in 2007, as compared to a net loss of Ch\$681 million in 2006. These results are largely due to the higher inflation rate in 2007 compared to 2006, over the Company's composition of monetary assets and liabilities. A gain in price-level restatement results from holding monetary liabilities in excess of monetary assets during inflationary periods, or from holding foreign currency denominated assets in excess of foreign currency denominated liabilities during periods of devaluation of the Chilean peso.

In accordance with Chilean generally accepted accounting principles, we apply Technical Bulletin 64, or TB 64, issued by the Chilean Institute of Accountants to translate and value investments in foreign subsidiaries (see Note 1 to our consolidated financial statements). Under TB 64, our foreign investments in Compañía Industrial Cervecera S.A., or CICSA, and FLC are not subject to price-level restatements based on inflation in those countries. Instead, the U.S. dollar is considered to be the functional currency. As a result, the effect of a devaluation/revaluation of the peso against the U.S. dollar on our financial statements is determined, in part, by the impact of such devaluation/revaluation on the value of our investments in CICSA and FLC, as well as on foreign currency denominated obligations that qualify as a hedge against those investments. These effects are recorded in the account "Cumulative translation adjustment" in shareholder's equity. As of December 31, 2007, our investment in CICSA and FLC amounted to Ch\$73,894 million, foreign currency denominated obligations that were designated as a hedge against these investments were pre-paid on November 9, 2004, and the negative cumulative translation adjustment account amounted to Ch\$27,312 million.

### **Income Taxes**

Our income taxes for 2007 amounted to Ch\$16,668 million, translating into an effective consolidated tax rate of 17.0%. Income taxes in 2006 amounted to Ch\$15,288 million translating into an effective consolidated tax rate of 20.4%. Our effective consolidated tax rate in 2007 was the same as the Chilean statutory rate of 17%. In 2006, our effective consolidated tax rate was higher than the Chilean statutory rate of 17%, mainly due to a reduction of positive deferred income tax resulting from our subsidiary CCU Argentina, due to a lower recognition of tax loss carryforwards.

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, 2007, our consolidated subsidiaries had available tax loss carryforwards of Ch\$18,587 million in Chile and Ch\$2,329 million in Argentina. Our Chilean subsidiaries with the most significant tax loss carryforwards include Viña Altaír S.A. with Ch\$9,307 million, Viña Urmeneta S.A. with Ch\$5,001 million, Transportes CCU Ltda. with Ch\$2,284 million and Compañía Pisquera de Chile S.A. with Ch\$1,994 million. In Argentina, our subsidiary with the most significant tax loss carryforwards is Finca La Celia with Ch\$2,329 million. In Chile, there is no legal expiration date prescribed by law with respect to tax loss carryforwards; however, in Argentina tax loss carryforwards are subject to a five-year expiration date. The extent to which we can utilize such tax loss carryforwards in the future will depend upon the amount of income earned by each subsidiary and the specific tax loss carryforwards available to that particular entity. Dividends paid to us by CCU Argentina will be included in our taxable income in Chile, but will be

governed by the applicable regulations of the Chilean tax authorities. We will receive a full credit against income tax in Chile with respect to such dividends for income taxes paid by the Argentine subsidiaries. On December 30, 1998, a 1% tax on assets was implemented in Argentina. This tax can be used as a credit to income tax and is subject to a four-year expiration date.

#### **Minority Interest**

Minority interest in 2007 decreased from positive Ch\$253 million in 2006 to negative Ch\$2,180 million in 2007. This decrease was mainly due to better results in VSP, Compañía Cervecería Kunstmann S.A., Compañía Pisquera de Chile S.A. and Aguas CCU-Nestlé Chile S.A.

#### **Net Income**

Our net income in 2007 was Ch\$79,199 million, an increase of 32.1% compared to 2006's net income of Ch\$59,964 million. The increase in net income is due to our higher income before income taxes and minority interest, partially offset by lower minority interest and higher income taxes during 2007.

### **FISCAL YEAR ENDED DECEMBER 31, 2006 COMPARED TO FISCAL YEAR ENDED DECEMBER 31, 2005**

#### **Net Sales**

Our net sales were Ch\$586,186 million in 2006 compared to Ch\$539,556 million in 2005, representing a 8.6% increase which is mainly due to higher sales volumes in all our categories, with the exception of wine, and higher prices of beer in Argentina and in the pisco business in Chile. The net sales performance of each of our business segments during 2006 is described below:

*Beer Chile:* Our net sales of beer in Chile increased 13.1% to Ch\$233,767 million in 2006, from Ch\$206,625 million in 2005. This increase was due to a 12.9% increase in volume and 0.1% increase in unit price. Higher volumes were a result of our ACC Plan (*Aumento de Consumo de Cerveza*, or increase in beer consumption) which was implemented in 2001 and which comprises a range of strategic measures, including product and packaging innovations, the development of new distribution channels and improvements in marketing and point-of-sale execution. Additional increases resulted from higher pisco prices and a better economic environment in Chile, which positively impacted beer sales.

*Beer Argentina:* Our net sales of beer in Argentina increased 21.1% to Ch\$62,084 million in 2006, from Ch\$51,248 million in 2005. This increase was due to 7.7% higher beer sales volume and a 12.3% increase in per unit price in Chilean pesos. In dollar terms, per unit price increased 10.1%. Higher volumes are due to an improvement in the Argentine economy. Higher prices were mainly due to higher premium product mix and lower discounts.

*Soft Drinks and Mineral Water:* Our net sales of soft drinks and mineral water increased 8.7% to Ch\$161,602 million in 2006, from Ch\$148,704 million in 2005. This increase in sales was due to a 9.3% increase in sales volume and 0.6% lower per unit price. Higher sales volume is due to increases of 7.5%, 23.1% and 9.1% in soft drinks, nectars and mineral water volumes, respectively. Higher soft drinks sales are mainly due to Pepsi's promotions related to the Soccer World Cup, increased sales of Watt's nectars with new flavors and mineral water growth with the continued success of the Cachantun product "Mas", a flavored mineral water launched in 2005. Lower prices were due to decreases of 1.4% and 2.8% in soft drink and nectar unit prices, respectively, partially offset by 0.6% higher mineral water per unit prices. Higher mineral water per unit price is due to Mas, which has a higher price than regular mineral water.

*Wine:* Our net sales of wine decreased 11.1% to Ch\$81,888 million in 2006, from Ch\$92,106 million in 2005. This decrease in sales is due to a 9.6% decrease in sales of bottled wine and a 30.3% decrease in sales, mainly of bulk wine. The decrease in sales of bottled wine is due to a 6.6% decrease in sales volume and a 3.2% decrease in unit prices. The decrease in sales volume was the result of 11.7% lower domestic market sales and 1.4% lower Chilean export sales, partially offset by 13.7% higher sales volume in Argentine wine. The decrease in unit prices is due to 8.3% and 3.8% lower unit prices in the domestic and export markets, respectively, partially offset by an 8.5% higher unit price of Argentine wine. Chilean bottled export wine unit price in dollars increased 4.5%. The decrease in our net sales of wine was mainly due to the appreciation of the Chilean peso which negatively affected our export business, as well as an increase in beer consumption in Chile, which also negatively affected our domestic wine business.

*Pisco:* Our net sales of pisco increased 15.1% to Ch\$36,040 million in 2006, from Ch\$31,300 million in 2005. This increase in sales is due to a 14.2% higher per unit price and a 1.0% increase in sales volume. Higher per unit price is explained by lower discounts and a higher mix of premium products.

### **Cost of Goods Sold**

Our cost of good sold consists primarily of the cost of raw materials, packaging, labor costs for production personnel, depreciation of assets related to production, depreciation of returnable bottles, licensing fees, bottle breakage and costs of operating and maintaining plants and equipment. Our cost of goods sold in 2006 was Ch\$279,121 million compared to Ch\$258,468 million in 2005. As a percentage of net sales, cost of goods sold was 47.6% in 2006 and 47.9% in 2005. Our cost of goods sold for each business segment during 2006 is described below:

*Beer Chile:* Our cost of goods sold for our Chilean beer segment increased by 17.7% to Ch\$86,716 million in 2006, from Ch\$73,647 million in 2005. This increase was a result of higher sales mix of one-way products and energy costs, partially offset by lower depreciation. Cost of goods sold as a percentage of net sales increased from 35.6% in 2005 to 37.1% in 2006.

*Beer Argentina:* Our cost of goods sold for our Argentine beer segment increased by 25.1% to Ch\$30,175 million in 2006, from Ch\$24,121 million in 2005. Cost of goods sold as a percentage of net sales increased from 47.1% in 2005 to 48.6% in 2006, mainly due to higher sales of Heineken, Budweiser and one-way products, in addition to a prior year adjustment between licensing costs and marketing expenses.

*Soft Drinks and Mineral Water:* Our cost of goods sold for our soft drinks and mineral water segment increased by 10.1% to Ch\$77,292 million in 2006, from Ch\$70,212 million in 2005. Cost of goods sold as a percentage of net sales increased from 47.2% in 2005 to 47.8% in 2006. This increase was due to the higher cost of sugar and higher salaries, as well as lower adjustments related to bottle warranties.

*Wine:* Our cost of goods sold for our wine segment decreased by 11.9% to Ch\$56,609 million in 2006, from Ch\$64,235 million in 2005. This decrease in cost of goods sold was mainly due to lower sales and the lower costs of grapes in 2006. Cost of goods sold as a percentage of net sales increased from 69.7% in 2005 to 69.1% in 2006.

*Pisco:* Our cost of goods sold for our pisco segment increased by 1.4% to Ch\$21,539 million in 2006, from Ch\$21,241 million in 2005. Cost of goods sold as a percentage of net sales decreased from 67.9% in 2005 to 59.8% in 2006 due to the dilution of certain fixed costs.

### **Gross Profit**

Our gross profit increased 9.2% to Ch\$307,065 million in 2006, from Ch\$281,088 million in 2005. This increase was due to an increase in our sales. As a percentage of net sales, gross profit increased from 52.1% in 2005 to 52.4% in 2006.

### **Selling, General and Administrative Expenses**

Our selling, general and administrative expenses, or SG&A, primarily include advertising and promotional expenses, salaries of administrative personnel, maintenance, general expenses, transportation costs and services provided by third parties. Our SG&A increased 6.4% in 2006 to Ch\$221,475 million, from Ch\$208,201 million in 2005. As a percentage of net sales, our SG&A decreased from 38.6% in 2005 to 37.8% in 2006. The SG&A performance of each business segment during 2006 is described below:

*Beer Chile:* The SG&A of our Chilean beer segment increased 5.5% to Ch\$82,585 million in 2006, from Ch\$78,278 million in 2005. The increase in SG&A is principally due to higher marketing and distribution expenses. As a percentage of net sales, our SG&A decreased from 37.9% in 2005 to 35.3% in 2006, mainly due to the dilution of fixed expenses as a result of higher sale volumes.

*Beer Argentina:* The SG&A of our Argentine beer segment increased 13.5% to Ch\$27,813 million in 2006, from Ch\$24,514 million in 2005. The increase in SG&A resulted principally from higher distribution expenses and salaries. As a percentage of net sales, our SG&A decreased from 47.8% in 2005 to 44.8% in 2006, mainly due to the dilution of fixed expenses as a result of higher sale volumes.

*Soft Drinks and Mineral Water:* The SG&A of our soft drinks and mineral water segment increased 7.8% to Ch\$71,288 million in 2006, from Ch\$66,123 million in 2005. This increase resulted mainly from higher distribution expenses, salaries and marketing expenses, partially offset by lower depreciation charges. As a percentage of net sales, SG&A in this segment decreased from 44.5% in 2005 to 44.1% in 2006, mainly due to the dilution of fixed expenses as a result of higher sale volumes.

*Wine:* The SG&A of our wine segment decreased 7.8% to Ch\$24,002 million in 2006, from Ch\$26,036 million in 2005. This decrease in SG&A is mainly due to lower general, third-party and marketing expenses, in addition to lower salaries. As a percentage of net sales, SG&A for this segment increased from 28.3% in 2005 to 29.3% in 2006.

*Pisco:* The SG&A of our pisco segment increased 17.4% to Ch\$13,735 million in 2006, from Ch\$11,697 million in 2005. As a percentage of net sales, SG&A for this segment increased from 37.4% in 2005 to 38.1% in 2006, mainly due to higher distribution and marketing expenses.

### **Operating Income**

Our operating income increased by 17.4% in 2006 to Ch\$85,589 million as compared to Ch\$72,888 million in 2005. As a percentage of net sales, operating income, or operating margin, increased from 13.5% in 2005 to 14.6% in 2006. The operating income performance of each of our business segments during 2006 is described below:

*Beer Chile:* The operating income from our Chilean beer segment increased by 17.9% to Ch\$64,465 million in 2006, from Ch\$54,699 million in 2005. Our operating margin for this segment increased from 26.5% in 2005 to 27.6% in 2006.

*Beer Argentina:* The operating income from our Argentine beer segment increased by 56.8% to Ch\$4,096 million in 2006, from Ch\$2,612 million in 2005. Our operating margin for this segment increased from 5.1% in 2005 to 6.6% in 2006.

*Soft Drinks and Mineral Water:* The operating income from our soft drinks and mineral water segment increased by 5.3% to Ch\$13,022 million in 2006, from Ch\$12,368 million in 2005. Our operating margin for this segment decreased from 8.3% in 2005 to 8.1% in 2006.

*Wine:* The operating income from our wine segment decreased by 30.4% to Ch\$1,277 million in 2006, from Ch\$1,835 million in 2005. Our operating margin for this segment decreased from 2.0% in 2005 to 1.6% in 2006.

*Pisco:* The operating income from our pisco segment improved from a loss of Ch\$1,638 million in 2005 to a gain of Ch\$766 million in 2006. Our operating margin improved from negative 5.2% in 2005 to positive 2.1% in 2006.

### **Non-Operating Income**

Our non-operating income increased 135.8% in 2006 to Ch\$8,398 million as compared to Ch\$3,561 million in 2005. This increase is primarily due to a one-time gain of Ch\$3,702 million recognized in the sale of properties and other assets held for sale during 2006 and higher interest earned on time deposits.

### **Non-Operating Expenses**

Our non-operating expenses increased 35.5% in 2006 to Ch\$18,308 million as compared to Ch\$13,507 million in 2005. This increase is mainly due to Ch\$1,731 million in restructuring costs, Ch\$1,413 million in higher provisions for write-offs of assets and Ch\$691 million in higher severance indemnities.

### **Price-Level Restatement and Exchange Gains**

The price-level restatement of our non-monetary assets, liabilities and equity due to Chilean inflation and foreign exchange fluctuations resulted in a net loss of Ch\$681 million in 2006, as compared to a net loss of Ch\$211 million in 2005. These results are largely due to the higher value of the dollar in 2006, compared to a decrease in 2005, over the Company's composition of assets and liabilities in foreign currencies. A gain in price-level restatement results from holding monetary liabilities in excess of

monetary assets during inflationary periods, or from holding foreign currency denominated assets in excess of foreign currency denominated liabilities during periods of devaluation of the Chilean peso.

In accordance with Chilean generally accepted accounting principles, we apply Technical Bulletin 64, or TB 64, issued by the Chilean Institute of Accountants to translate and value investments in foreign subsidiaries (see Note 1 to our consolidated financial statements). Under TB 64, our foreign investments in Compañía Industrial Cervecera S.A., or CICSA, and FLC are not subject to price-level restatements based on inflation in those countries. Instead, the U.S. dollar is considered to be the functional currency. As a result, the effect of a devaluation/revaluation of the peso against the U.S. dollar on our financial statements is determined, in part, by the impact of such devaluation/revaluation on the value of our investments in CICSA and FLC, as well as on foreign currency denominated obligations that qualify as a hedge against those investments. These effects are recorded in the account "Cumulative translation adjustment" in shareholder's equity. As of December 31, 2006, our investment in CICSA and FLC amounted to Ch\$75,681 million, foreign currency denominated obligations that were designated as a hedge against these investments were pre-paid on November 9, 2004, and the negative cumulative translation adjustment account amounted to Ch\$16,430 million.

### **Income Taxes**

Our income taxes for 2006 amounted to Ch\$15,288 million, translating into an effective consolidated tax rate of 20.4%. Income taxes in 2005 amounted to Ch\$9,995 million translating into an effective consolidated tax rate of 15.9%. Our effective consolidated tax rate in 2006 was higher than the Chilean statutory rate of 17% mainly due to a reduction of positive deferred income tax resulting from our subsidiary CCU Argentina, due to a lower recognition of tax loss carryforwards. In 2005, our effective consolidated tax rate was lower than the Chilean statutory rate of 17% mainly due to the positive deferred income tax from our subsidiary CCU Argentina, due to recognition of tax loss carryforwards.

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, 2006, our consolidated subsidiaries had available tax loss carryforwards of Ch\$15,194 million in Chile and Ch\$11,904 million in Argentina. Our Chilean subsidiaries with the most significant tax loss carryforwards include Viña Urmeneta S.A. with Ch\$5,954 million, Transportes CCU Ltda. with Ch\$3,948 million, Compañía Pisquera de Chile S.A. with Ch\$3,369 million, Vending y Servicios CCU Ltda. with Ch\$820 million, Viña Santa Helena S.A. with Ch\$553 million and Viña San Pedro S.A. with Ch\$393 million. In Argentina, our subsidiaries with the most significant tax loss carryforwards are Finca La Celia with Ch\$10,573 million and CCU Argentina S.A. with Ch\$1,331 million. In Chile, there is no legal expiration date prescribed by law with respect to tax loss carryforwards; however, in Argentina tax loss carryforwards are subject to a five-year expiration date. The extent to which we can utilize such tax loss carryforwards in the future will depend upon the amount of income earned by each subsidiary and the specific tax loss carryforwards available to that particular entity. Dividends paid to us by CCU Argentina will be included in our taxable income in Chile, but will be governed by the applicable regulations of the Chilean tax authorities. We will receive a full credit against income tax in Chile with respect to such dividends for income taxes paid by the Argentine subsidiaries. On December 30, 1998, a 1% tax on assets was implemented in Argentina. This tax can be used as a credit to income tax and is subject to a four-year expiration date.

### **Minority Interest**

Minority interest in 2006 improved from positive Ch\$93 million in 2005 to positive Ch\$253 million in 2006. This improvement was mainly due to VSP's lower net income, partially offset by better results in CCU Argentina and in Compañía Pisquera de Chile.

### **Net Income**

Our net income in 2006 was Ch\$59,964 million, an increase of 13.5% compared to 2005's net income of Ch\$52,829 million. The increase in net income is due to our higher income before income taxes and minority interest, and positive minority interest, partially offset by the higher income taxes during 2006.

### **Impact of Inflation**

In general, inflation has an adverse effect of diminishing the purchasing power of a company's monetary assets that are not price-level indexed, and has a positive effect of reducing the real value of a company's monetary liabilities that 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 our 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, our liability for deposits on bottles and containers (Ch\$9,198 million at December 31, 2006 and Ch\$7,439 million at December 31, 2007) is a long-term, non-indexed monetary liability that is affected over time by inflation. The net impact of inflation on our capital expenditures has generally been neutral as all substantial assets constructed or acquired are fixed non-monetary assets and all substantial liabilities incurred in the process of financing capital expenditures are price-level indexed or foreign-currency denominated. Nonetheless, high rates of inflation in the future could have a variety of unpredictable effects on us and could adversely impact our operations.

#### **U.S. GAAP Reconciliation**

Our net income under U.S. GAAP for 2005, 2006 and 2007 was Ch\$54,363 million, Ch\$56,860 million and Ch\$84,560 million, respectively, as compared to that reported under Chilean GAAP of Ch\$52,829 million, Ch\$59,964 million and Ch\$79,199 million, respectively. These differences are principally the result of US GAAP adjustments for the:

- reversal of amortization of goodwill
- accounting treatment on sale of land
- income statement treatment of deferred tax assets generated from the merger of subsidiaries
- adjustment for capitalized costs on repaid debt
- differences associated with the amortization of intangible trademarks
- accounting treatment of developmental stage enterprises
- reversal of revaluation of fixed assets and assets held for sale
- adjustments of employee severance indemnities
- adjustment on derivative financial instruments
- restructuring cost
- capitalization of interest cost
- recording of deferred income taxes
- inclusion of labor and overhead related expenses in inventories, and
- adjustment of depreciation on fixed assets which were previously classified as assets held for sale.

Our total shareholders' equity under U.S. GAAP as of December 31, 2005, 2006 and 2007 was Ch\$347,416 million, Ch\$369,998 million and Ch\$399,547 million, respectively, as compared to that reported under Chilean GAAP for the same period of Ch\$349,834 million, Ch\$375,070 million and Ch\$401,796 million, respectively. The differences between shareholders' equity under U.S. GAAP and Chilean GAAP are principally the result of US GAAP adjustments for the:

- amortization of goodwill and trademarks
- reversal of gain on sale of land
- reversal of capitalized issuance costs
- reversal of the revaluation of fixed assets and related depreciation
- reversal of the revaluation of assets held for sale and related depreciation
- minimum dividends required under Chilean GAAP
- capitalization of interest on assets under construction
- reversal of gain on investment in Viña Dassault San Pedro S.A.
- adjustment on derivative financial instruments
- reversal of impairment of fixed assets held for sale
- adjustments of employee severance indemnities
- recording of deferred income taxes (FAS No. 109)
- reversal of negative goodwill from change in CCU Argentina participation
- inclusion of labor and overhead related expenses in inventories, and
- adjustment of depreciation on fixed assets which were previously classified as assets held for sale.



## **Liquidity and Capital Resources**

Our main source of liquidity has been cash generated by our operating activities, which amounted to Ch\$88,856 million, Ch\$105,092 million and Ch\$119,579 million during 2005, 2006 and 2007, respectively.

Our cash flow from operations and working capital are our primary sources to meet both our short-term and long-term obligations. In the opinion of our management, they are sufficient to this end.

In 2007, our cash flows provided by operating activities totaled Ch\$119,579 million. The main component of cash flows generated by operating activities in 2007 was net income of Ch\$79,199 million compared to Ch\$59,964 million in 2006. In 2007, we recorded a cash gain of Ch\$14,758 million compared to a cash gain of Ch\$4,386 million in 2006, primarily due to the gain on the sale of investments during 2007. Cash flows from the changes in operating assets and liabilities resulted in the net use of Ch\$7,333 million compared to the net use of Ch\$8,244 million in 2006. Cash used in 2007, resulted primarily from an increase in our accounts receivable and other assets, partially offset by increases in accounts payable affecting non-operating and operating results, inventories and income tax payable.

In 2007, our cash flows used in financing activities totaled Ch\$22,298 million compared to Ch\$38,492 million in 2006. The main components of cash flows used in financing activities consisted of dividends paid of Ch\$39,262 million, repayment of bank borrowings of Ch\$32,036 million and repayment of bonds payable of Ch\$2,600 million, partially offset by proceeds from bank borrowings of Ch\$44,274 million. In 2006, payments of cash dividends were Ch\$33,791 million, repayment of bank borrowings was Ch\$11,118 million, repayment of bonds payable were Ch\$3,741 million and proceeds from bank borrowing were Ch\$9,604 million.

In 2007, our cash used in investment activities totaled Ch\$47,841 million compared to cash used in investing activities of Ch\$55,528 million in 2006. The main components of cash used in investment activities in 2007 consisted of capital expenditures of Ch\$64,460 million and investments in unconsolidated affiliates of Ch\$8,806 million, partially offset by the proceeds from the sale of investments in unconsolidated affiliates of Ch\$16,474 million, the proceeds from the sale of property, plant and equipment of Ch\$5,084 million and the net sale of financial instruments of Ch\$4,992 million.

There are no material restrictions, either legal or economic, that would limit our ability to transfer funds (*i.e.*, dividends, loans, or advances) from our subsidiaries to us.

As of December 31, 2007, we had Ch\$90,579 million in cash, time deposits and marketable securities, which does not include Ch\$26,135 million corresponding to readjustable promissory notes issued by the Central Bank and purchased under resale agreements. Indebtedness, including accrued interest, amounted to Ch\$173,436 million as of December 31, 2007. Short-term indebtedness included:

- Ch\$5,613 million of short-term obligations to banks and financial institutions under certain lines of credit described below,
- Ch\$738 million representing the current portion of long-term debt to banks.
- Ch\$4,001 million representing the current portion of long-term public bonds, and

As of December 31, 2007, long-term indebtedness, excluding the current portion, comprised:

- Ch\$107,111 million of long-term obligations to banks, and
- Ch\$55,974 million of long-term obligations to the public represented by bonds.

On November 23, 2007, the Cayman Islands Branch of Compañía Cervecerías Unidas S.A. entered into a US\$70 million, five-year unsecured, loan agreement. This credit agreement had a variable interest rate of LIBOR + 0.27% in U.S. dollars. The amortization of the loan will be done in one payment at the maturity date. Interest payments are on a semi-annual basis. We will repay this debt with the cash generated by our operating activities.

To avoid the exchange and interest risks of this loan, we entered into a cross currency interest rate swap agreement for the total of the loan. As a consequence, we replaced the risk of LIBOR fluctuations for this

credit agreement, by a fixed rate of 2.75% in Unidad de Fomento, or UF, a daily indexed peso-denominated monetary unit that is set daily in advance based on the previous month's inflation rate.

As of December 31, 2007, we were required, under our debt covenants then in effect, to maintain certain financial ratios. The most significant covenants required us to maintain a consolidated interest coverage ratio (the ratio of operating income plus depreciation and operating amortization to interest expenses) equal to or higher than 3.00 to 1.00, to maintain a consolidated leverage ratio (the ratio of financial debt to operating income plus depreciation and operating amortization) equal or lower than 3.00 to 1.00, and a minimum consolidated equity of UF15 million (as of December 31, 2007, approximately Ch\$294,340 million). Furthermore, we were required to maintain an indebtedness ratio (the ratio of total liabilities to shareholders' equity) no greater than 1.5 to 1.0 on a consolidated basis and 1.7 to 1.0 on an unconsolidated basis, as well as a ratio of our unpledged assets over our unsecured liabilities of at least 1.2, on both a consolidated and unconsolidated basis.

At December 31, 2007, we met all our financial debt covenants and had a consolidated interest coverage ratio of 16.81 to 1, a consolidated leverage ratio of 1.21 to 1. Our consolidated equity as of December 31, 2007 was Ch\$401,796 million (UF20.5 million). Our indebtedness ratio was 1.04 and 0.81 on an unconsolidated and consolidated basis, respectively. The ratios of unpledged assets over unsecured liabilities were 1.96 and 2.23 on an unconsolidated and consolidated basis, respectively.

None of our indebtedness, or that of our subsidiaries, contains any term that restricts our ability to pay dividends, except for our syndicated loan and local bonds that require us to maintain a minimum consolidated equity of UF15 million (as of December 31, 2007, approximately Ch\$294,340 million).

The following table summarizes debt obligations held by us as of December 31, 2007. The table presents principal payment obligations in millions of Chilean pesos by interest rate structure, financial instrument and currency, with their respective maturity dates and related weighted-average interest rates:

**Interest-Bearing Debt as of December 31, 2007**

(millions of Ch\$, except percentages)

<b>Fixed rate</b>	<b>Average Int. Rate</b>	<b>2008</b>	<b>Expected Maturity Date</b>					<b>TOTAL</b>	
			<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Thereafter</b>		
Ch\$ (UF) (1)	Bonds	3.9%	Ch\$5,703	5,569	5,436	5,304	5,170	52,721	79,903
Ch\$ (UF) (1)	Banks	5.7%	2,205	1,305	10,508	969	969	29,644	45,600
US\$	Banks	6.9%	4,088	-	-	-	-	-	4,088
Argentine pesos	Banks	13.0%	753	-	-	-	-	-	753
<b>TOTAL</b>			<u>Ch\$12,749</u>	<u>6,874</u>	<u>15,944</u>	<u>6,273</u>	<u>6,139</u>	<u>82,365</u>	<u>130,344</u>
<b>Variable rate</b>	<b>Average Int. Rate</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Thereafter</b>	<b>TOTAL</b>	
US\$ (2)	Banks	5.2%	3,317	52,271	1,062	1,062	35,844	-	93,556
<b>TOTAL</b>			<u>Ch\$3,317</u>	<u>52,271</u>	<u>1,062</u>	<u>1,062</u>	<u>35,844</u>	<u>-</u>	<u>93,556</u>

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

(2) Includes the US\$100 million syndicated loan and the US\$70 million loan, which are hedged through cross currency interest rate swap agreements.

To hedge our market risks, we hold debt obligations in various currencies and enter into derivatives contracts. See "Item 11: Quantitative Information About Market Risk."

Our treasury policy is to invest in highly liquid financial instruments issued by first class financial institutions. Investments are made primarily in Chilean pesos and U.S. dollars. As of December 31, 2007, we had invested Ch\$47,652 million in Chilean peso related instruments and Ch\$49,714 million in U.S. dollar related instruments.

The following table summarizes financial instruments, including time deposits, marketable securities and securities purchased pursuant to repurchase agreements, held by us as of December 31, 2007:

### Short-Term Financial Instruments

(millions of Ch\$)

UF	20,888
Ch\$	26,764
US\$	49,714
TOTAL	<u>97,366</u>

#### Capital Expenditures

We continue to make substantial capital expenditures to meet estimated growth in demand for our products. Our plans for capital expenditures through 2011 period are displayed in the following table. The information is presented in constant Chilean pesos of December 31, 2007.

<u>Business Unit</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
	(millions of Ch\$ as of December 2007)			
<i>Beer Chile</i>				
Machinery and equipment	14,010	24,662	11,629	15,850
Packaging	5,659	7,730	3,800	3,807
Marketing assets	4,139	3,942	4,076	4,213
Software and hardware	112	73	73	73
Other	<u>311</u>	<u>160</u>	<u>178</u>	<u>122</u>
<i>Total</i>	<u>24,231</u>	<u>36,568</u>	<u>19,756</u>	<u>24,065</u>
<i>Beer Argentina</i>				
Machinery and equipment	2,316	7,215	3,333	1,341
Packaging	3,383	1,313	1,440	1,173
Marketing assets	2,557	2,046	2,191	2,317
Software and hardware	237	64	64	64
Other	<u>253</u>	<u>69</u>	<u>153</u>	<u>153</u>
<i>Total</i>	<u>8,746</u>	<u>10,706</u>	<u>7,181</u>	<u>5,048</u>
<i>Soft Drinks &amp; Mineral Water</i>				
Machinery and equipment	10,959	11,485	5,693	8,866
Packaging	5,114	3,191	3,349	3,515
Marketing assets	4,275	3,678	3,298	3,460
Software and hardware	35	18	9	9
Other	<u>118</u>	<u>105</u>	<u>105</u>	<u>105</u>
<i>Total</i>	<u>20,501</u>	<u>18,477</u>	<u>12,455</u>	<u>15,955</u>
<i>Wine</i>				
Machinery and equipment	3,375	1,934	2,949	1,934
Packaging	837	433	433	433
Marketing assets	161	141	141	141
Software and hardware	174	130	130	130
Other	<u>439</u>	<u>333</u>	<u>333</u>	<u>333</u>
<i>Total</i>	<u>4,986</u>	<u>2,970</u>	<u>3,986</u>	<u>2,970</u>
<i>Spirits</i>				
Machinery and equipment	1,392	2,276	1,234	1,349
Packaging	15	-	220	220
Marketing assets	268	220	220	220
Software and hardware	78	-	18	-
Other	<u>79</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total</i>	<u>1,833</u>	<u>2,496</u>	<u>1,692</u>	<u>1,789</u>
<i>Others</i>				
	31,521	17,613	12,265	11,800
<i>Total</i>	<u>91,818</u>	<u>88,831</u>	<u>57,334</u>	<u>61,628</u>

During the years 2008 through 2011, we plan to make capital expenditures mainly to adapt, update and increase production capacity, install new packaging lines, enhance environmental protection, optimize our distribution system and warehouse facilities, invest in additional returnable bottles and crates to replace obsolete inventories, adapt to new packaging formats and support industry volume growth. Capital expenditures are also focused on improving management information systems and making additional investments in marketing assets.

Regarding our beer businesses, capital expenditures in machinery and equipment may result from increasing production capacity, both in Chile and in Argentina. During this period, our soft drinks, mineral water, nectars and wine businesses contemplate capital expenditures in packaging lines and capacity expansion. Other important categories of capital expenditures in Chile include packaging and marketing assets, mainly bottles and coolers for our beer and soft drinks, mineral water and nectar businesses, as well as increasing the bottle production capacity.

We review our capital investment program periodically and changes to the program are made as appropriate. Accordingly, there can be no assurance that we will make any of these proposed capital expenditures at the anticipated level or at all. In addition, we are 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. Our capital investment program is subject to revision from time to time due to changes in market conditions for our products, general economic conditions in Chile, Argentina and elsewhere, interest, inflation and foreign exchange rates, competitive conditions and other factors.

We expect to fund our capital expenditures through a combination of internally generated funds and long term indebtedness.

### Contractual Obligations

The following table summarizes our known contractual obligations as of December 31, 2007:

<i>Contractual Obligations</i>	<b>Payments due by period</b> (unaudited, in million of Chilean pesos)				
	<i>Total</i>	<i>Less than 1 year</i>	<i>1-3 years</i>	<i>3-5 years</i>	<i>More than 5 years</i>
Long-Term Debt Obligations (1)	173,436	10,352	65,862	41,768	55,454
Capital Lease Obligations (2)	22,553	969	1,939	1,939	17,706
Operating Lease Obligations (3)	65,584	24,539	25,067	7,467	13,080
Purchase Obligations (4)	130,657	37,492	36,363	32,810	23,991
Other Long-Term Liabilities (5)	7,439	-	-	-	7,439
<b>Total</b>	<b>399,669</b>	<b>73,353</b>	<b>129,231</b>	<b>83,984</b>	<b>117,670</b>

(1) Includes long-term bank loans, bonds payable and related interests.

(2) Includes our obligation to lease our new headquarter building (see Note 10 to the financial statements).

(3) Includes real property, vineyards and warehouse leases, as well as marketing contracts.

(4) Includes raw material purchase contracts

(5) Includes obligations for deposits on bottles and containers

### Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements involving any transactions, agreements or other contractual arrangements involving an unconsolidated entity under which we have:

- made guarantees;
- a retained or a contingent interest in transferred assets;
- an obligation under derivative instruments classified as equity; or
- any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or that engages in leasing, hedging or research and development arrangements with us.

We record payments made under operating leases as expenses, and none of our operating lease obligations are reflected on our balance sheet. We have no other off-balance sheet arrangements. See Note 17 to our audited consolidated financial statements for a more detailed discussion of contingencies, including guarantees.

## **Research and Development**

Our research and development efforts do not involve material expenditures, as we rely primarily on technical assistance and technology transfer agreements with domestic and foreign companies and institutes. In 2003, we entered into two technical agreements with Heineken International for assistance regarding all technical issues related to the production and bottling of Heineken Lager, one for Chile and the other one for Argentina. The initial term of these agreements is ten years beginning in June 2003, renewable for subsequent periods of five years. In May 2004, we entered into a technical assistance agreement with Heineken Technical Services B.V. for operational aspects of our breweries, with an initial term of one year, renewable for subsequent periods of one year each. See "Item 6: Directors, Senior Management and Employees" and "Item 7: Major Shareholders and Related Party Transactions". The license agreement between CCU Argentina and Anheuser-Busch, signed in 1995, as amended, also provides us with both technical and marketing assistance for the production and marketing of Budweiser beer brand in Argentina. See "Item 4: Information on the Company – Our Business – Business Overview – Our Beer Business – Our Beer Business in Argentina – Beer Production and Marketing in Argentina".

## **Critical Accounting Policies and Practices**

A summary of our significant accounting policies is included in Note 1 to our audited consolidated financial statements, which are included in this annual report. The preparation of financial statements requires our management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Our estimates and assumptions are based on historical experiences, changes in the business environment and information collected from qualified external sources. However, actual results may differ from estimates under different conditions, sometimes materially. Critical accounting policies and estimates are defined as those that are both most important to the portrayal of our financial condition and results and/or require management's most subjective judgments. Our most critical accounting policies and estimates are described below.

**a) Property, plant, equipment and bottles:** The key judgments we must make under the property and equipment policy include the estimation of the useful lives of our various asset types, expected residual values, the election to utilize primarily the straight-line method for recording depreciation, management's judgment regarding appropriate capitalization or expensing of costs related to fixed assets, and our determination that no impairment exists.

Property and equipment are stated at cost and are depreciated by the straight-line method based on the estimated useful lives of the assets. In estimating the useful lives (no expected residual values are considered) we have primarily relied upon actual experience with the same or similar types of equipment and recommendations from the manufacturers. Useful lives are based on the estimated amount of years an asset will be productive. Subsequent revisions to these estimates could be caused by new technologies, changes to maintenance procedures, changes in utilization of the equipment, and changing market prices of new and used equipment of the same or similar types.

Property and equipment assets are evaluated for possible impairment, as applicable. Factors that would indicate potential impairment may include, but are not limited to, significant decreases in the market value of the long-lived asset(s), a significant change in the long-lived asset's physical condition and operating or cash flow losses associated with the use of the long-lived asset. This process requires our estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the appropriate asset's carrying values are written down to net realizable value and the amount of the write-down is charged against the results of continuing operations.

Expenditures that substantially improve and/or increase the useful life of facilities and equipment are capitalized. Minor and other unscheduled maintenance costs are charged to income as incurred.

**b) Goodwill, negative goodwill and other intangible assets:** Management exercises judgment in assessing goodwill, negative goodwill and other intangibles including trademarks for impairment. Goodwill is recorded as the excess of the purchase price of companies acquired over their net book value (for acquisitions made prior to and inclusive of December 31, 2003) and over the fair value of identifiable net assets acquired (for acquisitions made after December 31, 2003). We amortize costs in excess of book value of net assets (and the excess of book value over cost) of our businesses using the straight-line method over a period not to exceed 20 years. This period is based on management's assumption regarding the estimated period of recovery regarding these investments. This assumption takes into consideration various factors, including but not limited to, significant decreases in the market value of the investment, significant changes in legal or regulatory provisions and how these may impact the value of an investment and rates of returns used in calculating operating or cash flows associated with the use of our assets. We annually review the recorded value of our goodwill, or sooner if changes in circumstances indicate that the carrying amount may exceed fair value. Recoverability of the carrying value of the asset is determined by comparing net book value, including goodwill, to fair value based on the estimated future net cash flows of the relevant assets.

**c) Deposits on bottles and containers:** Glass and plastic returnable bottles and crates are presented within fixed assets at their historic cost plus price-level restatement and net of obsolescence provisions. Glass bottles are depreciated over an average period of 7.9 years, plastic bottles over an average period of 4.6 years and plastic crates over an average period of 16.2 years. In Chile, returnable bottles are proprietary and are only given to customers in exchange for a deposit equivalent to a significant portion of the replacement cost of such bottles. The amount collected is recorded in the deposits on bottles and containers liability account that is not price-level adjusted. The deposit is returned to the customer when the bottles and the commodity agreement are returned. The expected return of bottles and containers put into circulation in the market and the estimated value of valid deposits, especially those from glass bottles, are adjusted annually. The adjustment is based on an estimate that is carried out by counting the bottles held by customers and adding an estimate of the number of bottles in hands of the final consumers. This latter estimate is based on independent studies and historical information regarding the return of these bottles. In Argentina, all companies use the same returnable bottles. Therefore, unlike in Chile where returnable bottles are proprietary and require a deposit, bottles are loaned to customers at no cost.

**d) Severance Indemnities:** As of December 31, 2007, the liabilities for mandatory severance indemnities have been determined at their current value, based on the accrued cost of the benefit, using an annual discount interest rate of 6% (6% in 2006). The calculation also considers the estimated years of service that the personnel will have at the date of their retirement. Until December 31, 2005, only certain agreements were considered mandatorily payable. Liabilities for certain other remaining agreements were recorded at their current value, considering certain contractual restrictions that required the Company to pay severances only for a limited amount of personnel each year. In the case of the costs for severance indemnities that resulted from changes in the collective contractual agreements occurred in the years 2005 and 2006, which included increasing the agreed benefits, these effects have been recognized as an asset and are being amortized on the basis of the average expected term of permanence of the employees in the Company.

**e) Investments:** The investments in Argentinean subsidiaries, CICSA and Finca La Celia, are recorded in accordance with Technical Bulletin No. 64 of the Chilean Institute of Accountants. Under this pronouncement, the financial statements of foreign subsidiaries, which operate in countries that are exposed to significant risks, restrictions or inflation/exchange fluctuations must be remeasured into U.S. dollars and translated into Chilean pesos at the year-end exchange rate. As a result, no effect is given to price-level restatements based on inflation in those countries and the U.S. dollar is considered to be the functional currency of these operations. Accordingly, the financial statements of the Argentinean subsidiaries are prepared in accordance with Chilean GAAP except for the application of monetary correction and then remeasured into U.S. dollars as follows:

- 1) Monetary assets and liabilities at the closing exchange rate for the period;
- 2) All other assets and liabilities and shareholders' equity are expressed in historical U.S. dollars;
- 3) Income and expenses accounts at average rate during the period;
- 4) The resulting exchange adjustments are included in the results of operations.

The resulting U.S. dollar amounts are then translated to Chilean pesos at the Observed Exchange Rate of the U.S. dollar in relation to the Chilean pesos at the balance sheet date. The net equity in the foreign subsidiaries in Chilean pesos is 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 are included in the Cumulative Translation Adjustment account in the equity section of the balance sheet under Chilean GAAP.

Argentine investments are subject to risk and certain restrictions due to potential inflationary and exchange risk. Impairment tests are performed on these and all investments when facts and circumstances indicate that there may be impairment. This process requires management's assessment of current conditions and management's estimate of future cash flows and future economic conditions. Any impairment loss is measured on the basis of the difference between the carrying value and fair value of these investments.

## **Trend Information**

The Chilean economy experienced growth of 5.1% in 2007, after an increase of 4.3% in 2006. This trend slow down during 2008, growing 3.0% during the first quarter and expecting a growth between 4.0% and 5.0% for the whole year, according to the Central Bank of Chile. On the domestic side of the economy, internal demand has increased 7.8% during 2007. Nevertheless, inflation rate reached 7.8% in 2007 and 8.9% in the twelve-month period ended in May 2008. In spite of favorable economic conditions, there can be no assurance that our products' consumption will grow in the same proportion, especially considering higher energy and food cost pressures and the possible effects in Chile of the sub-prime financial crisis in the United States.

In addition, our beer brands in Chile may face increased competition from other brewers as well as from alcoholic beverages such as wine and spirits, and non-alcoholic beverages such as soft drinks. Beer consumption in Chile historically has been influenced by changes in domestic wine prices. Increases in domestic wine prices have tended to increase beer consumption, while reductions in wine prices have tended to reduce or slow the growth of beer consumption. In fact, during 2005 beer consumption, as well as wine prices, increased significantly. Nevertheless, during 2006, beer consumption once again grew significantly, but wine prices decreased. Recently, as a result of the smaller 2008 wine harvest and the higher international demand for Chilean wine, the price of bulk wine increased. Similarly, 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, which may also affect further growth in beer consumption.

Since 2005, the Argentine government has restricted gas exports to Chile due to supply problems in that country. This situation has increased the costs of operating our beer production plants in Chile and Argentina, as well as our soft drinks plants in Chile. Additionally, it has increased electrical power costs related to these same gas restrictions. We do not need additional investments because our boilers can work with gas or with alternative fuels, such as diesel oil. Considering the current energy prices, we estimate that the higher costs at a consolidated level should be approximately Ch\$4,000 million for 2008.

After four years of recession in Argentina, during 2003, the economy stabilized, evidenced by significant increases in consumption and in the recovery of prices in the beer industry. This positive trend has continued throughout 2004, 2005, 2006 and 2007, when GDP grew 9.0%, 9.2%, 8.5% and 8.7%, respectively. Nevertheless, further recovery in Argentina will depend on deep structural reforms in many areas, including regulations in several markets, as well as the solution of the local energy crisis and an increase in investments to support current economic growth.

Revenues from CCU Argentina, in Chilean pesos, are also subject to the volatility of exchange rates of the Chilean peso, U.S. dollar and Argentine peso in any given period. This volatility may also affect the level of income reported from our foreign operations under Chilean GAAP.

## ITEM 6: Directors, Senior Management and Employees

### Directors and Senior Management

The following table sets forth certain information with respect to our executive officers and members of our board of directors, as of June 2008:

<u>Directors</u>	<u>Position</u>	<u>Position Held Since</u>	<u>At CCU Since</u>
Guillermo Luksic (1)	Chairman of the Board and Director	September 1990 (Chairman) November 1986 (Director)	November 1986
Massimo von Wunster (2)	Vice Chairman of the Board and Director	June 2007 (Vice Chairman) January 2007 (Director)	January 2007
Andrónico Luksic (1)	Director	November 1986	November 1986
Giorgio Maschietto (2)	Director	April 2001	April 2001
Manuel José Noguera	Director	May 1987	May 1987
Carlos Olivos	Director	October 2003	October 2003
Philippe Pasquet	Director	June 2003	June 2003
Francisco Pérez	Director	July 1998	February 1991 (3)
Alberto Sobredo	Director	April 2007	April 2007
<u>Senior Management</u>	<u>Position</u>	<u>Position Held Since</u>	<u>At Company Since</u>
Patricio Jottar	Chief Executive Officer	July 1998	July 1998
Marcela Achurra	Legal Affairs Manager	February 2005	September 1995
Javier Bitar	Viña San Pedro Manager	January 2008	May 2004
Marisol Bravo	Corporate Affairs and Public Relations Manager	June 1994	July 1991
Theodorus De Rond	CCU Chile Manager	September 2007	September 2007
Pablo De Vescovi	Human Resources Manager	September 1998	November 1994
Francisco Diharasarri	ECUSA Manager	October 2003	June 1985
Roelf Duursema	General Comptroller	January 2005	November 2004
Alvaro Fernández	Cía. Pisquera de Chile Manager	March 2005	September 1998
Armin Kunstmann	Chairman of Cía. Cervecera Kunstmann	May 2002	November 2006
Dirk Leisewitz	Corporate Operations Manager	January 2005	December 1987
Hugo Ovando	Development Manager	September 2002	September 1997
Ricardo Reyes	Chief Financial Officer	July 2005	July 1996
Fernando Sanchis	CCU Argentina Manager	May 1995	November 1994

(1) Mr. Guillermo Luksic and Mr. Andrónico Luksic are brothers.

(2) Our Board of Directors, at its meeting held on June 6, 2007, appointed Mr. Massimo von Wunster as Vice Chairman after the resignation of Mr. Giorgio Maschietto as Vice Chairman in May 2007.

(3) Mr. Francisco Pérez was our Chief Executive Officer between 1991 and 1998.

*Guillermo Luksic* (52), has served as our Chairman of the Board and Director since September 1990 and November 1986, respectively. He is currently Chairman of the Board of Directors of Quiñenco S.A., CCU Chile Ltda., ECUSA, CCU Argentina S.A., Viña San Pedro S.A., Telefónica del Sur S.A. and Madeco S.A., as well as a member of the board of directors of several other companies, including CICSA, Compañía Pisquera de Chile S.A., Banco de Chile, Antofagasta plc. and IRSA.

*Massimo von Wunster* (51), has served as our Director since January 2007 and as our Vice Chairman since June 2007. He is currently President of Heineken Americas and has been working with



Heineken since 1995. He is also a member of the board of directors of Cervecería Costa Rica S.A. in San José, Costa Rica. He received a degree in Business Administration from the University of Bergamo, Italy, and a Diploma of Chartered Accountant from the same university.

*Andrónico Luksic* (54), has served as our Director since November 1986. He is currently Chairman of the Board of SM Chile S.A., Vice Chairman of the Board of Banco de Chile, Quiñenco S.A. and LQIF S.A., as well as a member of the board of directors of several other companies, including Madeco S.A.

*Giorgio Maschietto* (68), has served as our Director since April 2001, and served as our Vice Chairman of the Board from April 2001 until May 2007. He is also currently a member of the board of directors of Viña San Pedro S.A., ECUSA, Cervecería Chile Ltda., CCU Argentina S.A., CICSA, Compañía Pisquera de Chile S.A., IRSA, Cecinas San Jorge S.A. and Multitiendas Corona S.A. Until his retirement in 1998, he held several positions at Unilever in Italy, United Kingdom and Chile. He studied chemical engineering at the catholic University of Valparaíso.

*Manuel José Noguera* (58), has served as our Director since May 1987. He is currently Chief Legal Counsel of Quiñenco S.A. and senior partner at the law firm Noguera, Larraín y Dulanto Ltda. He has been working with the Luksic group for over 30 years. He is member of the board of several companies, including IRSA, Foods Compañía de Alimentos S.A. and LQ Inversiones Financieras S.A. and he is an advisor to the Board of Madeco S.A. He received his law degree from the Catholic University of Chile.

*Carlos Olivos* (66), has served as our Director since October 2003. He is currently senior partner at the law firm Guerrero, Olivos, Novoa y Errázuriz Ltda., as well as member of the board of directors of Banco Santander Santiago S.A. He received his law degree from the University of Chile and his Master's degree in Comparative Jurisprudence from the New York University Law School.

*Phillipe Pasquet* (69), has served as our Director since June 2003. He has been working for Heineken since 1976. He is member of the board of directors of CCU Argentina S.A., Viña San Pedro S.A., ECUSA, Compañía Pisquera de Chile S.A., Foods Compañía de Alimentos S.A. and IRSA, as well as Florida Bebidas S.A. in Costa Rica and Cervecería Baru-Panamá in Panama. He received degrees from the *Ecole Supérieure de Commerce* at Dijon, France, the *Institut International de Commerce* at Paris, and the *Centre Européen d'Education Permanente* at Fontainebleau, France.

*Francisco Pérez* (50), has served as our Director since July 1998. He is Chief Executive Officer of Quiñenco S.A. since 1998. Prior to joining Quiñenco, he was our Chief Executive Officer, or CEO, between 1991 and 1998. He is member of the board of several companies, including CCU Argentina S.A., ECUSA, Viña San Pedro S.A., Compañía Pisquera de Chile S.A., IRSA, Madeco S.A., Banco de Chile, Banchile Corredores de Bolsa, LQ Inversiones Financieras S.A., Telefónica del Sur S.A., Cía. de Teléfonos de Coyhaique S.A. and Foods Compañía de Alimentos S.A. He received a degree in Business Administration from the Catholic University of Chile and a Master's degree in Business Administration from the University of Chicago.

*Alberto Sobredo* (59), has served as our Director since April 2007. He is also currently a member of the board of directors of Construmart and ICARE, and President of the Marketing Circle of the latter. He held several positions at Gillette, Reckitt & Colman and Unilever, where he was President and CEO of Unilever Latin America until his retirement in January 2007. He received a Doctorate degree in Management Sciences from the University UADE of Argentina.

*Patricio Jottar* (45), has served as our Chief Executive Officer since 1998. He is also currently a Director of CCU Argentina, ECUSA, Viña San Pedro S.A., Foods Compañía de Alimentos S.A., Cervecería Austral S.A., Aguas CCU-Nestlé Chile S.A. and Compañía Cervecería Kunstmann S.A. and is Chairman of the Board of Compañía Pisquera de Chile S.A. and ICARE. Prior to joining us, he was Chief Executive Officer of Santander Chile Holding. He received a degree in Business Administration from the Catholic University of Chile and a Master's degree in Economics and Business Administration from the *Instituto de Estudios Superiores de la Empresa* ("IESE"), in Barcelona, Spain.

*Marcela Achurra* (43), is our Legal Affairs Manager and has been with us since 1995. She is also a Director of Aguas CCU-Nestlé Chile S.A. Prior to her current position, she was Legal Counsel of our subsidiary Viña San Pedro S.A. She received her law degree from the Catholic University of Chile.

*Javier Bitar* (42), is the General Manager of VSP and has been with us since 2004. Additionally, he is member of the board of Viñas Valles de Chile S.A., a joint venture of VSP. Prior to his current position, he was Chief Operating Officer of VSP and General Manager of Viña Santa Helena. Prior to joining us, he was Senior Partner at Grupo Sur Consultores, a boutique consulting firm specializing in management consulting and business process design. He received Bachelor's and Master's degrees in Mathematical Engineering from the University of Chile and a diploma in Corporate Finance from the University Adolfo Ibáñez in Chile.

*Marisol Bravo* (48), is our Corporate Affairs and Public Relations Manager and has been with us since 1991. Prior to her current position, she was Head of Special Projects. Before joining us, she was Assistant Manager of Marketing at Citicorp Mutual Funds. She received a degree in Business Administration from the University of Chile.

*Theodorus De Rond* (53), is the General Manager of CCU Chile and has been with us since 2007. He is also currently a Director of Cervecería Austral S.A. He has been working with Heineken since 1978, in different countries around the world, in senior marketing and sales positions, as well as General Management. Prior to joining us he was Managing Director of Guinness Anchor Berhad (a joint venture between Asian Pacific Breweries and Diageo) in Malaysia, and before that the Corporate Marketing Director of Heineken in Amsterdam. He received a degree from Retail College of the Netherlands and has studies in Strategic Marketing, Finance and General Management programs from INSEAD in France.

*Pablo De Vescovi* (55), is our Human Resources Manager and has been with us since 1994. Prior to serving in this capacity, he was Human Resources Manager of ECUSA. Before joining ECUSA he was the Human Resources Manager of Embotelladora Chile S.A. ("Embochile"), a former PepsiCo bottler, and Human Resources Vice President of The Chase Manhattan Bank in Chile. He received a degree in Business Administration from the Catholic University of Chile.

*Francisco Diharasarri* (47), is the General Manager of ECUSA and has been with us since 1985. Prior to his current position, he was General Manager of CCU Chile, General Manager of ECUSA and General Manager of PLASCO. He is also currently Chairman of the Board of Foods Compañía de Alimentos S.A. and Aguas CCU-Nestlé Chile S.A. He received a degree in Civil Engineering from the University of Chile.

*Roelf Duursema* (57), is our General Comptroller and has been with us since 2004. He has been working with Heineken since 1978, in different countries around the world, in marketing, sales, finance and information technology positions, as well as General Management. Prior to joining us he was the Director for Corporate Information Technology for the Heineken Group. He received a degree in Mechanical Engineering from the Technical University Delft in the Netherlands and a Master's degree in Economics from the Erasmus University in Rotterdam.

*Alvaro Fernández* (41), is the General Manager of Compañía Pisquera de Chile and has been with us since 1998. Prior to his current position, he was General Manager of Pisonor and our Development Manager. He is also Director of Cervecería Austral S.A., Compañía Cervecera Kunstmann S.A., CICSA and Transportes CCU Ltda. Prior to joining us he was Commercial Manager of Santander Life Insurance Company and Vice President of Citicorp. He received a degree in Business Administration from the Catholic University of Chile.

*Armin Kunstmann* (55), is the Chairman of the Board of Compañía Cervecera Kunstmann S.A., or CCK, and has been with us since 2006. He started its original brewery in 1991, which later became CCK. He is currently Director of Levaduras Collico S.A., a yeast company, and of Austral Incuba, a new business development center of Universidad Austral from Valdivia, an important university in Southern Chile. Prior to his current position, he was General Manager of Levaduras Collico S.A. during 12 years. He received a degree in Chemical Civil Engineering and a Master's degree in Chemical Engineering from the University Federico Santa María in Chile.

*Dirk Leisewitz* (62), is our Corporate Operations Manager and has been with us since 1987. He is currently Director of Cervecería Austral S.A., Compañía Cervecería Kunstmann S.A. and Clínica Alemana de Santiago S.A., a major private hospital in Chile. He is also a council of the Universidad Del Desarrollo, a large private university in Chile. Additionally, until April 2008, he was member of the board of the Chilean-German Chamber of Commerce and Industry. Prior to his current position, he was our General Comptroller during 17 years. Prior to joining us, he was Division Manager of the Morgan Guaranty Group in Chile. He received a degree in Industrial Civil Engineering from the University of Chile, and a Master's degree in Administration and Management from the Catholic University of Louvain in Belgium.

*Hugo Ovando* (38), is our Development Manager and has been with us since 1997. He is also a Director of Aguas CCU-Nestlé Chile S.A. Prior to his current position, he was Corporate Projects Manager and Investor Relations Manager. He received a degree in Business Administration from the Catholic University of Chile and a Master's degree in Business Administration from Babson College.

*Ricardo Reyes* (53), is our Chief Financial Officer and he has been with us since 1996. Prior to his current position, he was the General Manager of VSP between May 2004 and July 2005, and our Chief Financial Officer for almost 8 years. Prior to joining us, he worked 18 years at Esso Chile Petrolera, an Exxon affiliate, holding the positions of Operations Manager, Financial and Planning Manager, and Information System Manager. He received a degree in Civil Engineering from the Catholic University of Chile.

*Fernando Sanchis* (47), is the General Manager of CCU Argentina and has been with us since 1995. Prior to joining us, he was Chief Financial Officer of Embochile, a former PepsiCo bottler and held the same position at Uruguay's PepsiCo's bottler. He received an accounting degree from the Buenos Aires University of Argentina.

Our senior managers are full time employees, therefore, they do not perform business activities outside us. The principal business activities of our directors are summarized in the following table:

<u>Directors</u>	<u>Business Activities</u>
Guillermo Luksic	Chairman of Quiñenco
Giorgio Maschietto	Director of Companies
Andrónico Luksic	Vice Chairman of Banco de Chile
Manuel José Noguera	Legal Counsel of Quiñenco
Carlos Olivos	Senior Partner of Guerrero, Olivos, Novoa & Errázuriz (law firm)
Philippe Pasquet	Director of Companies related to Heineken
Francisco Pérez	Quiñenco's CEO
Alberto Sobredo	Director of Companies
Massimo von Wunster	President of Heineken Americas

On January 13, 2003, the existing shareholders' agreement was amended in order to allow the Schörghuber Group to sell its interest in IRSA to Heineken Americas B.V., a subsidiary of Heineken International B.V. On April 17, 2003, the Schörghuber Group gave Quiñenco formal notice of the sale of its interest in IRSA to Heineken International B.V. Currently, Heineken Chile Ltda., a Chilean limited corporation controlled by Heineken Americas B.V., owns 50% of IRSA's shares. As of December 31, 2005, IRSA's primary shareholders' agreement gives Quiñenco the right to propose to our board of directors the candidates for Chief Executive Officer, and to Heineken Chile Ltda. our General Comptroller and CCU Chile's General Manager. On the other hand, under the agreement, neither Quiñenco nor Heineken Chile Ltda. can separately, directly or indirectly, buy or sell our shares.

## **Compensation**

For the year ended December 31, 2007, the aggregate amount of compensation paid by us to all our directors was Ch\$1,748 million.

The board of directors' compensation is determined by the shareholders at the annual general shareholders' meeting and may take into consideration proposals made by the Board. The compensation of our Board, approved at our shareholders' meeting held on April 17, 2008, consists of an attendance

fee per meeting of UF100 per board member and a fee that is twice as much for the Chairman, along with a profit-sharing amount equal to 3% of distributed dividends for all board members, proportionately (prior to 2008, this amount was 5% of distributed dividends). In case distributed dividends exceed 50% of our liquid profits, the profit-sharing amount will be calculated over a maximum of 50% of our liquid profits. Additionally, board members who participate in the Directors Committee and Business Committee receive UF25 and UF17, respectively, for each meeting they attend. Furthermore, board members who sit on the Audit Committee receive UF25 monthly. In 2007, the total compensation paid by us and our subsidiaries to each of our directors for services rendered was as follows:

<u>Director</u>	<u>Attendance meetings fee (1)</u>	<u>Dividend participation</u> (thousands of Ch\$)	<u>Total</u>
Guillermo Luksic	Ch\$66,527	Ch\$163,934	Ch\$230,460
Massimo von Wunster	20,524	-	20,524
Jorge Carey	11,790	163,934	175,724
Andrónico Luksic	3,923	163,934	167,857
Giorgio Maschietto	86,219	163,934	250,153
Manuel José Noguera	23,471	163,934	187,404
Carlos Olivos	27,388	163,934	191,322
Philippe Pasquet	83,791	163,934	247,725
Francisco Pérez	88,230	163,934	252,164
Alberto Sobredo	24,392	-	24,392

(1) Include the remuneration for members of the Audit, Directors and Business Committees.

For the year ended December 31, 2007, the aggregate amount of compensation paid to our senior managers, to the area managers of our operating subsidiaries and to the managers of the service units that report to our CEO, was Ch\$6,460 million (Ch\$6,085 million in 2006). We do not and are not required under Chilean law to disclose to our shareholders or otherwise make public information as to the compensation of our individual senior managers.

We do not maintain any stock option, pension or retirement programs for our directors or senior managers, with the only exception of VSP. VSP's Extraordinary Shareholders meeting held on July 7, 2005 approved a capital increase to be partially used for stock option programs for the main executives of VSP and its subsidiaries.

## **Board Practices**

We are managed by our board of directors which, in accordance with our bylaws (*Estatutos*), is formed by nine directors who are elected at the regular shareholders' meeting. The entire board of directors is elected for three years and the last election of directors took place in April 2007. The board of directors may appoint replacements to fill any vacancies that occur during periods between annual shareholders' meetings. If such a vacancy occurs, the entire board of directors must be renewed at the next following regular shareholders' meeting. Our senior managers are appointed by the board of directors and hold office at the discretion of the board of directors. There are regularly scheduled meetings of the board of directors once a month; extraordinary meetings are specially summoned by the Chairman at the request of any of the board of directors' members. The board of directors does not have an executive committee. Nevertheless, we have a Business Committee consisting of certain board members which meets only on those occasions where it is necessary to review issues of special relevance which are later to be considered by the Board. Director service contracts do not contain any provision for benefits upon termination of employment.

Directors Committee. The Chilean Corporations Act was amended, effective December 20, 2000. The following is a summary of the main provisions of the amendment. Under the amendment, the boards of directors of corporations whose market capitalization reaches or exceeds 1.5 million *Unidades de Fomento* (as of May 31, 2008 approximately Ch\$30,092 million) shall designate a *comité de directores* or "directors committee". If the market capitalization falls below this threshold, the obligation to designate a

directors committee disappears. However, corporations which do not reach the threshold may voluntarily assume the obligations concerning the directors committee, in which case they shall strictly follow the provisions of the amendment.

The directors committee has the following powers and duties:

- to examine the independent accountants' reports, the balance sheets, and other financial statements submitted by the corporation's managers or liquidators to the shareholders, and issue an opinion about them prior to their submission for shareholder approval;
- to propose to the board of directors, the independent accountants and the risk rating agencies, which the board must then propose on the first case and inform on the second, annually to the shareholders. Should the board of directors disagree with the directors committee's proposal, the board shall be entitled to make its own proposal, submitting both to the shareholders for their consideration;
- to examine the documentation concerning (i) contracts or agreements in which directors have an interest and (ii) transactions between related or affiliated companies, and to produce a written report on such documentation. A copy of the report shall be delivered to the Chairman of the board, who shall read it at the board meeting in which the transaction is presented for approval or rejection;
- to examine the managers' and chief executives' remuneration policies and compensation plans; and
- all other matters contemplated in our bylaws or entrusted to the directors committee by a shareholders' meeting or the board of directors.

For purposes of the related party transactions mentioned in the third bullet point above, the following persons are considered by the Securities Market Law and the Chilean Corporations Act to be related to a company:

- any entities within the financial conglomerate to which the company belongs;
- corporate entities that have, with respect to us, the character of parent company, affiliated company, subsidiary or related company. Parent companies are those that control directly or indirectly more than 50% of the subsidiary's voting stock (or participation, in the case of business organizations other than stock companies), or that may otherwise elect or appoint, or cause the election or appointment, of the majority of the directors or officers. Limited partnerships (*sociedades en comandita*) may likewise be affiliates of a corporation, whenever the latter has the power to direct or guide the administration of the general partner (*gestor*) thereof. Related companies are those that, without actually controlling the affiliate, own directly or indirectly 10% or more of the affiliate's voting stock (or participation, in the case of business organizations other than stock companies), or that may otherwise elect or appoint, or cause the election or appointment of at least one board member or manager;
- persons who are directors, managers, administrators or liquidators of us, and their spouses or their close relatives (i.e., parents, father/mother in law, sisters, brothers, sisters/brothers in law); and
- any person who, whether acting alone or in agreement with others, may appoint at least one member of our management or controls 10% or more of our voting capital.

In addition, the Superintendency of Securities and Insurance may create a presumption that any individual or corporate entity is related to a company if, because of relationships of equity, administration, kinship, responsibility or subordination, the person:

- whether acting alone or in agreement with others, has sufficient voting power to influence our management;
- creates conflicts of interest in doing business with us;
- in the case of a corporate entity, is influenced in its management by the company; or
- holds an employment or position which affords the person access to non-public information about us and our business, which renders the person capable of influencing the value of the company's securities.

However, a person shall not be considered to be related to a company by the mere fact of owning up to 5% of the company, or if the person is only an employee of the company without managerial responsibilities.

The directors committee's discussions, agreements, and organization are regulated, in every applicable matter, by the Chilean Corporations Act provisions relating to board of directors' meetings. The directors committee shall inform the board of directors about the manner in which it will request information and about its resolutions.

In addition to the general liabilities imputable to any director, the directors that compose the directors committee shall, in the exercise of their duties, be jointly and severally liable for any damage caused to the corporation or the shareholders.

The directors committee shall be composed of three members, the majority of which shall be independent. Independent directors are those that would have been elected even if the votes cast in the director's favor by the controlling shareholder and its related persons had not been counted. However, a majority of directors related to the controlling shareholder is permissible if there are an insufficient number of independent directors. Should there be more than three directors entitled to participate in the directors committee, the board of directors shall elect the members of the directors committee by unanimous vote. Should the board of directors fail to reach an agreement, the matter shall be decided by drawing. In its first meeting after our Annual Shareholders' Meeting that took place on April 18, 2007, our board appointed as members of our directors committee Messrs. Philippe Pasquet, Francisco Pérez and Alberto Sobredo, of whom the first and the second were appointed through the controlling shareholder's votes, and the third is an independent director.

The members of the directors committee shall be remunerated. The amount of such remuneration shall be established annually by the shareholders, taking in consideration the duties that the directors' committee members shall perform. The remuneration of our directors committee members is 25 *Unidades de Fomento* (as of May 31, 2008, approximately ThCh\$502) per assistance to directors committee meeting.

The shareholders shall determine the budget of the directors committee and those of its advisors, and the directors committee shall be allowed to request the recruitment of professionals to fulfill its duties, within the limits imposed by the budget. The activities of the directors committee and its expenses, including its advisors' expenses, shall be included in the annual report and conveyed to the shareholders. The budget of our directors committee and its advisors is 1,000 *Unidades de Fomento* (as of May 31, 2008, approximately ThCh\$20,061).

*Audit Committee.* In the session held on April 18, 2007, our board of directors appointed board members Giorgio Maschietto, Carlos Olivos and Alberto Sobredo to be members of the audit committee, in accordance with provisions of the Exchange Act and the Sarbanes-Oxley Act of 2002 applicable to us as a foreign private issuer with securities listed on a U.S. national exchange.

The duties of the audit committee are:

- To be responsible for the hiring, remuneration and supervision of the work of public accounting firms hired to prepare or issue audit reports or review or certify such reports. The external auditors shall report directly to the audit committee regarding such matters.
- Resolve disputes that arise between our administration and the external auditors with regard to financial reports.
- Grant approval prior to the contracting of non-audit services provided by the external auditors.
- Establish a procedure for receiving and responding to complaints received with regard to accounting, accounting controls or other auditing matters whereby employees may anonymously and confidentially report their concerns related to these matters.
- Establish an annual budget for expenses and hiring of external consultants.

The audit committee meets regularly and also holds meetings with our managers, our comptroller, and our internal and external auditors in order to discuss a variety of topics related to its duties.

## **General summary of significant differences with regard to corporate government standards**

The following paragraphs provide a brief, general summary of significant differences between corporate government practices followed by us pursuant to our home-country rules and those applicable to U.S. domestic issuers under New York Stock Exchange, or NYSE, listing standards.

*Composition of the board of directors; independence.* The NYSE listing standards provide that listed companies must have a majority of independent directors and that certain board committees must consist solely of independent directors. Under NYSE rule 303A.02, a director qualifies as independent only if the board affirmatively determines that such director has no material relationship with the company, either directly or indirectly. In addition, the NYSE listing standards enumerate a number of relationships that preclude independence.

Under Chilean law there is no legal obligation to have independent directors. However, Chilean law establishes a number of principles of general applicability designed to avoid conflicts of interests and to establish standards for related party transactions. Specifically, directors elected by a group or class of shareholders have the same duties to the company and to the other shareholders as the rest of the directors, and all transactions with the company in which a director has an interest, either personally (which includes the director's spouse and certain relatives) or as a representative of a third party, require prior approval by the board of directors and must be entered into on market terms and conditions. Furthermore, such transactions must be reviewed by the directors committee (as defined below) and disclosed at the next meeting of shareholders. Pursuant to NYSE rule 303A.00, we may follow Chilean practices and are not required to have a majority of independent directors.

*Committees.* The NYSE listing standards require that listed companies have a Nominating/Corporate Governance Committee, a Compensation Committee and an Audit Committee. Each of these committees must consist solely of independent directors and must have a written charter that addresses certain matters specified by the listing standards.

Under Chilean law, the only board committee that is required is the directors committee (*comité de directores*), composed of three members, such committee having a direct responsibility to (a) review the company's financial statements and the independent auditors' report and issue an opinion on such financial statements and report prior to their submission for shareholders' approval, (b) make recommendations to the board of directors with respect to the appointment of independent auditors and risk rating agencies, (c) review transactions in which directors have an interest and transactions between affiliated companies, and issue a report on such transactions, (d) review the principal executive officers' compensation policies and plans and (e) perform other duties as defined by the company's charter, by the general shareholders' meeting or by the board. A director who is a member of the directors committee is deemed to be "independent" if, subtracting the votes of the controlling shareholder and its affiliates from the total number of votes given in favor of such director, he or she would have been nevertheless elected. Directors elected with the votes of the controlling shareholder and its affiliates may constitute the majority of the directors committee if there are not enough independent directors on the board.

Pursuant to NYSE Rule 303A.06, we must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act by July 31, 2005. Therefore, our board of directors, on the meeting held on April 18, 2007, appointed as members of our audit committee Messrs. Giorgio Maschietto, Carlos Olivos and Alberto Sobredo, all of them meet the independence criteria contained in the Exchange Act and the NYSE Rule.

*Shareholder approval of equity-compensation plans.* Under NYSE listing standards, shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with limited exemptions. An "equity-compensation plan" is a plan or other arrangement that provides for the delivery of equity securities of the listed company to any employee, director or other service provider as compensation for services.

Under Chilean law, if previously approved by shareholders at an extraordinary shareholders' meeting, up to ten percent of a capital increase in a publicly traded company may be set aside to fund equity-compensation plans for the company's employees and/or for the employees of the company's

subsidiaries. Pursuant to NYSE rule 303A.00, as a foreign issuer, we may follow Chilean practices and are not required to comply with the NYSE listing standards with respect to shareholder approval of equity-compensation plans.

*Corporate Governance Guidelines.* The NYSE listing standards provide that listed companies must adopt and disclose corporate governance guidelines with regard to (a) director qualifications standards; (b) director responsibilities; (c) director access to management and independent advisors; (d) director compensation; (e) director orientation and continuing education; (f) management succession; and (g) annual performance evaluation of the board.

Chilean law does not require that such corporate governance guidelines be adopted. Director responsibilities and access to management and independent advisors are directly provided for by applicable law. Director compensation is determined by the annual meeting of shareholders pursuant to applicable law. As a foreign issuer, we may follow Chilean practices and are not required to adopt and disclose corporate governance guidelines.

*Code of Business Conduct and Ethics.* The NYSE listing standards require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

We have adopted a code of business conduct and ethics that applies generally to all of our executive officers and employees. A copy of the code of business conduct and ethics is available in our website at [www.ccu-sa.com](http://www.ccu-sa.com).

*Manual of Information of Interest to the Market.* In 2008, the Superintendency of Securities and Insurance (*Superintendencia de Valores y Seguros*, or SVS) promulgated new rules which require public companies to adopt a manual regarding disclosure of information of interest to the market. This manual applies to our directors, the directors of our subsidiaries, our executive officers, some of our employees which may be in possession of confidential, reserved or privileged information of interest, and to our advisors. The manual took effect on June 1, 2008. A copy of the manual regarding disclosure of information of interest to the market is available in our website at [www.ccu-sa.com](http://www.ccu-sa.com).

*Executive Sessions.* To empower non-management directors to serve as a more effective check on management, NYSE listing standards provide that non-management directors of each company must meet at regularly scheduled executive sessions without management.

Under Chilean law, the office of director is not legally compatible with that of a company officer in publicly traded companies. The board of directors exercises its functions as a collective body and may partially delegate its powers to executive officers, attorneys, a director or a board commission of the company, and for specific purposes to other persons. As a foreign issuer, we may follow Chilean practices and are not required to comply with the NYSE listing standard for executive sessions.

*Certification Requirements.* Under NYSE listing standards, Section 303A.12(a) provides that each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards and Section 303A.12(b) provides that each listed company CEO must promptly notify the NYSE in writing after any executive officer of the listed company becomes aware of any material non-compliance with any applicable provisions of Section 303A.

As a foreign private issuer, we must comply with Section 303A.12(b) of the NYSE listing standards, but we are not required to comply with 303A.12(a).



## **Employees**

### **Chile**

As of December 31, 2005, 2006 and 2007, we had a total of 3,706, 3,753 and 3,958 permanent employees in Chile, respectively. As of December 2007, 2,414 were represented by 43 labor unions. As of December 31, 2007, the average tenure of our full-time employees was approximately nine years.

The following table shows the breakdown of our employees by business segments:

<u>Business</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Beer	833	872	843
Soft drinks and mineral water	895	905	908
Wine	538	480	648
Transportes CCU	487	476	635
Others (*)	<u>953</u>	<u>1,020</u>	<u>924</u>
Total	<u>3,706</u>	<u>3,753</u>	<u>3,958</u>

(\*) Includes our corporate, pisco, plastic and Comercial CCU divisions

Unionized employees represent approximately 61% of our total permanent workforce. Our management believes it generally has a good relationship with the labor unions representing our employees.

During 2007, 1,264 employees renewed their collective contracts, most of them for a period of two years. The contract renewals are expected to increase the unionized workforce costs between 2.5% and 3.0%.

All employees who are terminated for reasons other than misconduct are entitled by law to receive a severance payment. In the years 2005, 2006 and 2007, we made severance payments in the amounts of Ch\$1,817 million, Ch\$2,701 million and Ch\$4,196 million, respectively. Permanent employees are entitled to the basic payment, as required by law, of one month's salary for each year, or six-month portion thereof, worked. This condition is subject to a limitation of a total payment of no more than 11 months' pay for employees hired after August 14, 1981. Severance payments to employees hired before August 14, 1981 are not subject to any limitation. Our employees who are subject to collective bargaining agreements have a contractual benefit to receive a payment in case of resignation, consisting of a payment of one monthly base 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. In 2007, we laid off 472 employees.

We do not maintain any pension fund or retirement program for our 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"). We have no liability for the performance of the pension plans or any pension payments to be made to the employees.

In addition to our permanent work force, as of December 31, 2007, we had 511 temporary employees, who were hired for specific time periods to satisfy short-term needs.

### **Argentina**

#### **a) Beer Business**

As of December 31, 2005, 2006 and 2007, we had a total of 517, 543 and 547, permanent employees respectively. As of December 31, 2007, 361 employees were represented by three 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, 2007, the average tenure of our employees in Argentina was approximately eight years.

Collective bargaining in Argentina is done on an industry-wide basis, rather than, as in Chile, on a company-by-company basis.

In Argentina, as in Chile, all employees who are terminated for reasons other than misconduct are entitled by law to receive a severance payment. We made severance payments in connection with our Argentine beer operations in the amounts of Ch\$62 million, Ch\$144 million and Ch\$115 million in 2005, 2006 and 2007, respectively. According to the Argentine Labor Law, employees who joined us before October 1998 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. In December 2005, a new temporary rule came into force: all severance payments are to be increased by 50%. This temporary rule was retracted on September 2007.

In addition to our permanent work force, as of December 31, 2007, we had 44 temporary employees, who were hired for specific time periods to satisfy short-term needs.

b) Wine Business

As of December 31, 2007 Finca La Celia, the Argentine subsidiary of Viña San Pedro had a total of 127 permanent employees. As of December 31, 2007, 111 were represented by one labor union. As of December 31, 2007, the average tenure of our employees in FLC was approximately five years. In addition to our permanent work force in FLC, we had 105 temporary employees, who were hired for specific time periods to satisfy short-term needs.

## **Share Ownership**

Except as disclosed in "Item 7: Major Shareholders and Related Party Transactions – Major Shareholders", as of December 31, 2007, our senior management and our board members in the aggregate owned less than one percent of the our shares.

We do not maintain stock option or other programs involving our employees in the capital of the Company, with the only exception of VSP. VSP's Extraordinary Shareholders meeting held on July 7, 2005 approved a capital increase to be partially used for stock option programs.

## **ITEM 7: Major Shareholders and Related Party Transactions**

### **Major Shareholders**

Our only outstanding voting securities are our shares of our common stock. The following table sets forth information concerning the ownership of our common stock as of May 31, 2008, for each shareholder known to us to own more than 5% of the outstanding shares of our common stock and for all of our directors and executive officers as a group:

<u>Shareholder</u>	<u>Number of shares owned</u>	<u>% Ownership</u>
Inversiones y Rentas S.A.	210,568,432	66.11%
Our directors and executive officers as a group (1)	29,560	0.01%

- (1) Does not include the 210,568,432 shares of our common stock owned, directly and indirectly, by Inversiones y Rentas, which is 50% beneficially owned by the Luksic family, as discussed below. Guillermo Luksic and Andrónico Luksic, our directors, are members of the Luksic family.

In addition, as of May 31, 2008, JPMorgan Chase Bank, the Depository for our ADR facility, was the record owner of 23,853,540 shares of our common stock (7.49% of the outstanding common stock) deposited in our ADR facility.

As of May 31, 2008, we had 4,996 shareholders of record, of which 56 are not Chilean, excluding ADR holders. To the best of our knowledge, of those 56 non-Chilean shareholders 39 are U.S. corporations with a total of 5,563,600 shares of common stock. All shareholders have equal voting rights.

IRSA is a Chilean privately held corporation formed for the sole purpose of owning a controlling interest in us. IRSA is owned 50% by Quiñenco S.A., which is a holding company of the Luksic Group, and 50% by Heineken Chile Ltda., a subsidiary of Heineken International. IRSA directly owns 196,421,725 shares of our common stock and indirectly, through Inversiones IRSA Ltda., 14,146,707 additional shares of our common stock. Inversiones IRSA Ltda. is a wholly-owned subsidiary of IRSA.

On November 12, 2004, Anheuser-Busch International Holdings, Inc. Chile II Ltd., sold all of its interest, amounting to 20% of our common stock, in a public auction on the Santiago Stock Exchange. The 63,695,333 shares were sold at a price of Ch\$2,821 per share, which represented Ch\$179,685 million.

## **Related Party Transactions**

Articles 44, 89 and 93 of the Chilean Corporations Act, Law N°18.046, require that transactions with related parties be on terms similar to those of an arm's length transaction. Directors and executive officers of companies that violate these articles are liable for losses or damages caused to the companies, shareholders or third parties resulting from such violations. In addition, Articles 44 and 50 of the Chilean Corporations Act provide that any related party transaction, including any transaction in which a director has a personal interest or is acting on behalf of a third party, may be executed only when such transaction is examined by the directors committee and previously approved by the board of directors, and the terms of such transaction are similar to those of an arm's length transaction. If the conflicting interest transaction involves a "material amount," the board of directors is required to produce a statement declaring in advance that the conflicting interest transaction is similar in its terms to an arm's length transaction. A conflicting interest transaction is deemed to involve a "material amount" if the amount involved is both greater than UF2,000 (as of May 31, 2008, approximately ThCh\$40,122) and exceeds 1% of the assets of the corporation, or if the amount exceeds UF20,000 (as of May 31, 2008, approximately ThCh\$401,221) regardless of the size of the corporation.

When a transaction involves a material amount and if the board of directors believes that it is not possible to ascertain whether the conflicting interest transaction is similar to an arm's length transaction, it may approve or reject the conflicting interest transaction, or appoint two independent advisors to make such a determination. In each case, interested directors are excluded from the decision of the board related to the conflicting interest transaction. If the board appoints independent advisors, the report prepared by the advisors will be made available to the shareholders and the board of directors for 20 business days from the date the last report was received from the independent advisors. The shareholders will be notified in writing of the receipt of the report. After this period the board may approve or reject the conflicting interest transaction, but the board is not required to follow the independent advisors' conclusion. The board may treat the conflicting interest transaction and the report as confidential information. In each circumstance, the interested director would be excluded from the decision-making process at the board level.

Within a twenty-day period, shareholders representing at least 5% of the voting shares of the Company may request that the board call a shareholders' meeting in order to approve or reject the conflicting interest transaction by a two-thirds majority of the outstanding voting shares. All decisions adopted by the board in respect of the conflicting interest transaction must be reported at the next shareholders' meeting.

The controller of the corporation or the related party which intends to enter into the conflicting interest transaction shall make available to the board of directors, at the time the transaction is being considered by the board, all information relating to the transaction filed with any non-Chilean regulatory entities or stock exchanges. A violation of Article 44 may result in administrative or criminal sanctions against the

interested director. The Company, the shareholders or interested third parties who suffer losses as a result of such violation have the right to receive compensation from such director in certain situations.

In the ordinary course of business, we engage in a variety of transactions with some of our affiliates and related parties. Financial information concerning these transactions is set forth in Note 16 to our consolidated financial statements.

Our corporate support units and strategic service units provide shared services to all the organization through service level agreements. Shared services are provided in a centralized manner to capture the synergies between the different units. Service level agreements are annual contracts specifying the services to be provided as well as the variables used to measure the levels of service and their prices. Service levels are evaluated directly by users three times a year.

Additionally, our logistic subsidiary Transportes CCU Ltda. provides transportation and warehousing services on a consolidated basis to all of our strategic business units. These services are regulated by annual contracts specifying the services to be provided as well as the variables used to measure the levels of service and their prices. Service levels are evaluated directly by users three times a year.

We engage in a variety of transactions with affiliates of the Luksic Group and Heineken, the beneficial owners of IRSA, as well as with other shareholders of ours. Currently, Quiñenco and Heineken Chile Limitada, a Chilean limited corporation controlled by Heineken Americas B.V. are the only shareholders of IRSA, each with a 50% equity interest See "Item 4: Information on the Company – Organizational Structure".

On November 30, 2005, we and Heineken International signed a new version of the license and technical assistance agreements which provide us with the exclusive rights to produce, sell and distribute Heineken beer in Chile and Argentina commencing June 18, 2003. These agreements have an initial term of 10 years beginning in June 2003, renewable for subsequent periods of five years. See "Item 4: Information on the Company – Business Overview – Our Beer Business in Chile – Beer Production and Marketing in Chile" and "Item 4: Information on the Company – Business Overview – Our Beer Business in Argentina – Beer Production and Marketing in Argentina".

Subject to the above license agreements, on September 23, 2004, through our Argentine subsidiary Compañía Industrial Cervecera S.A., and Heineken Brouwerijen B.V., we signed a brewing agreement which provides us with the right to produce and package Heineken lager at our Santa Fe brewery, and for its sale and distribution in Uruguay, Bolivia and Paraguay by Heineken's appointed Distributor. This agreement commenced on September 1, 2004 and has been renewed for one year since December 31, 2005.

Also subject to the above license agreements, on April 24, 2006, through our subsidiary CCU Chile Ltda., we signed a brewing agreement with Heineken Brouwerijen B.V., which provides us with the right to produce and package Heineken lager at our local brewery and for its sale and distribution in Peru, Colombia and Ecuador by Heineken's appointed Distributor. This agreement commenced on April 24, 2006 for one year renewable annually.

Additionally, a Technical Assistance Agreement was executed with Heineken Technical Services B.V. on May 4, 2005, whereby the latter was appointed, on a non-exclusive basis, as our technical adviser in respect of operational aspects of our breweries, including also special services regarding project engineering for extensions of the breweries' capacity and construction of new plants, assistance in development of new products, production methods and distribution systems as well as advise on purchasing systems, among others. This agreement has an initial term of one year as from May 4, 2005, renewable for subsequent periods of one year each, unless either party gives not less than three months' prior written notice to the other of its intention to terminate this Agreement. This agreement has been renewed automatically.

We produce, bottle and distribute Budweiser beer in Argentina under the licensing agreement executed with Anheuser-Busch in December 1995, as amended. We also sell imported Budweiser beer in Chile. See "Item 4: Information on the Company – Business Overview – Our Beer Business in Argentina" and "Item 4: Information on the Company – Business Overview – Our Beer Business in Chile".

Finally, we entered into a Framework Agreement with Banco de Chile, a Quiñenco subsidiary, effective as from May 1, 2003, for the rendering of banking services to us and certain of our subsidiaries and affiliates, including, among others, payment to suppliers and shareholders, cashier service, transportation of valuables and payment of salaries. This agreement replaces prior agreements for the same purpose executed with Banco de A. Edwards, which merged into Banco de Chile as from January 1, 2002.

Since our directors committee was established in 2001 as required by the Chilean Corporation Act, all related party contracts have been reviewed by it, and then approved by the board of directors, which approval also was a standard practice prior to the creation of the directors committee. Our principal related party contracts include rental of properties, the rendering of services and product sales.

Our principal transactions with related parties for the twelve-month period ended December 31, 2007, are detailed below:

<u>Company</u>	<u>Relationship</u>	<u>Transaction</u>	<u>Amounts</u> (thousand of Ch\$)
Alusa S.A.	Affiliate	Purchase of products	664,311
Anheuser Busch international Inc.	Affiliate	Purchase of products	720,148
		Sale of products	4,553,581
Anheuser Busch Lat. Am. Develop. Corp.	Affiliate	Licence and technical assistance	1,394,223
Banco de Chile	Affiliate	Purchase of time deposits	39,094,868
		Forward contract	16,097,217
Calaf S.A.	Equity investee	Purchase of products	8,945,193
		Services paid	3,621,600
Cervecería Austral S.A.	Equity Investee	Purchase of products	506,692
Comercial Patagona Ltda.	Equity Investee	Sale of products	872,959
Control Ltda.	Affiliate	Purchase of grapes	1,958,453
Heineken Brouwerijen B.V.	Indirect	Royalty	1,765,547
		Sale of products	1,325,918
		Licenses and technical assistance	789,420
Promarca S.A.	Equity Investee	Royalties paid	1,518,915
Viña Tabalí S.A.	Equity Investee	Remittance received	677,212
		Capital increase	1,997,812

See Note 16 to our consolidated financial statements for information about the years 2005 and 2006.

### **Interests of Experts and Counsel**

Not applicable

## **ITEM 8: Financial Information**

### **Consolidated Statements and Other Financial Information**

See "Item 18: Financial Statements and Exhibits" for the Company's Financial Statements and notes, audited by PricewaterhouseCoopers.

### **Wine Exports**

We, through our subsidiary VSP, export wine to 80 countries. VSP is the second largest wine exporter in Chile. See "Item 4: Information on the Company – Business Overview – Our Wine Business".

The following table presents our total wine exports by volume, in Chilean pesos and as percentage of total sales for the last three years:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Exports (thousands of liters)	51,370	46,741	55,080
% of total sales	4.1%	3.5%	3.9%
Exports (Ch\$ million)	54,675	51,239	56,657
% of total sales	10.1%	8.7%	9.0%

## **Legal Proceedings**

On March 24, 2008, the National Economic Prosecutor notified our subsidiary, Cervecera CCU Chile Ltda. of a complaint filed with the Free Competition Defense Court, which claimed the abuse by CCU Chile of its dominant market position, as evidenced by exclusivity clauses imposed on hotels, restaurants, pubs, bars and discotheques, which prohibit the commercialization by these establishments of beers produced by CCU Chile's competitors. The complaint requested that CCU Chile be fined the maximum permitted under Chilean antitrust law, 20,000 UTA (*Unidad Tributaria Annual*, or annual tax unit, as of May 31, 2008, approximately Ch\$8,420 million), or a fine which the Court considers appropriate. On April 16, 2008, CCU Chile filed its reply, citing economic and legal arguments in support of dismissal of the complaint. A copy of the complaint and reply thereto can be found at the web site [www.tdlc.cl](http://www.tdlc.cl).

## **Dividend Policy and Dividends**

Our dividend policy is reviewed and established from time to time by our board of directors and reported to our regular shareholders' meeting, which is generally held in April of each year. Each year our board of directors must submit its proposal for a final dividend for the preceding year for shareholder approval at the annual shareholders' meeting. As required by the Chilean Corporations Act, unless otherwise decided by unanimous vote of the issued shares of our common stock, we must distribute a cash dividend in an amount equal to at least 30% of our net income for that year, after deducting any accumulated losses from previous years. Our board of directors has the authority to pay interim dividends during any one fiscal year, to be charged to the earnings for that year.

Our board of directors announced at our annual shareholders' meeting held on April 17, 2008, its dividend policy for future periods, authorizing the distribution of cash dividends in an amount at least equal to 50% of our liquid profits under Chilean GAAP for the previous year. Our dividend policy is subject to change in the future due to changes in Chilean law, capital requirements, economic results and/or other factors. During our last annual shareholders' meeting held on April 17, 2008, a dividend of Ch\$102.19655 per share of common stock was approved, in addition to the interim dividend of Ch\$47.00 per share of common stock distributed in January 11, 2008. Together, these dividend payments amounted to Ch\$47,520 million, representing 60.0% of 2007 net income available to be distributed as dividend, after the deduction of the loss of subsidiaries in development period.

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

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

<u>Year ended</u> <u>December 31,</u>	<u>Ch\$ Per share (1)</u>			<u>US\$ Per ADS (2)</u>		
	<u>Interim</u>	<u>Final (3)</u>	<u>Total</u>	<u>Interim</u>	<u>Final (3)</u>	<u>Total</u>
2003	33.00	51.59	84.59	0.29	0.41	0.70
2004	27.00	62.80	89.80	0.24	0.54	0.78
2005	30.00	67.37	97.37	0.29	0.65	0.94
2006	35.00	77.62	112.62	0.32	0.74	1.06
2007	47.00	102.20	149.20	0.48	1.13	1.61

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

The following table sets forth the amounts of the extraordinary dividend per share of Common Stock and per ADS paid out of retained earnings approved at a special shareholders' meeting held on February 26, 2003, separated by payment dates:

<u>Payment dates</u>	<u>Ch\$ Per share (1)</u>	<u>US\$ Per ADS (2)</u>
March 14, 2003	177.00	1.18
August 29, 2003	235.00	1.68
October 10, 2003	<u>117.67</u>	<u>0.91</u>
Total	<u>529.67</u>	<u>3.77</u>

- (1) Dividend amounts are expressed in historical pesos.
- (2) U.S. dollars per ADR dividend information serves for reference purposes only as the Company pays all dividends in Chilean pesos. The Chilean peso amounts as shown here have been converted into U.S. dollars at the Observed Exchange Rate in effect at the date of the first payment. Note: The Federal Reserve Bank of New York does not report a noon buying rate for Chilean pesos.

Pursuant to former Chapter XXVI of the Central Bank Foreign Exchange Regulations, replaced by Chapter XIV, a shareholder who was not a resident of Chile had to register as a foreign investor in order to have access to the Formal Exchange Market for remitting abroad any dividends, sales proceeds or other amounts accruing from shares in a Chilean company (see "Item 10: Additional Information – Exchange Controls – General Legislation and Regulations"). Under our 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 10: Additional Information – Taxation".

## **Significant Changes**

No significant changes have occurred since the date of our last annual financial statements.

## ITEM 9: The Offer and Listing

### Offer and Listing Details

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 the NYSE:

	<u>Santiago Stock Exchange</u> <u>(per share of common stock)(*)</u>		<u>NYSE</u> <u>(per ADS)</u>	
	<u>High</u> <u>(Ch\$)</u>	<u>Low</u> <u>(Ch\$)</u>	<u>High</u> <u>(US\$)</u>	<u>Low</u> <u>(US\$)</u>
<b>Years</b>				
2003	2,780	2,125	22.69	14.50
2004	3,075	2,350	25.80	17.90
2005	3,200	2,510	28.50	22.91
2006	3,285	2,350	30.65	21.14
2007	4,280	3,040	45.80	26.91
2008 (through May 31)	3,600	2,650	39.91	26.33
<b>2006</b>				
1 <sup>st</sup> quarter	2,800	2,501	27.40	24.10
2 <sup>nd</sup> quarter	2,645	2,350	25.80	21.14
3 <sup>rd</sup> quarter	2,865	2,360	27.00	21.63
4 <sup>th</sup> quarter	3,285	2,750	30.65	25.34
<b>2007</b>				
1 <sup>st</sup> quarter	3,500	3,040	34.25	26.91
2 <sup>nd</sup> quarter	3,950	3,370	37.76	31.00
3 <sup>rd</sup> quarter	3,900	3,400	38.50	31.92
4 <sup>th</sup> quarter	4,280	3,299	45.80	30.76
<b>2008</b>				
1 <sup>st</sup> quarter	3,485	2,650	37.08	26.33
<b>Last six months</b>				
December 2007	3,810	3,299	38.60	32.77
January 2008	3,485	2,650	35.90	26.33
February	3,317	3,030	35.14	31.28
March	3,250	2,992	37.08	32.80
April	3,600	3,110	39.91	35.03
May	3,492	3,185	37.11	33.29

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

Significant trading suspensions of the Company's stock have not occurred in the last three years.

### Plan of distribution

Not applicable

### Markets

Our common stock is currently traded on the Santiago Stock Exchange, the Chile Electronic Stock Exchange and the Valparaíso Stock Exchange under the symbol "CCU". The Santiago Stock Exchange accounted for approximately 87% of the trading volume of our common stock in Chile in 2006 and 2007.



The remaining 13% was traded mainly on the Chile Electronic Stock Exchange. Shares of our common stock were traded in the United States on the NASDAQ stock exchange between September 24, 1992 and March 25, 1999 and on the NYSE since March 26, 1999, in the form of ADSs, under the symbol "CU", each representing five shares of our common stock, with ADSs in turn evidenced by ADRs. The ADSs are issued under the terms of a deposit agreement as amended dated September 1, 1992, among us, JPMorgan Chase Bank as depositary, and the holders from time to time of the ADSs.

The trading volume of our ADSs in the NYSE in the last three years is as follows:

<u>Year</u>	<u>Quarter</u>	<u>Traded Volume</u> (Thousand of shares)
2005	1 <sup>st</sup> quarter	1,135
	2 <sup>nd</sup> quarter	2,435
	3 <sup>rd</sup> quarter	3,427
	4 <sup>th</sup> quarter	<u>3,449</u>
	Total	<u>10,446</u>
2006	1 <sup>st</sup> quarter	2,619
	2 <sup>nd</sup> quarter	2,493
	3 <sup>rd</sup> quarter	1,649
	4 <sup>th</sup> quarter	<u>1,572</u>
	Total	<u>8,333</u>
2007	1 <sup>st</sup> quarter	1,525
	2 <sup>nd</sup> quarter	2,149
	3 <sup>rd</sup> quarter	1,890
	4 <sup>th</sup> quarter	<u>2,595</u>
	Total	<u>8,159</u>

### **Selling Shareholders**

Not applicable

### **Dilution**

Not applicable

### **Expenses of the Issue**

Not applicable

## **ITEM 10: Additional Information**

### **Share Capital**

Not applicable

### **Memorandum and Articles of Association**

Provided below is a summary of certain material information found in our bylaws and provisions of Chilean law. This summary is not exhaustive. For more information relating to the items discussed in this summary, the reader is encouraged to read our bylaws which have been filed as an exhibit to our

Registration Statement on form F-1, as amended, filed with the Commission on September 23, 1992 (File No. 033-48592).

**Registration and corporate purposes** We are a public corporation (sociedad anónima abierta) organized by means of a public deed dated January 8, 1902, executed before the notary public of Valparaíso, Mr. Pedro Flores, and our existence was approved by Supreme Decree N°889 of the Treasury Department, dated March 19, 1902, both of which were recorded on the reverse of folio 49, N°45 of Valparaíso's Registry of Commerce for 1902, and published in Chile's Official Gazette on March 24, 1902. We are recorded on March 8, 1982, at Chile's Securities Registry of the SVS under N°0007.

The last amendment to our articles of association, which moved the domicile of the corporation from Valparaíso to Santiago City, and the complete, revised and updated text of the corporation's bylaws were set forth in a public deed dated 4 June 2001, executed before the notary public of Valparaíso, María Ester Astorga, an extract of which was recorded on the reverse of folio 474 N°363 of the Valparaíso Registry of Commerce for 2001, published in the Official Gazette on June 13, 2001, and recorded at the Registry of Commerce of Santiago on folio 18.149, N°14.600 for the year 2001.

Under Article 4 of our bylaws, the corporation's principal purpose is to produce, manufacture and market alcoholic and non-alcoholic beverages, to manufacture containers and packaging, and to provide transportation services, among other businesses.

**Directors** Under the Chilean law regarding corporations (the "Chilean Corporations Act"), a corporation may not enter into a contract or agreement in which a director has a direct or indirect interest (i.e., a conflicting interest transaction) without prior approval by the board of directors, and then only if the terms of the conflicting interest transaction are similar to those of an arm's length transaction.

If the conflicting interest transaction involves a "material amount," the board of directors is required to produce a statement declaring in advance that the conflicting interest transaction is similar in its terms to an arm's length transaction. A conflicting interest transaction is deemed to involve a "material amount" if the amount involved is both greater than 2,000 Unidades de Fomento (as of May 31, 2008, approximately ThCh\$40,122) and exceeds 1% of the assets of the corporation, or if the amount exceeds 20,000 Unidades de Fomento (as of May 31, 2008, approximately ThCh\$401,221) regardless of the size of the corporation.

If the board of directors believes that it is not possible to ascertain whether the conflicting interest transaction is similar to an arm's length transaction, it may approve or reject the conflicting interest transaction, or appoint independent advisors to make such a determination. If the board appoints independent advisors, the report prepared by the advisors will be made available to the shareholders and the board of directors for 20 business days from the date the last report was received from the independent advisors. The shareholders will be notified in writing of the receipt of the reports. After this period, the board may approve or reject the conflicting interest transaction, but the board is not required to follow the independent advisors' conclusion. The board may treat the conflicting interest transaction and the report as confidential information. Shareholders representing at least 5% of our voting shares may request the board to call a shareholders' meeting in order to approve or reject the conflicting interest transaction by a two-thirds majority of the outstanding voting shares. Interested directors are excluded from all decisions of the board related to the conflicting interest transaction.

All decisions adopted by the board in respect of the conflicting interest transaction must be reported to the next following shareholders' meeting. The controller of the corporation or the related party which intends to enter into the conflicting interest transaction shall make available to the board of directors, at the time the transaction is being considered by the board, all information relating to the transaction filed with any non-Chilean regulatory entities or stock exchanges.

If a suit for damages arises from such a transaction, the defendant (i.e., one or more directors, the controller, a related party, or all of them) bears the burden of proof that the transaction was made under marketplace conditions or that its terms proved benefit to the corporation, unless the conflicting interest transaction was previously approved by the shareholders in a special meeting.

The amount of any director's remuneration is established each year at the annual shareholders' meeting. Directors are forbidden, unless previously and duly authorized thereto by the board of directors, to borrow or otherwise make use of corporate money or assets for their own benefit or that of (a) their spouses or certain relatives, including certain in-laws; (b) companies in which they, or their spouses or the relatives above referred to, either are directors, or own, beneficially or of record, at least a 10% interest; or (c) third parties for whom the directors act as representatives. However, the shareholders' authorization is not required. These rules can only be modified by law.

It is not necessary to hold our shares to be elected a director, and there is no age limit established for the retirement of directors.

***Rights, preferences and restrictions regarding shares*** At least 30% of our net profits for each fiscal year is required to be distributed as dividend in cash to our shareholders, unless our shareholders unanimously decide otherwise. Any remaining profits may be used to establish a reserve fund (that may be capitalized at any time, amending the corporate bylaws by the vote of a majority of the voting stock issued), or to pay future dividends.

Compulsory minimum dividends, i.e., at least thirty percent of our net profits for each fiscal year, become due thirty days after the date on which the annual shareholders' meeting has approved the distribution of profits in the fiscal year. Any additional dividends approved by our shareholders become due on the date set by our shareholders or our board of directors.

Accrued dividends that corporations fail to pay or make available to their shareholders within certain periods are to be adjusted from the date on which those dividends became due and that of actual payment. Overdue dividends will accrue yearly interest established for adjustable operations over the same period.

Dividends and other cash benefits unclaimed by shareholders after five years from the date on which they became due will become the property of the Chilean Fire Department.

We have only one class of shares and there are therefore no preferences or limitations on the voting rights of shareholders. Each of our shareholders is entitled to one vote per share. In annual shareholders' meetings, resolutions are made by a simple majority of those present, provided legal quorums are met. A special or extraordinary meeting generally requires an absolute majority, in other words, 50% plus one of the shares entitled to vote; however, the Chilean Corporations Act provides that in order to carry certain motions, a two thirds majority of the outstanding voting stock is necessary.

Our directors are elected every three years and their terms are not staggered. Our shareholders may accumulate their votes in favor of just one person or distribute their votes to more than one person. In addition, by unanimous agreement of our shareholders present and entitled to vote, the vote may be omitted and the election made by acclamation.

In the event of liquidation, the Chilean Corporations Act provides that corporations may carry out distributions to shareholders on account of a reimbursement of capital only after the payment of corporate indebtedness.

There are no redemption or sinking fund provisions applicable to us, nor are there any liabilities to our shareholders relating to future capital calls by us.

Under Chilean law, certain provisions affect any existing or prospective holder of securities as a result of the shareholder owning a substantial number of shares. The Securities Market Law establishes that (a) any person who, directly or indirectly, (i) owns 10% or more of the subscribed capital of a corporation (the "majority shareholders") whose shares are registered in the Securities Registry of the SVS (the "SRSVS"), or (ii) owns any such percentage because of the purchase of shares; and (b) all directors, the chief executive officer, liquidators and other principal officers of any corporation whose shares are registered with the SRSVS, regardless of the number of shares they own, must report any direct or indirect purchase or sale of shares made by such persons or entities within two business days of such transactions to the SVS and to each of the stock exchanges in Chile where such corporation

has securities listed. In addition, majority shareholders must inform the SVS and the stock exchanges with respect to whether the purchase is aimed at acquiring control of the corporation or just as a financial investment.

The Securities Market Law also provides that when one or more persons intend to take over a corporation subject to oversight by the SVS, they must give prior public notice. This notice must include the price to be offered per share and the conditions of the proposed transaction, including the expected manner of acquiring the shares.

Finally, Chapter XXV of the Securities Market Law was enacted on December 20, 2000, to ensure that controlling shareholders share with minority shareholders the benefits of a change of control, by requiring that certain share acquisitions be made pursuant to a tender offer. However, up to December 31, 2003, this tender offer requirement was not wholly applicable to our controlling shareholder, pursuant to the exemption contemplated in transitory article 10 of Law N° 19.705, the benefits of which were granted to the controllers by the shareholders' meeting held on June 4, 2001.

The Chilean Corporations Act provides shareholders with preemptive rights. The Act requires that options to purchase stock representing capital increases in corporations and debentures duly convertible into stock of the issuing corporation, or any other securities extending future rights over such stock, must be offered preferably, at least once, to existing shareholders, in proportion to the number of shares owned by them. A corporation must distribute any bonus stock in the same manner.

The Chilean Corporations Act also provides shareholders with the right to withdraw from a corporation in certain situations. Unless there is an ongoing bankruptcy proceeding, if a shareholders' meeting approves any of the following matters, dissenting shareholders will be automatically entitled to withdraw from the corporation upon payment by the corporation of the market value of their shares:

- our transformation into a different type of legal entity,
- our merger with and/or into another company,
- the disposition of 50% or more of the corporate assets, whether or not liabilities are also transferred, or the proposal or amendment of any business plan that contemplates the transfer of assets exceeding said percentage,
- the granting of real or personal guarantees to secure third party obligations exceeding 50% of the corporate assets,
- the creation of preferences for a series of shares or the increase or reduction in the already existing ones. In this case, only dissenting shareholders of the affected series shall have the right to withdraw,
- curing certain formal defects in the corporate charter which otherwise would render it null and void or any modification of its bylaws that should grant this right, and
- other cases provided for by statute or in our bylaws, if any.

In addition, shareholders may withdraw if a person becomes the owner of two-thirds of the outstanding shares of the corporation as a consequence of a share acquisition and such person does not make a tender offer for the remaining shares within 30 days.

Our bylaws do not provide for additional circumstances under which shareholders may withdraw.

**Action necessary to change the rights of holders of stock.** Rights of stockholders are established by law and pursuant to the bylaws of a corporation. For certain modifications of shareholders' rights, the law requires a special majority, such as the creation, increase, reduction or suppression of preferred stock, which may be adopted only with the consent of at least two-thirds of the affected series. Consequently any other impairment of rights not specifically regulated needs only an absolute majority (more than 50%) of the stock entitled to vote. However, the waiver of the shareholders' right to receive no less than 30% of the net profits accrued in any fiscal year (the "minimum dividend") requires the unanimous vote of all stockholders. The above notwithstanding, no decision of the shareholders' meeting can deprive a shareholder of any part of the stock that he owns.

Our bylaws do not contemplate additional conditions in connection with matters described in this subsection.

**Shareholders' meetings.** Our annual shareholders' meetings are to be held during the first four months of each year. During the meetings, determinations are made relating to particular matters, which matters may or may not be specifically indicated in the notice for such meeting.

The quorum for a shareholders' meeting is established by the presence, in person or by proxy, of shareholders representing at least an absolute majority of our issued voting stock; if a quorum is not present at the first meeting, the meeting can be reconvened and upon the meeting being reconvened, shareholders present at the reconvened meeting are deemed to constitute a quorum regardless of the percentage of the voting stock represented. In that case, decisions will be made by the absolute majority of stock with voting rights present or otherwise represented. The following matters are specifically reserved for annual meetings:

- review of our state of affairs and of the reports of internal and independent auditors, and the approval or rejection of the annual report, balance sheet, financial statements and records submitted by our officers or liquidators;
- distribution of profits of the respective fiscal year, including the distribution of dividends;
- election or revocation of regular and alternate board members, external auditors and management supervisors; and
- determination of the remuneration of the board members, directors committee remuneration and budget, designation of the newspaper where notices for meetings shall be published and, in general, any other matter to be dealt with by the annual meeting being of corporate interest and not specifically reserved to extraordinary shareholders' meetings.

Extraordinary shareholders' meetings may be held at any time, when required by corporate necessity. During extraordinary meetings, determinations are made relating to any matter which the law or the Company's bylaws reserve for consideration by such extraordinary meetings, which matters shall be expressly set forth in the relevant notice. Whenever in an extraordinary shareholders' meeting determinations relating to matters specifically reserved to annual meetings must be made, the operation and decisions of such extraordinary meeting will follow the requirements applicable to annual meetings. The following matters are specifically reserved for extraordinary meetings:

- dissolution of the corporation;
- transformation, merger or spin-off of the corporation and amendments to its bylaws;
- issuance of bonds or debentures convertible into stock;
- transfer of 50% or more of the corporate fixed assets, whether or not including the disposition of its liabilities, or the transfer of 50% or more of its liabilities; and
- guarantees of third parties' obligations, except when these third parties are subsidiary companies (in which case approval of the board of directors will suffice).

In addition to the above, annual and extraordinary shareholders' meetings must be called by the board of directors in the following circumstances:

- when requested by shareholders representing at least 10% of issued stock; and
- when required by the SVS.

Only holders of stock recorded in the Register of Shareholders at least five days before the date of the pertinent meeting may participate with the right to be heard and vote in shareholders' meetings. Directors and officers other than shareholders may participate in shareholders' meetings with the right to be heard.

Shareholders may be represented at meetings by other individuals, regardless of whether or not those persons are shareholders themselves. A proxy must be conferred in writing, and for the total number of shares held by the shareholder and entitled to vote in accordance with the previous paragraph.

**Limitations on the right to own securities.** The right to own any kind of property is guaranteed by the Chilean Constitution, and the Chilean Corporations Act does not contain any general limitation regarding the right to own securities. There are, however, certain limitations on the right of foreigners

to own securities of Chilean corporations, but only for certain special types of companies. We are not affected by these limitations, and our bylaws do not contain limitations or restrictions in this regard.

Article 14 of the Chilean Corporations Act forbids public corporations from including in their bylaws any provisions restricting the free transferability of stock. However, two or more shareholders may enter into a private agreement on this matter, but, in order for these agreements to be effective, they must be recorded by the corporation and thus made available to any interested third parties. See “Item 6: Directors, Senior Management and Employees – Directors and Senior Management”.

**Takeover defenses.** Our bylaws do not contain any provisions that would have the effect of delaying, deferring or preventing a change in control of us and that would operate only with respect to a merger, acquisition or corporate restructuring involving us (or any of our subsidiaries).

**Ownership threshold.** Our bylaws do not contain any ownership threshold above which shareholder ownership must be disclosed. For a description of the ownership thresholds mandated by Chilean law, see “– Rights, preferences and restrictions regarding shares”.

Our bylaws do not impose any conditions that are more stringent than those required by law for effecting changes in our capital.

## **Material Contracts**

Not applicable

## **Exchange Controls**

**General Legislation and Regulations.** The Central Bank of Chile is responsible for, among other things, monetary policies and exchange controls in Chile. See “Item 3. Key Information – Selected Financial Data – Exchange Rate”. Foreign investments can be registered with the Foreign Investment Committee under Decree Law No. 600 –registration which grants the investor access to the Formal Exchange Market– or with the Central Bank of Chile under Chapter XIV of the Central Bank Foreign Exchange Regulations.

Effective April 19, 2001, the Central Bank of Chile abrogated the then existing Chapter XXVI of the Central Bank Foreign Exchange Regulations (“Chapter XXVI”), which addressed issuance of ADSs by a Chilean company, and issued an entirely new set of Foreign Exchange Regulations (the April 19<sup>th</sup> Regulations”), virtually eliminating all the restrictions and limitations that had been in force up to that date. The April 19<sup>th</sup> Regulations were based upon the general principle that foreign exchange transactions can be made freely in Chile by any person, notwithstanding the power conferred by law to the Central Bank of Chile of imposing certain restrictions and limitations to such transactions.

With the issuance of the above Regulations, the approval by the Central Bank of Chile required for access to the Formal Exchange Market was replaced with the requirement of disclosure of the relevant transactions to the Central Bank of Chile. However, some foreign exchange transactions, notably foreign loans, capital investment or deposits, continued to be subject to the requirement of being effected through the Formal Exchange Market. The April 19<sup>th</sup> Regulations reduced the time needed to effect foreign exchange transactions by foreign investors in Chile.

The April 19<sup>th</sup> Regulations, among others, eliminated the following restrictions:

- prior authorization by the Central Bank of Chile for the entry of capital in connection with foreign loans, investment, capital contribution, bonds and ADRs;

- prior authorization by the Central Bank of Chile for the remittance of capital in connection with repatriation of capital, dividends and other benefits related to capital contributions and investment, and prepayment of foreign loans;
- minimum risk classification restrictions and terms for the issuance of bonds;
- restrictions on the issuance of ADRs. Therefore, the rules established under Chapter XXVI of the previous Foreign Exchange Regulations are no longer applicable; and
- Mandatory Reserve deposits for foreign capitals.

According to these Regulations, foreign exchange transactions performed before April 19, 2001, remain subject to the regulations in effect at the time of the transactions (i.e. Chapter XXVI), unless the interested parties elected the applicability of the April 19<sup>th</sup> Regulations, thereby expressly waiving the applicability of the regulations in force at the time of the execution of the respective transaction.

On January 23, 2002, the Central Bank of Chile issued an entirely new set of Foreign Exchange Regulations, effective as from March 1, 2002, replacing April 19<sup>th</sup> Regulations (“The New Rules”). The New Rules preserve the general principle established in the April 19<sup>th</sup> Regulations of freedom in foreign exchange transactions, simplified procedures to reduce the time needed to effect foreign exchange transactions by foreign investors in Chile, and introduced several new provisions.

Pursuant to the New Rules, Chilean entities are now allowed, under Chapter XIV, which governs credits, deposits, investments and capital contribution from abroad, to: (i) dispose of such foreign currency allocated abroad, executing any of the transactions contemplated in Chapter XIV, without the need of delivering it into Chile, subject to the obligation of reporting said transaction to the Central Bank of Chile; and (ii) capitalize any liability expressed in foreign currency and acquired abroad.

According to the New Rules, foreign exchange transactions made pursuant to Chapter XIV, executed before April 19, 2001, shall continue to be subject to the regulations in effect at the time of the transactions, unless the interested parties elect the applicability of the New Rules, expressly waiving the applicability of the provisions which would otherwise govern them.

Notwithstanding the above, foreign exchange transactions contemplated in Chapter XIV, executed before March 1, 2002 according to the regulations of the Central Bank of Chile in force at the time of their execution, may be reported to the Central Bank pursuant to the provisions contained in the New Rules.

Therefore, notwithstanding the April 19<sup>th</sup> Regulations and the New Rules, Chapter XXVI remains in force with respect to our ADR facility, as referred to below.

**Our ADRs.** A Foreign Investment Contract was entered into among the Central Bank of Chile, us and the Depositary pursuant to Article 47 of the Central Bank Act and Chapter XXVI (see “General Legislation and Regulations”, above). According to Chilean law, a contract is ruled by the law in force at the time of its execution. Therefore, our Foreign Investment Contract is ruled by the foreign exchange regulations in force before April 19, 2001, among which is Chapter XXVI. Absent the Foreign Investment Contract, under Chilean exchange controls in force until April 19, 2001, investors would not have been granted access to the Formal Exchange Market for the purpose of converting Chilean pesos to U.S. dollars and repatriating from Chile amounts received in respect of deposited Shares or Shares withdrawn from deposit on surrender of ADRs (including amounts received as cash dividends and proceeds from the sale in Chile of the underlying Shares and any rights with respect thereto). In December 1999, amendments were introduced to Chapter XXVI whereby, among other things, the Central Bank of Chile was authorized to reject applications under such regulations without expression of cause. In reviewing such applications, the Central Bank of Chile was required to take into account the situation of the balance of payments and the stability of the capital account. However, the Central Bank of Chile was authorized to impose certain conditions on the applicants prior to resolving the applications. In April 2000, Chapter XXVI was again amended in order to incorporate, in addition to shares issued by Chilean corporations, quotes of investment funds as eligible to be converted into ADSs. Chapter XXVI did not require delivery of a new application in case of the entry of U.S. dollars

intended for the acquisition of shares not subscribed by the shareholders or by the transferees of the options to subscribe the shares.

Under Chapter XXVI and our Foreign Investment Contract, the Central Bank of Chile agreed to grant to the Depositary, on behalf of ADR holders, and to any non-Chilean resident investor who withdrew Shares of our common stock upon surrender of ADRs (such Shares being referred to herein as "Withdrawn Shares") access to the Formal Exchange Market to convert Chilean pesos to U.S. dollars (and to remit such dollars outside of Chile) in respect of Shares of our common stock represented by ADSs or Withdrawn Shares, including amounts received as (a) cash dividends, (b) proceeds from the sale in Chile of Withdrawn Shares (subject to receipt by the Central Bank of Chile of a certificate from the holder of the Withdrawn Shares (or from an institution authorized by the Central Bank of Chile) that such holder's residence and domicile were outside Chile and a certificate from a Chilean stock exchange (or from a brokerage or securities firm established in Chile) that such Withdrawn Shares had been sold on a Chilean exchange), (c) proceeds from the sale in Chile of pre-emptive rights to subscribe for and purchase additional Shares of our common stock, (d) proceeds from the liquidation, merger or consolidation of the Company and (e) other distributions, including, without limitation, those resulting from any recapitalization, as a result of holding Shares represented by ADSs or Withdrawn Shares. Access to the Formal Exchange Market in the case of (a), (b), (c) and (d) above would be available for only five working days following the sale of the shares on the stock exchange. Transferees of Withdrawn Shares would not be entitled to any of the foregoing rights under Chapter XXVI unless the Withdrawn Shares were redeposited with the Custodian. Investors receiving Withdrawn Shares in exchange for ADRs would have the right to redeposit such Shares in exchange for ADRs, provided that certain conditions to redeposit were satisfied. For a description of the Formal Exchange Market, see "Item 3: Key Information – Selected Financial Data – Exchange Rates". Alternatively, according to the amendments introduced to Chapter XXVI in December 1999, in case of Withdrawn Shares and their subsequent sale on a stock exchange, the Chilean peso proceeds obtained thereby could be converted into U.S. dollars in a market different from the Formal Exchange Market within five business days from the date of the sale.

Chapter XXVI provided that access to the Formal Exchange Market in connection with the sale of Withdrawn Shares or distributions thereon would be conditioned upon receipt by the Central Bank of Chile of a certification by the Depositary or the Custodian, as the case might have been, that such Shares had been withdrawn in exchange for delivery of the pertinent ADRs and receipt of a waiver of the benefits of our Foreign Investment Contract with respect thereto (except in connection with the proposed sale of the Shares) until such Withdrawn Shares were redeposited. Chapter XXVI also provided that access to the Formal Exchange Market in connection with dividend payments was conditioned on certification by us to the Central Bank of Chile that a dividend payment had been made. The provision contained in Chapter XXVI that established that access to the Formal Exchange Market in connection with dividend payments was conditioned on certification by us to the Central Bank of Chile that any applicable tax had been withheld was eliminated on November 23, 2000.

Chapter XXVI and our Foreign Investment Contract provided that a person who brought foreign currency into Chile, including U.S. dollars, to purchase Shares entitled to the benefit of our Foreign Investment Contract was required to convert such foreign currency into Chilean pesos on the same date and had five banking business days within which to invest in Shares in order to receive the benefit of our Foreign Investment Contract. If such person decided within such period not to acquire Shares, such person could access the Formal Exchange Market to reacquire foreign currency, provided that the applicable request was presented to the Central Bank of Chile within seven banking days of the initial conversion into pesos. Shares acquired as described above could be deposited in exchange for ADRs and receive the benefit of our Foreign Investment Contract, subject to receipt by the Central Bank of Chile of a certificate from the Depositary that such deposit had been effected and that the related ADRs had been issued and receipt by the Custodian of a declaration from the person making such deposit waiving the benefit of our Foreign Investment Contract with respect to the deposited Shares.

Chapter XXVI required foreign investors acquiring shares or securities in Chile to maintain a mandatory reserve (the "Mandatory Reserve") for one year in the form of a non-interest bearing U.S. dollar deposit with the Central Bank, or to pay to the Central Bank a non-refundable fee (the "Fee"). Such reserve requirement was imposed with respect to investments made by foreign investors to acquire shares or



securities in the secondary market, but did not apply to capital contributions made for purposes of paying-in capital for a newly created company or increasing the capital of an existing company. As of June 1, 1999, the Mandatory Reserve was not applied to foreign investments made for purposes of acquiring shares of a stock corporation, provided that the investor was entitled to the benefit of Chapter XXVI, and that such acquisition was consummated in accordance with the provisions of Chapter XXVI. On September 17, 1998, the Central Bank of Chile reduced the Mandatory Reserve to 0%.

Access to the Formal Exchange Market under any of the circumstances described above was not automatic. Pursuant to Chapter XXVI, such access required approval of the Central Bank of Chile based on a request therefore presented through a banking institution established in Chile within five business days from the occurrence of any of the events described in letters (a), (b), (c) and (d) above. Pursuant to our Foreign Investment Contract, if the Central Bank of Chile had not acted on such request within seven banking days, the request would be deemed approved.

Under current Chilean law, our Foreign Investment Contract cannot be amended unilaterally by the Central Bank of Chile. No assurance can be given, however, that new restrictions applicable to the holders of ADRs, the disposition of underlying Shares or the repatriation of the proceeds from such disposition will not be reinstated in the future by the Central Bank of Chile, nor can there be any assessment of the possible duration or impact of such restrictions.

## **Taxation**

### **Chilean Tax Considerations**

The following discussion is based on certain Chilean income tax laws presently in force, including Rulings N°324 of January 29, 1990 and N°3708 of October 1, 1999 of the Chilean Internal Revenue Service and other applicable regulations and rulings. The discussion summarizes the principal Chilean income tax consequences of an investment in the ADSs or shares of common stock by an individual who is not domiciled in or a resident of Chile or a legal entity that is not organized under the laws of Chile and does not have a permanent establishment located in Chile which we refer to as a foreign holder. For purposes of Chilean law, an individual holder is a resident of Chile if he or she has resided in Chile for more than six consecutive months in one calendar year or for a total of more than six months, whether consecutive or not, in two consecutive tax years. An individual holder is domiciled in Chile if he or she resides in Chile with the purpose of staying in Chile (such purpose to be evidenced by circumstances such as the acceptance of employment within Chile or the relocation of his or her family to Chile). This 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 holders, the computation of taxable income for Chilean purposes and the manner in which Chilean taxes are imposed and collected may be amended only by another statute. In addition, the Chilean tax authorities issue rulings and regulations of either general or specific application interpreting the provisions of Chilean tax law. Chilean taxes may not be assessed retroactively against taxpayers who act in good faith relying on such rulings and regulations, but Chilean tax authorities may change said rulings and regulations prospectively. There is no general income tax treaty in force between Chile and the United States.

***Cash dividends and Other Distributions*** Cash dividends paid by us with respect to the ADSs or shares of common stock held by a foreign holder will be subject to a 35.0% Chilean withholding tax, which is withheld and paid over by us, which we refer to as the Chilean withholding tax. A credit against the Chilean withholding tax is available based on the level of corporate income tax, or first category tax, actually paid by us on the taxable income to which the dividend is imputed; however, this credit does not reduce the Chilean withholding tax on a one-for-one basis because it also increases the base on which the Chilean withholding tax is imposed. In addition, distribution of book income in excess of retained taxable income is subject to the Chilean withholding tax, but such distribution is not eligible for the credit. Under Chilean income tax law, for purposes of determining the level of the first category tax that has been paid by us, dividends generally are assumed to have been paid out of our oldest retained taxable

profits. Presently, the first category tax rate is 17.0%. Whether the first category tax is imposed or not, the effective overall combined rate of Chilean taxes imposed with respect to our distributed profits would be 35.0%. Nevertheless, in the case that the retained taxable profits or exempted profits as of December 31 of the year preceding a dividend are not sufficient to attribute to such dividend, we will make a withholding of 35.0% of the amount that exceeds those retained taxable or exempted profits. In case such withholding is determined to be excessive before the end of the year, there will be rights to file for the reimbursement of the excess withholding.

The foregoing tax consequences apply to cash dividends paid by us. Dividend distributions made in property (other than shares of common stock) will be subject to the same Chilean tax rules as cash dividends. Share dividends are not subject to Chilean taxation until such shares are sold.

**Capital Gain** Gain realized on the sale, exchange or other disposition by a foreign holder of ADSs (or ADRs evidencing ADSs) will not be subject to Chilean taxation, provided that such disposition occurs outside Chile or that it is performed under the rules of Title XXIV of the Chilean Securities Market Law, as amended by Law No. 19,601, dated January 18, 1999. The deposit and withdrawal of shares of common stock in exchange for ADRs will not be subject to any Chilean taxes.

Gain recognized on a sale or exchange of shares of common stock (as distinguished from sales or exchanges of ADSs representing such shares of common stock) by a foreign holder will be subject to both the first category tax and the Chilean withholding tax (the former being creditable against the latter) if (1) the foreign holder has held such shares of common stock for less than one year since exchanging ADSs for the shares of common stock, (2) the foreign holder acquired and disposed of the shares of common stock in the ordinary course of its business or as a regular trader of stock or (3) the sale is made to a company in which the foreign holder holds an interest (10.0% or more of the shares in the case of open stock corporations). In all other cases, gain on the disposition of shares of common stock will be subject only to the first category tax levied as a sole tax. However, if it is impossible to determine the taxable capital gain, a 5.0% withholding will be imposed on the total amount to be remitted abroad without any deductions as a provisional payment of the total tax due.

The tax basis of shares of common stock received in exchange for ADSs will be the acquisition value of such shares. The valuation procedure set forth in the deposit agreement, which has been approved by the Chilean Internal Revenue Service pursuant Ruling N° 324 of 1990, values shares of common stock that are being exchanged at the highest price at which they trade on the Santiago Stock Exchange on the date of the exchange, generally will determine the acquisition value for this purpose. Consequently, the conversion of ADSs into shares of common stock and sale of such shares of common stock for the value established under the deposit agreement will not generate a capital gain subject to taxation in Chile.

In the case where the sale of the shares is made on a day that is different than the date in which the exchange is recorded, capital gains subject to taxation in Chile may be generated. However, following Ruling No. 3708 of the Chilean Internal Revenue Service, we will include in the deposit agreements a provision whereby the capital gain that may be generated if the exchange date is different than the date in which the shares received in exchange for ADSs are sold, will not be subject to taxation. Such provision states that in the event that the exchanged shares are sold by the ADS holders in a Chilean stock exchange on the same day in which the exchange is recorded in the shareholders' registry of the issuer or within two business days prior to the date on which the sale is recorded in the shareholders' registry, the acquisition price of such exchanged shares shall be the price registered in the invoice issued by the stock broker that participated in the sale transaction.

The distribution and exercise of preemptive rights relating to the shares of common stock will not be subject to Chilean taxation. Amounts received for the assignment of preemptive rights relating to the shares will be subject to both the first category tax and the Chilean withholding tax (the former being creditable against the latter to the extent described above).

The Chilean Internal Revenue Service has not enacted any rule nor issued any ruling about the applicability of the norms explained below (referred to as Laws N° 19,738 and N° 19,768) to the foreign holders of ADRs.

To the extent that our shares are actively traded on a Chilean stock exchange, foreign institutional investors who acquire our shares may benefit from a tax exemption included in an amendment to the Chilean Income Tax Law, Law N° 19,738 published on June 19, 2001. The amendment established an exemption for the payment of income tax by foreign institutional investors, such as mutual funds, pension funds and others, that obtain capital gains in the sales through a Chilean stock exchange, a tender offer or any other system authorized by the Superintendency of Securities and Insurance, of shares of publicly traded corporations that are significantly traded in stock exchanges.

A foreign institutional investor is an entity that is either:

- a fund that makes public offers of its shares in a country which public debt has been rated investment grade by an international risk classification agency qualified by the Superintendency of Securities and Insurance;
- a fund that is registered with a regulatory entity of a country which public debt has been rated investment grade by an international risk classification agency qualified by the Superintendency of Securities and Insurance, provided that the investments in Chile, including securities issued abroad that represent Chilean securities, held by the fund represent less than 30.0% of its share value;
- a fund that holds investments in Chile that represent less than 30.0% of its share value, provided that it proves that no more than 10.0% of its share value is directly or indirectly owned by Chilean residents;
- a pension fund that is exclusively formed by individuals that receive their pension on account of capital accumulated in the fund;
- a fund regulated by Law N° 18,657, or the Foreign Capital Investment Funds Law, in which case all holders of its shares must reside abroad or be qualified as local institutional investors; or
- another kind of institutional foreign investor that complies with the characteristics defined by a regulation with the prior report of the Superintendency of Securities and Insurance and the Chilean Internal Revenue Service.

In order to be entitled to the exemption, foreign institutional investors, during the time in which they operate in Chile must:

- be organized abroad and not be domiciled in Chile;
- not participate, directly or indirectly, in the control of the issuers of the securities in which it invests and not hold, directly or indirectly, 10.0% or more of such companies' capital or profits;
- execute an agreement in writing with a Chilean bank or securities broker in which the intermediary is responsible for the execution of purchase and sale orders and for the verification, at the time of the respective remittance, that such remittances relate to capital gains that are exempt from income tax in Chile or, if they are subject to income tax, that the applicable withholdings have been made; and
- register in a special registry with the Chilean Internal Revenue Service.

Pursuant to the enacted amendment to the Chilean Income Tax Law published on November 7, 2001 (Law No. 19,768) as amended by Law N° 19,801 published on April 25, 2002, the sale and disposition of shares of Chilean public corporations which are actively traded on a Chilean stock exchange is not levied by any Chilean tax on capital gains if the sale or disposition was made:

- on a local stock exchange or any other stock exchange authorized by the Superintendency of Securities and Insurance or in a tender offer process according to Title XXV of the Chilean Securities Market Law, so long as the shares (a) were purchased on a public stock exchange or in a tender offer process pursuant to Title XXV of the Chilean Securities Market Law, (b) are newly issued shares issued in a capital increase of the corporation, or (c) were the result of the exchange of convertible bonds (in which case the option price is considered to be the price of the shares). In this case, gains exempted from Chilean taxes shall be calculated using the criteria set forth in the Chilean Income Tax Law; or
- within 90 days after the shares would have ceased to be significantly traded on stock exchange. In such case, the gains exempted from Chilean taxes on capital gains will be up to the average price per share of the last 90 days. Any gains above the average price will be subject to the first category tax.

**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 a gift of shares of common stock by a foreign holder. No Chilean stamp, issue, registration or similar taxes or duties apply to foreign holders of ADSs or shares of common stock.

**Withholding Tax Certificates** Upon request, we will provide to foreign holders appropriate documentation evidencing the payment of the Chilean withholding tax. We will also inform when the withholding was excessive in order to allow the filing for the reimbursement of taxes.

## United States Tax Considerations

The following is a summary of certain United States federal income tax consequences of the ownership of shares of Common Stock or ADSs by an investor that is a U.S. Holder (as defined below) that holds the shares of Common Stock or ADSs as capital assets. This summary does not purport to address all material tax consequences of the ownership of Common Stock or ADSs, and does not take into account the specific circumstances of any particular investors (such as tax-exempt entities, certain insurance companies, broker-dealers, traders in securities that elect to mark to market, investors liable for alternative minimum tax, investors that actually or constructively own 10% or more of the voting stock of the Company, investors that hold Common Stock or ADSs as part of a straddle or a hedging or conversion transaction or U.S. Holders (as defined below) whose functional currency is not the U.S. dollar), some of which may be subject to special rules. This summary is based on the tax laws of the United States (including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions) as in effect on the date hereof, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

For purposes of this discussion, a “U.S. Holder” is any beneficial owner of shares of Common Stock or ADSs that is (i) a citizen or resident of the United States, (ii) a corporation or partnership organized under the laws of the United States or any State, (iii) an estate whose income is subject to United States federal income tax regardless of its source or (iv) a trust if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust. The discussion does not address any aspects of United States taxation other than federal income taxation. Investors are urged to consult their tax advisors regarding the United States federal, state and local and other tax consequences of owning and disposing of Common Stock and ADSs.

In general, assuming that the representations of the Depositary are true and that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms, for United States federal income tax purposes, holders of ADRs evidencing ADSs will be treated as the owners of the shares of Common Stock represented by those ADSs, and exchanges of shares of Common Stock for ADSs, and ADSs for shares of Common Stock will not be subject to United States federal income tax.

**Cash Dividends and Other Distributions** Under the United States federal income tax laws, and subject to the passive foreign investment company (“PFIC”) rules discussed below, U.S. Holders will

include in gross income the gross amount of any dividend paid before reduction for any net withholding (i.e., after taking into account any Chilean First-Category Tax creditable against Chilean Withholding Tax) by the Company out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes) as ordinary income when the dividend is actually or constructively received by the U.S. Holder, in the case of shares of Common Stock, or by the Depositary, in the case of ADSs. The dividend will not be eligible for the dividends-received deduction. Subject to a holder's satisfaction of certain holding period requirements, dividends included in income by a noncorporate U.S. holder during the period ending on December 31, 2008 are subject to tax at a maximum rate of 15% if the dividends are paid by a domestic corporation or "qualified foreign corporation." A qualified foreign corporation generally includes a foreign corporation if (i) its shares (or ADSs) are readily tradable on an established securities market in the U.S. or (ii) it is eligible for benefits under a comprehensive U.S. income tax treaty, provided that (a) the corporation was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company, or (b) for dividends paid prior to the 2005 tax year, a foreign personal holding company or foreign investment company. We believe that we should be treated as a qualified foreign corporation with respect to dividend payments to our ADS holders and, therefore, dividends paid to an individual U.S. holder of ADSs should be taxed at a maximum rate of 15%. However, you should be aware that the requirements to be treated as a qualified foreign corporation are not entirely clear and further guidance from the Internal Revenue Service may be forthcoming that could affect this conclusion. U.S. holders of Ordinary Shares directly, rather than through ADSs, should consult their own tax advisor about whether the 15% maximum rate applies to dividends they receive. The amount of the dividend distribution includible in income of a U.S. Holder will be the U.S. dollar value of the Chilean peso payments made, determined at the spot Chilean peso/U.S. dollar rate on the date such dividend distribution is includible in the income of the U.S. Holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in income to the date such payment is converted into U.S. dollars will be treated as ordinary foreign exchange gain or loss. Such gain or loss will generally be from sources within the United States for foreign tax credit limitation purposes. Subject to certain generally applicable limitations, the net amount of any Chilean Withholding Tax (after reduction for the credit for Chilean First-Category Tax) paid over to Chile will be creditable against the U.S. Holder's United States federal income tax liability. For foreign tax credit limitation purposes, the dividend will be income from sources outside the United States. In the case of U.S. individuals, if the reduced rate of tax on dividends applies to such holder, such limitations and restrictions will appropriately take into account the rate differential under rules similar to section 904(b)(2)(B) of the Internal Revenue Code. The rules governing foreign tax credits are complex and U.S. Holders should consult their tax advisors regarding their application to the particular circumstances of such holder.

Pro rata distributions of shares of Common Stock or preemptive rights generally are not subject to United States federal income tax. The basis of the new shares of Common Stock 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 that 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. In other circumstances, distributions of Common Stock or preemptive rights may be treated as taxable dividends.

**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. 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 shares of Common Stock or preemptive rights (which, unlike a disposition of ADSs, 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 other income from foreign sources. Loss generally would be treated as United States source loss. With respect to sales occurring on or after May 6, 2003, but before January 1, 2009, the long-term capital gain tax rate for an individual U.S. Holder is 15%. For sales occurring before May 6, 2003, or after December 31, 2008, under current law the long-term capital gain rate for an individual U.S. Holder is 20%.

**PFIC Rules** CCU believes that it should not be treated as a passive foreign investment company (a “PFIC”) for United States federal income tax purposes, although this conclusion is subject to some uncertainty because definitive asset values for non publicly-traded or illiquid assets may be unavailable. This conclusion is also a factual determination made annually and thus may be subject to change.

In general, the Company will be a PFIC with respect to a U.S. Holder if for any taxable year in which the U.S. Holder held the Company's ADSs or shares of Common Stock, either (i) at least 75% of the gross income of the Company for the taxable year is passive income or (ii) at least 50% of the value (determined on the basis of a quarterly average) of the Company 's assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income. If the Company is treated as a PFIC, a U.S. Holder would be subject to special rules with respect to (a) any gain realized on the sale or other disposition of shares of Common Stock or ADSs and (b) any “excess distribution” by the Company to the U.S. Holder (generally, any distributions to the U.S. Holder in respect of the shares of Common Stock or ADSs during a single taxable year that are greater than 125% of the average annual distributions received by the U.S. Holder in respect of the shares of Common Stock or ADSs during the three preceding taxable years or, if shorter, the U.S. Holder 's holding period for the shares or ADSs). Under these rules, (i) the gain or excess distribution would be allocated ratably over the U.S. Holder 's holding period for the shares of Common Stock or ADSs, (ii) the amount allocated to the taxable year in which the gain or excess distribution was realized would be taxable as ordinary income, (iii) the amount allocated to each prior year, with certain exceptions, would be subject to tax at the highest tax rate in effect for that year and (iv) the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such year.

Special rules apply with respect to the calculation of the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If the Company is treated as a PFIC, a U.S. Holder may be able to make a mark-to-market election if the Company's stock is treated as regularly traded on a registered national securities exchange or other exchange to the extent permitted by the IRS. If the election is made, the PFIC rules described above will not apply. Instead, in general, the electing U.S. Holder will be required to include as ordinary income each year the excess, if any, of the fair market value of the shares of Common Stock or ADSs at the end of the taxable year over the U.S. Holder's adjusted tax basis in the shares or ADSs. The electing U.S. Holder will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted tax basis in the shares of Common Stock or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). An electing U.S. Holder's tax basis in the shares of Common Stock or ADSs will be adjusted to reflect any such income or loss amounts.

Alternatively, a U.S. Holder of shares or ADSs in a PFIC can sometimes avoid the rules described above by electing to treat the company as a “qualified electing fund” under section 1295 of the Internal Revenue Code. This option will not be available to U.S. Holders because the Company does not intend to comply with the requirements necessary to permit a U.S. Holder to make this election. U.S. Holders should consult their own tax advisors concerning the U.S. federal income tax consequences of holding shares or ADSs if the Company is considered a passive foreign investment company in any taxable year.

**Information Reporting and Backup Withholding.** Dividends in respect of the Shares or ADSs and proceeds from the sale, exchange, or redemption of the Shares or ADSs may be subject to information

reporting to the United States Internal Revenue Service and a backup withholding tax (currently, at a 28% rate) may apply unless the U.S. Holder furnishes a correct taxpayer identification number or certificate of foreign status or is otherwise exempt from backup withholding. Generally, a U.S. Holder will provide such certification on Form W-9 and a non-U.S. Holder will provide such certification on Form W-8BEN.

### **Dividends and Paying Agents**

Not applicable

### **Statement by Experts**

Not applicable

### **Documents on Display**

The documents concerning us, which are referred to in this annual report, may be inspected at our main offices at Vitacura 2670, Twenty Third Floor, Santiago, Chile.

### **Subsidiary Information**

Not applicable

## **ITEM 11: Quantitative and Qualitative Disclosures About Market Risk**

The following discussion about our risk management activities includes “forward-looking statements” that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

We face primary market risk exposures in three categories: interest rate fluctuations, exchange rate fluctuations and commodity price fluctuations. We periodically review our exposure to the three main sources of risk described above and determine at our senior management level how to minimize the impact on our operations of commodity price, foreign exchange and interest rate changes. As part of this review process, we periodically evaluate opportunities to enter into hedging mechanisms to mitigate such risks.

The market risk sensitive instruments referred to below are entered into only for purposes of hedging our risks and are not used for trading purposes.

### **Qualitative Information About Market Risk**

#### **Interest Rate Sensitivity**

As a result of borrowings and operations, we are exposed to fluctuations in interest rates. We manage this interest rate fluctuation primarily through regular financing and derivative instruments. We have short-term and long-term debt with both fixed and variable interest rates. Our senior management, including our Chief Financial Officer, establishes policies for new loans, time deposits, marketable securities and derivative contracts in order to manage such risks. The major interest rate risk we face is a result of variable rate debt indexed to the LIBOR. As of December 31, 2007, we had Ch\$85,034 million of LIBOR-based interest-bearing debt outstanding, most of which was hedged through cross currency interest rate swap agreements to fixed rates in UF. See “Quantitative Information About Mark Risk – Interest Risk Sensitivity” below.

### **Commodity Price Sensitivity**

The major commodity price sensitivity faced by us is the variation of malt, sugar and grape prices. In Chile, we obtain our supply of malt from local producers and in the international market. We often are required to enter into commitments to purchase such commodities. The purchases and commitments expose us to risk regarding the fluctuation of commodity prices. Our risk management policy is to manage this risk through fixed price purchase contracts and occasionally entering into spot transactions which lock in prices for the commodity. During 2007, we imported 35,000 tons of malt. In Argentina during 2007, we purchased all of our malt from local and Chilean suppliers. See "Item 4: Information on the Company – Business Overview – Our Beer Business – Our Beer Business in Chile – Raw Materials" and "Item 4: Information on the Company – Business Overview – Our Beer Business – Our Beer Business in Argentina – Raw Materials". We do not hedge these transactions. Rather, we negotiate yearly contracts with malt suppliers.

The principal commodity used in the production of soft drinks is sugar. We generally purchase our sugar requirements from Empresas Iansa S.A., the sole producer of sugar in Chile, and from exports. See "Item 4: Information on the Company – Business Overview – Our Soft Drinks and Mineral Water Business – Our Soft Drinks and Mineral Water Business in Chile – Raw Materials". We do not hedge these transactions. Rather, we negotiated yearly price conditions with Empresas Iansa S.A. until December 2005, and quarterly price conditions since 2006, due to the current higher sugar price volatility.

The principal raw materials used in the production of wine are harvested grapes and purchased wine. VSP obtains approximately 61% of the grapes used for export wines from its own vineyards, thereby reducing grape price volatility. The majority of the wine sold in the domestic market is purchased from third parties. During 2007, we purchased the majority of our grape and wine needs based on yearly contracts at fixed prices from third parties. Spot transactions for wine are executed from time to time depending on additional wine needs. During the years 2005, 2006 and 2007, our wine subsidiary, VSP, bought grapes and wine in Chile in the amount of Ch\$25,827 million, Ch\$16,257 million and Ch\$14,104 million, respectively. See "Item 4: Information on the Company – Business Overview – Our Wine Business – Raw Materials".

### **Exchange Rate Sensitivity**

The major exchange rate risk faced by us is the variation of the Chilean peso against the U.S. dollar. As of December 31, 2007, our foreign currency denominated liabilities amounted to Ch\$118,046 million, most of which was U.S. dollar denominated. Foreign currency denominated interest-bearing debt (Ch\$89,875 million) represented 51.8% of our total interest-bearing debt, most of which was U.S. dollar denominated. The remaining 48.2% was indexed to Chilean inflation. The Ch\$89,875 million foreign currency denominated debt includes the US\$170 million loans that are hedged through cross currency interest rate swap agreements, changing these debts into fixed interest adjusted Chilean peso debts. To reduce the impact of any fluctuation of the peso against the U.S. dollar, as of December 31, 2007, we held Ch\$49,714 million in dollar-indexed instruments. In addition, we held other assets denominated in U.S. dollars equal to Ch\$27,357 million, most of which were accounts receivable. Including the assets denominated in U.S. dollars, the net asset exposure to variations in foreign exchange rates was Ch\$20,617 million.

According to Chilean generally accepted accounting principles, we applied TB 64 to translate and value investments in foreign subsidiaries (see Note 1 of our consolidated financial statements) as of December 31, 2007. Under TB 64, our foreign investments in CICSА and FLC are not subject to price-level restatements based on inflation in those countries. Instead, the U.S. dollar is considered the functional currency for CICSА and FLC. As a result, the effect of a devaluation of the peso against the U.S. dollar on our financial statements is determined, in part, by the impact of such devaluation on the value of our investments in CICSА and FLC, as well as on foreign currency denominated obligations that qualify as a hedge against those investments. These effects are recorded in the account "Cumulative translation adjustment" in shareholders' equity. As of December 31, 2007, our investment in CICSА and FLC amounted to Ch\$73,894 million, and foreign currency denominated obligations that were designed to hedge against these investments were pre-paid on November 9, 2004. Therefore, such amounts should not be included in determining the net exposure in Chile to foreign exchange that would have an impact on net income. As a result, the net accounting exposure with effect on the results of operations was a net asset of Ch\$16,396 million.



CCU Argentina, as of December 31, 2007, had a net asset exposure of Ch\$5,395 million due to financial investments and accounts receivable denominated in U.S. dollars. At the same date, FLC had a net liability exposure of Ch\$9,615 million due to accounts payable. Additionally, according to TB 64 the Argentine peso net monetary liability position, as of December 31, 2007, amounted to Argentine Th\$9,606 for CCU Argentina and Argentine Th\$1,818 for FLC.

## **Quantitative Information About Market Risk**

### **Interest Rate Sensitivity**

Most of our debt is at a variable interest rate. However, we have entered into cross currency interest rate swaps related to our US\$170 million loans to mitigate this risk. As of December 31, 2007, our interest-bearing debt amounted to Ch\$173,436 million (see Notes 9, 10 and 11 to the consolidated financial statements), 49.0% of which was variable-rate debt and 51.0% was fixed-rate debt.

The following table summarizes debt obligations with interest rates by maturity date, the related weighted-average interest rates and fair values:

### **Interest-Bearing Debt as of December 31, 2007** (millions of Ch\$, except percentages)

		<b>Expected Maturity Date</b>							
		<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>			
<b>Fixed rate</b>									
Ch\$ (UF) (1) (2)	Ch\$4,948	3,483	12,690	3,491	3,495	55,454	83,561	76,689	
	Interest rate	4.5%	3.1%	3.7%	3.1%	3.1%	4.7%	4.3%	
US\$	4,088	-	-	-	-	-	4,088	3,978	
	Average int. rate	6.9%	-	-	-	-	6.9%		
Argentine pesos	753	-	-	-	-	-	753	753	
	Interest rate	13.0%	-	-	-	-	13.0%		
<b>Variable rate</b>									
US\$ (3)	563	49,689	-	-	34,782	-	85,034	85,609	
	Average int. rate	5.2%	Libor+0.325	-	-	Libor+0.27	-	-	
<b>Derivative contract</b>									
Cross currency swaps:								(18,401)	
Receive US\$ at Libor + 0.325	375	49,689					50,064		
Pay Ch\$ (UF) at 3.44%	344	69,192					69,536		
Receive US\$ at Libor + 0.3	188					34,782	34,971		
Pay Ch\$ (UF) at 2.25%	105					36,305	36,411		

- (1) A UF (*Unidad de Fomento*) is a daily indexed, peso-denominated monetary unit. The UF is set daily in advance based on the previous month's inflation rate.  
(2) Bonds issued in the Chilean market.  
(3) Includes the US\$170 million loans that are hedged through cross currency interest rate swap agreements.

### **Commodity Price Sensitivity**

The major commodity price sensitivity faced by us is the variation of malt prices.

The following table summarizes information about our malt and bulk wine inventories and futures contracts that are sensitive to changes in commodity prices, mainly malt prices. For inventories, the table presents the carrying amount and fair value of the inventories and contracts as of December 31, 2007. For these contracts the table presents the notional amount in tons, the weighted average contract price, and the total dollar contract amount by expected maturity date.

### Commodity Price Sensitivity as of December 31, 2007

<u>On Balance Sheet Position</u>	Carrying Amount						Fair Value
Malt inventory (millions of Ch\$)	Ch\$1,601						2,809
Bulk wine inventory - raw material	17,051						20,120
		Expected Maturity					Fair Value
		2008	2009	2010	2011	2012 Thereafter	
<b><u>Purchase Contracts</u></b>							
<b>Malt:</b>							
Fixed Purchase Volume (tons)	53,191	33,000	33,000	33,000	33,000	40,000	
Weighted Average Price (US\$ per ton) (*)	606	692	692	692	692	692	
Contract Amount (thousands of US\$)	US\$32,243	22,823	22,823	22,823	22,823	27,665	191,412
<b>Grapes:</b>							
Fixed Purchase Volume (tons)	15,372	9,197	5,426	4,273	4,317	6,002	
Weighted Average Price (Ch\$ per kg.) (*)	198	181	193	190	194	294	
Contract Amount (millions of Ch\$)	Ch\$3,039	1,664	1,046	811	838	1,765	10,589
<b>Wine:</b>							
Fixed Purchase Volume (million liters)	14.1	8.6	-	-	-	-	
Weighted Average Price (Ch\$ per liter) (*)	193	175	-	-	-	-	
Contract Amount (millions of Ch\$)	Ch\$2,726	1,498	-	-	-	-	4,084

(\*) Weighted average price estimation is calculated based on expected market prices. Prices to be paid by us are adjusted based on current market conditions.

As of December 31, 2006 we had malt purchase contracts for US\$32.25 million, compared with US\$151.20 million as of December 31, 2007.

#### **Exchange Rate Sensitivity**

The major exchange rate risk faced by us is the variation of the Chilean peso against the U.S. dollar.

On November 9, 2004, the Cayman Islands Branch of Compañía Cervecerías Unidas S.A. entered into a US\$100 million, five-year unsecured, syndicated loan agreement. This credit agreement has a variable interest rate of LIBOR + 0.30% in U.S. dollars until the third year anniversary, and LIBOR + 0.325% in U.S. dollars for the final two years. The entire principal will be paid at maturity. Interest payments are made on a quarterly basis. The credit agreement was syndicated by 10 banks. To avoid the exchange and interest risks of this loan, we entered into a cross currency interest rate swap agreement for the total amount of the loan. As a consequence, we replaced the risk of LIBOR fluctuations for this credit agreement with a fixed rate of 3.44% in UF (Unidad de Fomento), a daily indexed peso-denominated monetary unit that is set daily in advance based on the prior month's inflation rate.

On November 23, 2007, the Cayman Islands Branch of Compañía Cervecerías Unidas S.A. entered into a US\$70 million, five-year unsecured, loan agreement. This credit agreement has a variable interest rate of LIBOR + 0.27% in U.S. dollars. The amortization of the loan will be done in one payment at the maturity date. Interest payments are made on a semi-annual basis. To avoid the exchange and interest risks of this credit, we entered into a cross currency interest rate swap agreement for the total amount of this loan. As a consequence, we replaced the risk of LIBOR fluctuations for this credit agreement with a fixed rate of 2.75% in UF.

A portion of our subsidiaries operating revenue and assets and liabilities are in currencies that differ from our functional currency. However, since some of their operating revenues and expenses are in the same currency, this can create a partial natural hedge. In the case of our subsidiary Viña San Pedro, occasionally there exist short-term timing differences related to invoicing and cash collection which can generate currency exposure. We have entered into short-term US dollar currency forward contracts to mitigate this risk.

The following table summarizes our debt obligations, cash and cash equivalents, accounts receivable and derivative contracts in foreign currencies as of December 31, 2007, in million Chilean pesos, according to their maturity date, weighted-average interest rates and fair values:

**Exchange Rate Sensitivity as of December 31, 2007**  
(millions of Ch\$, except percentages and exchange rate)

	Expected Maturity Date						<u>TOTAL</u>	<u>Fair Value</u>
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Thereafter</u>		
<b><u>Debt Obligations</u></b>								
<b><u>Variable rate (US\$)</u></b>								
Short and medium term (1)	Ch\$563	49,689	-	-	34,782	-	85,034	85,609
Average int. rate	5.2%	Libor+0.325	-	-	Libor+0.27	-	-	-
<b><u>Fixed rate (US\$)</u></b>								
Short term	4,088						4,088	3,978
Interest rate	6.9%						6.9%	6.9%
<b><u>Fixed rate (Argentine \$)</u></b>								
Short term	753	-	-	-	-	-	753	753
Interest rate	13.0%	-	-	-	-	-	13.0%	
<b><u>Cash and Cash</u></b>								
<b><u>Equivalents</u></b>								
US\$	50,586						50,586	50,586
Others	<u>1,730</u>						<u>1,730</u>	<u>1,730</u>
TOTAL	<u>52,316</u>						<u>52,316</u>	<u>52,316</u>
<b><u>Accounts Receivables</u></b>								
US\$	15,444						15,444	15,444
Argentine Pesos	6,817						6,817	6,817
Others	<u>2,197</u>						<u>2,197</u>	<u>2,197</u>
TOTAL	<u>24,458</u>						<u>24,458</u>	<u>24,458</u>

	Notional amount	Expected Maturity Date						<u>TOTAL</u>	<u>Fair Value</u>
		<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Thereafter</u>		
<b><u>Derivative Contracts (in thousand of US\$)</u></b>									
Receive Ch\$/pay US\$	US\$118,660	US\$118,660						US\$118,660	-
Receive US\$/pay Ch\$	US\$33,786	US\$33,786						US\$33,786	-
Receive US\$/pay Ch\$		US\$100,000			US\$70,000			US\$170,000	US\$(37,033)

(1) This debt considers US\$ loans that are hedged through cross currency interest rate swap agreements which convert the entire US\$ debt to Ch\$ debt (UF5,376,291).

In accordance with Chilean generally accepted accounting principles, we apply TB 64 issued by the Chilean Institute of Accountants to translate and value investments in foreign subsidiaries (see Note 1 to our consolidated financial statements). Under TB 64, our foreign investments in CICSА and FLC are not subject to price-level restatements based on inflation in those countries. Instead, the U.S. dollar is considered to be the functional currency. As a result, the effect of a devaluation of the peso against the U.S. dollar on our financial statements is determined, in part, by the impact of such devaluation on the value of our investments in CICSА and FLC, as well as on foreign currency denominated obligations that qualify as a hedge against those investments. These effects are recorded in the account "Cumulative translation adjustment" in shareholder's equity. As of December 31, 2007, our investment in CICSА and FLC amounted to Ch\$73,894 million, foreign currency denominated obligations that were designated as a hedge against these investments were pre-paid on November 9, 2004, and the negative cumulative translation adjustment account amounted to Ch\$27,312 million.

## **ITEM 12: Description of Securities Other than Equity Securities**

Not applicable

## **PART II**

## **ITEM 13: Defaults, Dividend Arrearages and Delinquencies**

Not applicable

## **ITEM 14: Material Modifications to the Rights of Security Holders and Use of Proceeds**

Not applicable

## **ITEM 15: Controls and Procedures**

(a) *Controls and Procedures.* Our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, have evaluated the effectiveness of our “disclosure controls and procedures” (as defined in Exchange Act rules 13a-14(c) and 15d-14(c)) as of December 31, 2007. These controls and procedures were designed to ensure that material information relating to us and our subsidiaries are communicated to our CEO and CFO. Based on such evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. There have been no significant changes in our internal controls and procedures subsequent to the date of this evaluation.

(b) *Management’s Annual Report on Internal Control over Financial Reporting.* Our management, including our CEO and CFO, are responsible for establishing and maintaining adequate internal control over financial reporting and has assessed the effectiveness of our internal control over financial reporting as of December 31, 2007 based on the criteria established in “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and, based on such criteria, our management has concluded that, as of December 31, 2007, our internal control over financial reporting is effective.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control to future

periods are subject to the risk that controls may become inadequate because of changes in conditions, and that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report which appears herein.

(c) *Attestation Report of the Registered Public Accounting Firm.* See page F-2 of our audited consolidated financial statements.

(d) *Changes in Internal Control Over Financial Reporting.* There has been no change in our internal control over financial reporting during 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **ITEM 16A: Audit Committee Financial Expert**

At the board meeting held on April 18, 2007, our board of directors appointed as members of our audit committee Messrs. Giorgio Maschietto, Carlos Olivos and Alberto Sobredo, each of which is independent as defined by the Sarbanes-Oxley Act of 2002. Our directors that are members of our audit committee, in its meeting held on April 26, 2007, analyzed the requirements that Section 407 of the Sarbanes Oxley Act sets forth regarding the qualifications of an "Audit Committee Financial Expert" and, after due consideration, determined that none of the members of the audit committee meets the requirements of an "Audit Committee Financial Expert". However, we are not required to have an "Audit Committee Financial Expert" or similar expert under relevant U.S. or Chilean law.

## **ITEM 16B: Code of Ethics**

We have adopted a code of business conduct and ethics that applies to all of our executive officers and employees. Our code of ethics is available on our website at [www.ccu-sa.com](http://www.ccu-sa.com). Our code of ethics was amended in October 2006 and no waivers, either explicit or implicit, of provisions of the code of ethics have been granted to the Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer.

## **ITEM 16C: Principal Accountant Fees and Services**

The following table sets forth the fees billed to us by our independent auditors, PricewaterhouseCoopers, during the fiscal years ended December 31, 2006 and 2007:

	<u>2006</u>	<u>2007</u>
	(million of Ch\$ as of December 2007)	
Audit Fees	352	420
Audit-Related Fees	63	23
Tax Fees	20	1
All Other Fees	-	-
Total Fees	<u>435</u>	<u>444</u>

"Audit fees" in the above table are the aggregate fees billed by PricewaterhouseCoopers in connection with the review and audit of our semi-annual and annual consolidated financial statements, as well as the review of other fillings. "Audit-related fees" are the aggregate fees billed by PricewaterhouseCoopers for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements or that are traditionally performed by the external auditor, and include consultations regarding the Sarbanes-Oxley Act, IFRS and due diligence

related to transactions. "Tax fees" are fees billed by PricewaterhouseCoopers associated with the issuance of certificates for tax and legal compliance purposes.

**Audit Committee Pre-Approval Policies and Procedures**

Since July 2005, our audit committee pre-approves all audit and non-audit services provided by our independent auditor pursuant to Sarbanes-Oxley Act of 2002 and pre-approves all audit services provided by any other public accounting firm.

**ITEM 16D: Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**ITEM 16E: Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Not applicable.

**PART III**

**ITEM 17: Financial Statements**

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

**ITEM 18: Financial Statements**

See Annex for the Financial Statements

**ITEM 19: Exhibits**

**Index to Exhibits**

- 1.1 Company by-laws (incorporated by reference to Exhibit 1.1 of Compañía Cervecerías Unidas S.A. Annual Report on Form 20-F for the year ended December 31, 2001, filed on June 28, 2002).
- 8.1 Compañía Cervecerías Unidas S.A. significant subsidiaries (incorporated by reference to Exhibit 8.1 of Compañía Cervecerías Unidas S.A. Annual Report on Form 20-F for the year ended December 31, 2003, filed on June 24, 2004).
- 12.1 Certification of Chief Executive Officer of Compañía Cervecerías Unidas S.A. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- 12.2 Certification of Chief Financial Officer of Compañía Cervecerías Unidas S.A. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification of Chief Executive Officer of Compañía Cervecerías Unidas S.A. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification of Chief Financial Officer of Compañía Cervecerías Unidas S.A. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Section 302 – Certification of the Chief Executive Officer

I, Patricio Jottar, certify that:

1. I have reviewed this annual report on Form 20-F of Compañía Cervecerías Unidas S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting;
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 27, 2008

*3/11*

  
Chief Executive Officer

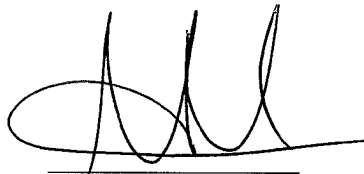


Section 302 – Certification of the Chief Financial Officer

I, Ricardo Reyes, certify that:

1. I have reviewed this annual report on Form 20-F of Compañía Cervecerías Unidas S.A.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting;
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: June 27, 2008

  
\_\_\_\_\_  
Chief Financial Officer

Compañía Cervecerías Unidas S.A.  
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(18 U.S.C. Section 1350)

Pursuant to the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sections 1350(a) and (b)), the undersigned hereby certifies as follows:

1. I am the Chief Executive Officer of Compañía Cervecerías Unidas S.A. (the "Company").
2. The Company's Annual Report on Form 20-F for the year ended December 31, 2007 accompanying this Certification, in the form filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); and
3. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 27, 2008

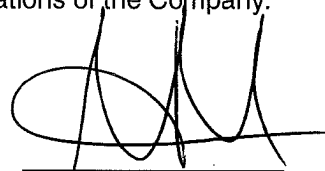
Roberto J. Kelly  
Chief Executive Officer

Compañía Cervecerías Unidas S.A.  
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(18 U.S.C. Section 1350)

Pursuant to the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sections 1350(a) and (b)), the undersigned hereby certifies as follows:

1. I am the Chief Financial Officer of Compañía Cervecerías Unidas S.A. (the "Company").
2. The Company's Annual Report on Form 20-F for the year ended December 31, 2007 accompanying this Certification, in the form filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"); and
3. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 27, 2008



Chief Financial Officer

COMPAÑIA CERVECERIAS UNIDAS S.A.  
AND SUBSIDIARIES

December 31, 2007

Consolidated Financial Statements

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Audited Financial Statements:

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Consolidated Statements of Income for the years ended December 31, 2007, 2006 and 2005

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Notes to the consolidated financial statements

Ch\$ - Chilean pesos

ThCh\$ - Thousands of Chilean pesos

US\$ - United States dollars

A\$ - Argentine pesos

€ - Euros

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.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
of Compañía Cervecerías Unidas S.A.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and of cash flows present fairly, in all material respects, the financial position of Compañía Cervecerías Unidas S.A. and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in Chile. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2007 and 2006). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Accounting principles generally accepted in Chile vary in certain significant respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"). Information relating to the nature and effect of such differences is presented in Note 24 to the consolidated financial statements.

To the Board of Directors and Shareholders  
of Compañía Cervecerías Unidas S.A.

2

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*PriceWaterHouseCoopers*  
Santiago, Chile  
June 26, 2008

**COMPAÑIA CERVECERIAS UNIDAS S.A. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**

Adjusted for general price-level changes and expressed  
in thousands of constant Chilean pesos of December 31, 2007

<u>ASSETS</u>	As of December 31,	
	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
<b>CURRENT ASSETS</b>		
Cash .....	19,692,702	14,919,261
Time deposits and marketable securities (Note 3) .....	71,176,624	15,995,767
Accounts receivable - trade and other, net (Note 4) .....	120,059,775	113,377,107
Accounts receivable from related companies (Note 15) .....	5,733,556	4,588,451
Inventories (Note 5) .....	77,380,594	75,326,462
Prepaid expenses .....	7,239,983	3,726,380
Prepaid taxes (Note 13) .....	2,935,373	2,576,414
Other current assets (Note 6) .....	<u>30,186,621</u>	<u>47,960,030</u>
Total current assets .....	334,405,228	278,469,872
PROPERTY, PLANT AND EQUIPMENT, net (Note 7) .....	393,980,915	366,633,856
OTHER ASSETS (Note 8) .....	<u>98,230,344</u>	<u>104,371,007</u>
Total assets .....	<u>826,616,487</u>	<u>749,474,735</u>
	=====	=====
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Short-term borrowings (Note 9) .....	5,613,094	6,003,004
Current portion of bank borrowings and bonds payable (Notes 10 and 11) .....	4,739,039	25,357,335
Dividends payable .....	15,672,558	12,760,358
Accounts payable .....	56,763,503	47,175,996
Notes payable .....	3,606,563	1,114,521
Other payables .....	6,557,196	6,548,611
Accounts payable to related companies (Note 15) .....	3,443,606	2,306,945
Accrued expenses (Note 12) .....	31,686,535	28,332,453
Withholding taxes payable .....	16,545,050	14,952,032
Income tax (Note 13) .....	5,085,117	5,377,292
Other current liabilities .....	<u>1,002,823</u>	<u>2,572,728</u>
Total current liabilities .....	<u>150,715,084</u>	<u>152,501,275</u>
<b>LONG-TERM LIABILITIES</b>		
Bank borrowings (Note 10) .....	107,110,542	66,414,478
Bonds payable (Note 11) .....	55,973,638	59,621,381
Accrued expenses and other liabilities (Note 12) .....	33,253,521	23,950,361
Deferred income taxes (Note 13) .....	15,124,808	16,822,843
Deposits on bottles and containers .....	7,438,609	9,197,641
Long-term accounts payable to related companies .....	<u>610,093</u>	<u>655,240</u>
Total long-term liabilities .....	<u>219,511,211</u>	<u>176,661,944</u>
Total liabilities .....	<u>370,226,295</u>	<u>329,163,219</u>
MINORITY INTEREST .....	<u>54,594,332</u>	<u>45,241,134</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 17)</b>		
<b>SHAREHOLDERS' EQUITY (Note 14)</b>		
Common Stock (318,502,872 shares with no par value authorized and outstanding) .....	197,925,086	197,925,086
Share premium .....	15,479,173	15,479,173
Other reserves .....	(21,788,821)	(10,663,788)
Retained earnings .....	<u>210,180,422</u>	<u>172,329,911</u>
Total shareholders' equity .....	<u>401,795,860</u>	<u>375,070,382</u>
Total liabilities and shareholders' equity .....	<u>826,616,487</u>	<u>749,474,735</u>
	=====	=====

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

**COMPAÑIA CERVECERIAS UNIDAS S.A. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

**Adjusted for general price-level changes and expressed  
in thousands of constant Chilean pesos of December 31, 2007**

	For the years ended		
	December 31,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	ThCh\$	ThCh\$	ThCh\$
<b>OPERATING RESULTS</b>			
Net sales .....	628,284,122	586,186,120	539,556,009
Cost of sales .....	<u>(295,281,857)</u>	<u>(279,121,320)</u>	<u>(258,467,566)</u>
Gross margin .....	333,002,265	307,064,800	281,088,443
Selling and administrative expenses.....	<u>(231,618,217)</u>	<u>(221,475,401)</u>	<u>(208,200,595)</u>
Operating income .....	<u>101,384,048</u>	<u>85,589,399</u>	<u>72,887,848</u>
<b>NON-OPERATING RESULTS</b>			
Non-operating income (Note 19).....	20,247,598	8,398,333	3,561,037
Non-operating expenses (Note 20).....	(19,062,264)	(18,307,693)	(13,507,217)
Price-level restatement and exchange differences (Note 21).	<u>(4,521,926)</u>	<u>(680,587)</u>	<u>(211,144)</u>
Income before income taxes and minority interest.....	98,047,456	74,999,452	62,730,524
Income taxes (Note 13) .....	<u>(16,668,413)</u>	<u>(15,288,073)</u>	<u>(9,994,914)</u>
Income before minority interest .....	81,379,043	59,711,379	52,735,610
Minority interest .....	<u>(2,179,827)</u>	<u>252,978</u>	<u>93,212</u>
NET INCOME .....	<u>79,199,216</u>	<u>59,964,357</u>	<u>52,828,822</u>

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



**COMPAÑIA CERVECERIAS UNIDAS S.A. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Adjusted for general price-level changes and expressed in  
thousands of constant Chilean pesos of December 31, 2007**

	For the years ended December 31,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	ThCh\$	ThCh\$	ThCh\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
NET INCOME .....	79,199,216	59,964,357	52,828,822
<b>CHARGES (CREDITS) TO INCOME NOT REPRESENTING CASH FLOWS:</b>			
Depreciation .....	44,818,826	44,562,500	44,511,595
Amortization of goodwill .....	2,717,794	3,844,360	2,826,132
Amortization of negative goodwill.....	(50,109)	(52,746)	(56,990)
Amortization of other intangibles.....	589,550	621,592	601,699
Provision for impairment of property, plant and equipment and write-offs of glass bottles, write-offs of spare parts and other provisions .....	4,550,976	5,028,350	3,461,246
Equity in net income of unconsolidated affiliates (net).....	1,460,537	(115,711)	(7,639)
Price-level restatement .....	4,521,926	680,587	211,144
Gain on sale of land and properties held for sale.....	(118,948)	(3,969,125)	(814,867)
Gain on sale of investments and other assets .....	(14,638,629)	(417,368)	(77,200)
Deferred income taxes.....	(1,122,645)	(1,416,313)	(2,990,149)
Other debits .....	5,715,652	6,438,438	2,824,989
Other credits .....	(2,913,712)	(1,580,430)	(4,178,977)
Minority interest.....	2,179,827	(252,978)	(93,212)
<b>CHANGES IN ASSETS AND LIABILITIES AFFECTING CASH FLOWS:</b>			
Accounts and notes receivable .....	(22,183,233)	(14,243,536)	(6,626,719)
Inventories .....	1,649,649	(2,204,474)	(8,086,876)
Other assets .....	(20,287,659)	(10,771,596)	(15,378,376)
Accounts payable affecting non-operating results.....	25,064,770	20,607,488	7,549,495
Interest payable .....	396,185	(8,416)	3,543,251
Income tax payable.....	1,854,405	388,293	4,166,869
Accounts payable affecting non-operating results.....	7,092,249	(1,188,154)	5,682,678
Value added tax .....	(917,749)	(823,235)	(1,040,957)
Net cash provided by operating activities .....	<u>119,578,878</u>	<u>105,091,883</u>	<u>88,855,958</u>

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Adjusted for general price-level changes and expressed in  
thousands of constant Chilean pesos of December 31, 2007**

	For the years ended		
	December 31,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	ThCh\$	ThCh\$	ThCh\$
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from bank borrowings .....	44,273,812	9,603,854	56,853,296
Repayments of bank borrowings .....	(32,036,069)	(11,118,488)	(77,231,291)
Proceeds from bonds .....	-	-	29,135,841
Repayments of bonds payable .....	(2,600,045)	(3,740,815)	(1,961,226)
Dividends paid.....	(39,261,589)	(33,790,828)	(32,483,603)
Proceeds from issuance of common shares of subsidiaries .....	7,588,093	-	318,048
Other.....	<u>(262,965)</u>	<u>554,611</u>	<u>218,479</u>
Net cash used in financing activities .....	<u>(22,298,763)</u>	<u>(38,491,666)</u>	<u>(25,150,456)</u>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>			
Capital expenditures .....	(64,460,072)	(53,890,056)	(48,499,092)
Proceeds from sale of property, plant and equipment .....	5,084,421	3,614,906	562,054
Proceeds from sale of investments in unconsolidated affiliates .....	16,474,259	-	22,813
Investments in unconsolidated affiliates.....	(8,805,716)	(1,627,993)	(22,089,076)
Investments in financial instruments .....	4,991,683	12,774,321	(2,550,658)
Accounts receivable from related companies .....	-	(296,980)	-
Purchase of trademarks .....	-	(16,153,773)	-
Other.....	<u>(1,125,531)</u>	<u>51,551</u>	<u>(1,410,647)</u>
Net cash used in investment activities.....	<u>(47,840,956)</u>	<u>(55,528,024)</u>	<u>(73,964,606)</u>
Price-level restatement of cash and cash equivalents .....	<u>(1,643,688)</u>	<u>144,293</u>	<u>(426,732)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	47,795,471	11,216,486	(10,685,836)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR .....	<u>68,918,665</u>	<u>57,702,179</u>	<u>68,388,015</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR .....	<u>116,714,136</u>	<u>68,918,665</u>	<u>57,702,179</u>

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

**COMPAÑÍA CERVECERIAS UNIDAS S.A. AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**AT DECEMBER 31, 2007**

Adjusted for general price-level changes and expressed in thousands  
of constant Chilean pesos of December 31, 2007, except as indicated

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

Compañía Cervecerías Unidas S.A. ("CCU", or "the Company" or "the Parent Company") 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 six different proprietary brand names and two brand extensions. The Company has three beer production facilities located throughout Chile, and has a nationwide production and distribution network. In Chile, the Company also produces and distributes Heineken beer, and imports and distributes Budweiser.

The Company is one of the largest producers in the Argentine beer market. It has two beer production facilities in Argentina, in Salta and Santa Fe. The Company produces and distributes Heineken and Budweiser beers in Argentina, as well as its own proprietary brands.

The Company also produces Chilean wine through a controlling interest in Viña San Pedro S.A. ("VSP"), Chile's second largest wine exporter and third largest winery in the domestic market. VSP produces and markets premium, varietal and popular-priced wines under the brand families Viña San Pedro and Santa Helena.

The Company is one of the largest mineral water producers and soft drink producers, bottler, and distributor in Chile of its proprietary brands and those brands produced under license from PepsiCo, Schweppes Holding Limited and Watt's S.A. The Company's soft drink and nectar products are produced in three facilities located throughout Chile, and its mineral water is bottled in two plants in the central region of the country.

The Company also produces pisco (grape's brandy) through its subsidiary Compañía Pisquera de Chile S.A. ("CPCh"). This subsidiary is the result of the merger of the previously existing subsidiary Pisonor S.A. with Cooperativa Agrícola Control Pisquero de Elqui y Limarí ("Control") Limitada in March 2005. The subsidiary holds a significant portion of the pisco market.

A summary of significant accounting policies is set forth below:

*a) Presentation*

These accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Chile and the regulations of the Chilean Superintendency of Securities and Insurance (hereinafter referred to as "SVS"). In the event of discrepancy, the SVS regulations would prevail. There were no material discrepancies in the principles or regulations that have effected the accompanying financial statements.

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 SVS 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 consolidated financial statements.

Certain reclassifications have been made to the 2006 consolidated balance sheet which are mainly related to decrease in inventories and accounts payable by ThCh\$ 4,565.

*b) Consolidation*

The consolidated financial statements include the accounts of the Parent Company and subsidiaries (companies in which the Parent Company holds a direct or indirect ownership of more than 50%). Significant inter-company accounts and transactions have been eliminated upon consolidation. The participation of minority shareholders is presented in the consolidated financial statements under Minority interest.

The consolidated financial statements include the following significant subsidiaries:

	<u>At December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	%	%	%
Percentage of direct and indirect ownership:			
Embotelladoras Chilenas Unidas S.A. ....	-	-	99.94
Embotelladoras Chilenas Unidas S.A. (previously Inv. Ecusa S.A.) (9) ..	99.94	99.94	99.94
Comercial CCU S.A. (previously Comercial Calafquen S.A.) .....	99.97	99.97	99.97
Finca La Celia S.A. (2).....	58.14	60.20	60.20
Southern Breweries Establishment .....	99.97	99.97	99.97
Viña Urmeneta S.A. ....	58.15	60.20	60.20
Compañía Pisquera de Chile S.A.(3) .....	80.00	80.00	80.00
Compañía Cervecerías Unidas Argentina S.A. (4).....	92.79	92.04	92.04
Viña San Pedro S.A. (5).....	58.15	60.20	60.20
Compañía Industrial Cervecera S.A. (6) .....	92.37	91.31	91.31
Aguas Minerales Cachantun S.A. (7).....	99.93	99.93	99.93
Andina de Desarrollo S.A. ....	54.69	54.06	54.06
CCU Cayman Limited.....	99.95	99.94	99.94
Cervecera CCU Chile Limitada .....	-	-	99.99
Cervecera CCU Chile Limitada (previously Pisonor S.A.) (8)....	99.99	99.99	99.99
Fábrica de Envases Plásticos S.A. ....	99.99	99.99	99.99
Finca Eugenio Bustos S.A. ....	58.14	60.20	60.20
Saint Joseph Investment Limited .....	99.95	99.94	99.94
South Investment Limited .....	99.95	99.94	99.94
Transportes CCU Limitada .....	99.99	99.99	99.99
Vending y Servicios CCU Limitada .....	99.94	99.94	99.94
Viña Santa Helena S.A. ....	58.09	60.14	60.14
Invex CCU S.A. (10).....	99.95	99.94	-
CCU Inversiones S.A. (11) .....	99.94	99.94	-

Compañía Cervecera Kunstmann S.A. (12) .....	50.00	50.00	-
New Ecusa S.A. (13) .....	99.94	99.94	-
Promarca Ecusa S.A. ....	-	99.94	-
Viña Altair S.A. (previously Viña Dassault San Pedro S.A.)(14)....	58.15	-	-
Aguas CCU Nestlé Chile S.A (1).. .....	79.95	-	-
CCU Investments Limited.(15) .....	99.99	-	-

(1) Aguas CCU-Nestlé Chile S.A.

On December 12, 2007, was constituted the subsidiary Ecusa Dos S.A., which shareholders were Embotelladoras Chilenas Unidas S.A. and Aguas Minerales Cachantun S.A. Each one of them contributed ThCh\$500, constituting a capital of ThCh\$1,000 divided into 1,000 shares.

On December 4, 2007, according to the first shareholders meeting, it was determined to change the name of Ecusa Dos S.A. to Aguas CCU-Nestlé Chile S.A. Also, it was agreed to increase the capital on ThCh\$10,531,024 through the issuing of 10,531,023,856 shares with a nominal value of Ch\$1. This increase was paid through the contribution of fixed assets, inventories and production facilities by the Company and the subsidiaries Vending y Servicios CCU Ltda., Aguas Minerales Cachantun S.A. and Embotelladoras Chilenas Unidas S.A.

On December 5, 2007 the Company, Aguas Minerales Cachantun S.A., and Vending y Servicios CCU Ltda. handed over their rights, and Embotelladoras Chilenas Unidas S.A., part of its, to Nestlé Waters Chile S.A., as a consequence, Embotelladoras Chilenas Unidas S.A. has 80% of the ownership and Nestlé Waters Chile S.A, 20%.

(2) Finca la Celia S.A.

On May 24, June 23 and August 2, 2006, the General Shareholders Meeting agreed to increase the capital in US\$400,000, US\$400,000 and US\$140,000, respectively; through the issuing of 900,000 common shares. Viña San Pedro S.A. subscribed all the issued shares. The final equity of the subsidiary is equivalent to 1,900,000 shares as of December 31, 2007, and Viña San Pedro S.A. ownership is 98.69%.

(3) Compañía Pisquera de Chile S.A. ("CPCh")

In February 2005, the Company formed a new entity for the purpose of consolidating their interest in the pisco business.

On March 13, 2005 Pisconor S.A. and Control each contributed assets into the newly formed Compañía Pisquera de Chile S.A. resulting in Pisconor S.A. owning 34% of the newly formed entity based on the fair value of constituted assets. However, as initially established in the agreement, the Company purchased from Control an additional 46% of its ownership interest for a cash payment of ThCh\$ 15,884,205 (historical) resulting in an ownership of 80% of the entity by the Company. This transaction resulted in goodwill of Thch\$10,055,509 (historical).

(4) Compañía Cervecerías Unidas Argentina S.A. ("CCU Argentina S.A.")

On December 6, 2007, CCU Argentina received an irrevocable capital contribution from Invex CCU S.A., equivalent to US\$15,000,000.

As a consequence, as of December 31, 2007 the shareholders of CCU Argentina are Compañía Cervecerías Unidas S.A. Cayman Islands Branch "CCU-Cayman Branch" and Invex CCU S.A. with 83.29% and 9.512% of the ownership, respectively.

(5) Viña San Pedro S.A. ("VSP")

On November 15, 2006, the Extraordinary Shareholders Meeting approved to increase the social capital of VSP in ThCh\$10,800,000 (historical) through the issuing of 2,300,000 shares of payment. This capital increase was subscribed and paid completely. During the months of May and June, 2007, CCU S.A. subscribed and paid a total of 892,142,369 shares of that capital increase equivalent to ThCh\$4,541,005, decreasing its participation to 58.1455%.

(6) Compañía Industrial Cervecera S.A. ("CICSA")

On December 18, 2007, the subsidiary agreed to capitalize as an irrevocable capital contribution US\$9,950,245 of debt that CICSA maintained with CCU Argentina S.A.

On December 28, 2007, it was approved to capitalize the remaining amount of the irrevocable capital contribution for US\$15,544,481, through the issuing of 80,380,770 common, nominative not endorsable shares.

(7) Aguas Minerales Cachantun S.A.

On February 28, 2006, CCU S.A. and Cervecera CCU Chile Limitada sold four and one share of Pisonor S.A., respectively, to Aguas Minerales Cachantún S.A.. Through this, Aguas Minerales Cachantún obtained a shareholding of 5% in Pisonor S.A. The consolidated ownership of the entity did not change.

(8) Cervecera CCU Chile Limitada ( previously Pisonor S.A.)

On March 15, 2006, Pisonor S.A. (subsidiary of CCU.) changed its structure from a private corporation to a limited liability company. Subsequent to this change in structure, on March 24, 2006, Cervecera CCU Chile Limitada and Pisonor S.A. were merged at book values. Pisonor S.A. remained as the legal and taxable entity, and changed its name to Cervecera CCU Chile Limitada.

(9) Embotelladoras Chilenas Unidas S.A. (previously Inversiones Ecusa S.A.)

On February 28, 2006, the shareholders agreed to restructure Inversiones Ecusa S.A., creating Invex CCU S.A.

As part of this change, Inversiones Ecusa S.A. decreased its capital from Ch\$ 3,345,666,223 (historical) to Ch\$ 1,039,684,562 (historical) divided into 117,500,000 shares. Inversiones Ecusa S.A. also ceded to Invex CCU S.A. its investment and rights in Southern Breweries Establishment and CCU Cayman Limited.

On April 24, 2006, Inversiones Ecusa S.A. changed its name to Embotelladoras Chilenas Unidas S.A.

During 2006, the entity entered into several capital transactions resulting in Embotelladoras Chilenas Unidas S.A. having a total capital contribution of Ch\$121,755,645,907 (historical). These transactions among entities under common control did not have a significant effect at a consolidated level.

(10) Invex CCU S.A.

On February 28, 2006 this entity was created with a capital of Ch\$ 2,305,981,661 (historical) divided into 117,500,000 shares of the same series, with no nominal value.

On December 6, 2007, the Extraordinary Shareholders Meeting approved to capitalize the remaining amount of the social cautions maintained as of December 31, 2006, through the issuing of 6,329 free of payment shares, distributed among the shareholders proportionally to its owned shares, also it was approved to increase the social capital on \$7,451,000,000, through the issuing of 17,988,600 shares of payment without nominal value, which were totally subscribed and paid by CCU. The social capital was composed by \$56,122,917,628 divided on 135,494,929 shares with no nominal value.

As of december, 31, 2007, the shareholders of Invex CCU S.A. are CCU Inversiones S.A. and Compañía Cervecerías Unidas S.A. with 86.71% and 13.29%, respectively.

(11) CCU Inversiones S.A.

On April 28, 2006 this entity was created with a capital of Ch\$ 52,968,761,888 (historical) divided into 1,661,245,498 shares of the same series with no nominal value.

As of December 31, 2007, the shareholders of CCU Inversiones S.A. are Compañía Cerverías Unidas S.A. with 97.531%, Aguas Minerales Cachantun S.A. with 2.411% and other minority shareholders with a total shareholding of 0.058%.

(12) Compañía Cervecera Kunstmann S.A.

On November 15, 2006, the Company acquired one share of Compañía Cervecera Kunstmann S.A., increasing its shareholding from 50% to 50.00073% and modified the shareholders' agreement. As a result, Compañía Cervecera Kunstmann became a subsidiary of Compañía Cervecerías Unidas S.A. and has been consolidated into the Company as from November 2006.

(13) New Ecusa S.A.

On December 14, 2006 the entity New Ecusa S.A. was created as a private society with a capital of Ch\$ 15,042,262,000, divided into 15,042,262 shares. Its purpose is to manage the trade marks previously acquired from Watt's S.A. Certain of these rights are used by Embotelladoras Chilenas Unidas S.A., under a royalty contract. As of December 31, 2007, its shareholders are Embotelladoras Chilenas Unidas S.A. and CCU Inversiones S.A. with 99.99% and 0.01% ownership, respectively.

(14) Viña Altaïr S.A.(previously Viña Dassault San Pedro S.A.)

During September 2007, Dassault Investment Fund Inc., owner of 50% of Viña Dassault-San Pedro S.A. ("Viña Altaïr"), sold its participation on this company.

Viña San Pedro S.A. bought 494,999 shares at US\$4,503,649, which allowed it to increase its ownership on this company to 99.9999%, while the subsidiary Viña Santa Helena S.A. acquired one share, obtaining a 0.0001% of this company.

As a consequence of this operation, this company became a subsidiary and consolidates its results with Viña San Pedro S.A. since September 2007.

(15) CCU Investments Limited

On November 17, 2007, CCU Investments Limited was incorporated, been registered as a foreign company on the company register of Cayman Islands. Its equity equivalent to US\$1,000, represented by 1,000 shares was subscribed and paid on 990 and 10 shares by CCU-Cayman Branch and CCU Inversiones S.A., respectively.

On November 27, 2007, CCU Investments Limited increases its capital to US\$70,000,000 through the issuing of 70,000,000 shares, which were totally subscribed by Cayman Branch.

As of December 31, 2007, the shareholders of the Company are Cayman Branch with 99.99% and CCU Inversiones S.A. with 0.01%.

*c) 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, revenues and expenses and disclosures of contingent liabilities. Management makes its best estimate of the ultimate outcome for these items based on historic trends and other information available when the financial statements are prepared. Changes in estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available to management. Areas where the nature of the estimate makes it reasonably possible that actual results could differ from amounts estimated include: the carrying value of property, plant and equipment, the adequacy of the allowance for doubtful accounts, the carrying value of goodwill, investments in unconsolidated affiliates and the determination of the liability for deposits for bottles and containers.

*d) 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 7.4%, 2.1% and 3.6% for the years ended December 31, 2007, 2006 and 2005, 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, 2006 and 2005 and the amounts disclosed in the related footnotes have been restated in terms of Chilean pesos of December 31, 2007 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.



*e) Foreign currency*

Balances in foreign currency and in indexed units included in the consolidated balance sheets and summarized in Note 21 have been translated into Chilean pesos at the market (“observed”) exchange rates and closing equivalences in effect at each year end as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
U.S. Dollar .....	496.89	532.39	512.50
Euro .....	730.94	702.08	606.08
Unidad de fomento (UF) .....	19,622.66	18,336.38	17,974.81

*f) Time deposits and marketable securities*

Time deposits are reported at cost plus accrued interest and price level restatements at each year-end.

Marketable securities include money market funds, overnight and common equity shares which are reported at the lower of their historic cost plus price-level restatements (“restated cost”) or market value. Money market funds are stated at market value based on year-end quoted values.

*g) Allowance for doubtful accounts receivable*

The Company records an allowance for doubtful accounts receivable based on an analysis of the aging of the outstanding balance as well as other relevant information. This allowance is netted against Accounts receivable - trade and other.

*h) Inventories*

Finished goods are valued at the lower of cost plus price-level restatements or market, using absorption costs method, which includes direct costs of raw materials, labour and indirect manufacture costs. In process goods, raw materials and supplies are valued at acquisition cost plus price-level restatements. The Company estimates that inventories have an average turnover period of one year or less.

The Company and its subsidiaries establish a provision for obsolete inventories based on technical reports prepared by the units responsible for the control of such inventories.

*i) Prepaid expenses*

Prepaid expenses are shown at cost plus price-level restatements and include prepayments for advertising, insurance premiums, computer maintenance services and others, and are amortized over the period of the benefit. Long-term portions of prepaid expenses are included in Other assets in the consolidated balance sheets.

*j) Other current assets*

Other current assets primarily includes securities acquired pursuant to resale agreements which are stated at cost plus accrued interest and price-level restatements, short-term deferred income taxes, and bond discounts arising from bonds issued by the Company and other financing and refinancing costs.

*k) Property, plant and equipment*

Property, plant and equipment are stated at cost plus price-level restatements. Depreciation for each year has been calculated using the straight-line method, based on the estimated useful lives assigned to the assets. Estimated useful lives of assets are as follows:

	<u>Years</u>
Buildings.....	25 - 100
Vineyards.....	20 - 30
Machinery and equipment .....	5 - 20
Bottles and containers.....	3 - 10
Other fixed assets.....	10

Bottles and containers are reported at cost plus price-level restatements, net of write-offs due to breakage and allowances. Depreciation of glass bottles, pallets, and plastic boxes is calculated under the straight-line method based on the estimated useful lives assigned to the respective assets.

Property, plant and equipment include the revaluation increment arising from the technical appraisal carried out during 1979 in conformity with instructions issued by the SVS.

Purchased software is being amortized over a period of four years.

Repairs and maintenance costs are charged against income while improvements are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by reversing the cost and accumulated depreciation accounts, with any related gain or loss reflected in non-operating income or non-operating expense in the consolidated statements of income.

*Fixed assets in leasing*

Fixed assets acquired through financial leasing are recorded at the present value of the related contracts. Valuation and depreciation of these assets are performed using the same criteria used for similar fixed assets.

The related liabilities are shown as short and long term liabilities, net of deferred interests.

The facilities of the Company's corporate building are leased with a purchase option. At the close of these financial statements, the company has not defined yet if it will exercise that option. The facilities are registered as fixed assets under financial leasing according to the applicable rules.

These assets are not legally owned by the Company and, consequently, can not be disposed freely until the corresponding purchase options are executed.

*l) Other assets*

Other assets include land and buildings held for sale which have been adjusted to their estimated realizable values; trademarks which have been valued at cost plus price-level restatements and are amortized over a period of twenty years; bond discounts arising from bonds issued by the Company and other financing and refinancing cost; taxes related to income in Argentina based on 1% of the value of the Company assets; long term marketing contracts, which are valued at its cost plus price-level restatement, net of received services for this concept; allowance to supplier for production capacity reserve, valued at investment cost in dollar terms converted at the end of the period exchange rate, and deferred severances that are being amortized over the expected years of future service of the employees.

Other assets also include the following:

Equity investments in unconsolidated affiliates

Investments in unconsolidated affiliates are accounted for using the equity method when the Company has the ability to exercise significant influence over the operating and financial policies of the investee. Under Chilean GAAP, this is generally presumed to occur when the investor owns between 20% and 50% of the outstanding voting shares. Accordingly, the Company's proportional share in the net income (or loss) of each investee is recognized on an accrual basis, after eliminating any unrealized profits or losses from transactions with the investees in Non-operating income or expense in the consolidated statements of income.

Goodwill and negative goodwill

Under Chilean GAAP, effective January 1, 2004, Technical Bulletin No. 72 ("TB 72") requires the determination of goodwill and negative goodwill based on the fair value of the acquired company. Prior to January 1, 2004, goodwill included the excess of the purchase price of companies acquired over their net book value; negative goodwill was established when the net book value exceeded 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 amortized over 20 years considering the expected period of return of the investment. The Company evaluates the recoverability of goodwill on a periodic basis.

Investments in other companies

Investments in other companies includes investments in quoted common shares with an average trading value below UF 400 (ThCh\$ 19,743 as of December 31, 2007) during the last quarter of each year and 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 cost plus price-level restatements and income from these investments is recognized on a cash basis. Where provisions for impairment were considered necessary, such provisions were recorded.

*m) Translation of foreign currency financial statements*

The investments in the Argentine subsidiaries, are recorded in accordance with Technical Bulletin No. 64 of the Chilean Institute of Accountants. Under this pronouncement, the financial statements of foreign subsidiaries, which operate in countries that are exposed to significant risks, restrictions or inflation/currency fluctuations must first be remeasured into US dollars and then translated into Chilean pesos at the year-end exchange rate. As a result, no effect is given to price-level restatements based on inflation in those countries, in the case of the Argentine subsidiaries, the US dollar is considered to be the functional currency of these operations. Accordingly, the financial statements of these subsidiaries are prepared in accordance with Chilean GAAP, excluding the application of monetary correction, and then remeasured into US dollars as follows:

- monetary assets and liabilities are translated at the closing exchange rate for the period;
- all other assets and liabilities and shareholders' equity are translated at historic rates of exchange;
- income and expense accounts are translated at average rates during the period; and
- the resulting exchange adjustments are included in the results of operations for the period.

The resulting foreign currency amounts are then translated to Chilean pesos at the closing exchange rate at the balance sheet date. The difference between the investments' equity value arising from the financial statements remeasured as explained above and the net equity value at the beginning of the year restated by Chilean inflation, plus the proportional share of the investments' income (or loss) for the year, is recorded as a "Cumulative Translation Adjustment" in Shareholders' equity in the consolidated balance sheets.

*n) Bonds payable*

Bonds are recorded at coupon value plus accrued interest. The discount and expenses incurred, in the issuance of the bonds are included in Other current assets and Other assets in the consolidated balance sheets and are amortized over the term of the bonds.

*o) Severance indemnities*

The severance indemnities obligation, payable under any circumstances, has been determined at its current value, according to the accrued cost of the benefit method, considering 6% of annual discount rate over the estimated years of service that the employees will have at the retirement date.

In the case of the costs for severance indemnities that resulted from changes in the collective contractual agreements, which included increasing the agreed benefits, these effects have been recognized as an asset and are being amortized on the basis of the average expected years of future service of the employees in the Company.

*p) Income taxes and deferred income taxes*

Effective January 1, 2000, the effects of deferred income taxes arising from temporary differences between the basis of assets and liabilities for tax and financial statement purposes are recorded in accordance with Technical Bulletins Nos. 60, 68 and 69 of the Chilean Institute of Accountants and Circular No. 1,466 of the SVS. The effects of deferred income taxes at January 1, 2000 that were not previously recorded, were recognized, in accordance with the transitional period provided by Technical Bulletin N° 60, against a contra asset or liability account ("complementary accounts") and were recorded to offset the effects of the deferred tax assets and liabilities not recorded prior to January 1, 2000. Complementary accounts are amortized to income over the estimated average reversal periods corresponding to underlying temporary differences to which the deferred tax asset or liability related. Deferred income taxes at January 1, 2000 are recognized in income beginning in 2000 as the temporary differences are reversed.

Deferred income tax assets are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The valuation allowance should be sufficient to reduce the deferred income tax asset to an amount that is more likely than not to be realized.

The Argentine subsidiaries, with the exception of Finca La Celia S.A., have not recorded a current tax provision due to the existence of tax loss carryforwards (see Note 13). However, CICSA recorded a minimum imputed income tax (see Note 8) which has been included under Other assets in the consolidated balance sheets as a tax recoverable as the taxes paid can be used to offset income taxes in future periods.

*q) Employee vacations*

Vacations are accrued as a liability when earned by employees and are included in Accrued expenses in the consolidated balance sheets.

*r) Deposits on bottles and containers*

Bottles are presented at their cost plus monetary correction, net of allowances for obsolescence.

The liability related to guarantees for circulating bottles is determined based on an estimation of the expected devolutions with respect to the total value of the existing guarantees. This estimation is determined based on an annual physical count of bottles in the hands of the company clients plus an estimate of those in the hands of the final consumers, which is based on technical and historical information.

In the case of the obligations connected with guarantees related to accounts and documents receivable presented as current assets, these are shown as short-term liabilities. The remaining guarantees are presented in the balance sheet as long-term liabilities.

Deposits received on bottles and containers in circulation are classified as long-term liabilities. At December 31, 2007 and 2006, the amount of these deposits was determined based on the estimated redemption of the bottles and containers by customers and valued using the historic amount of the deposit. These deposits are not subject to price-level restatements.

*s) Derivative instruments*

The Company enters into hedging contracts including cross-currency interest rate swap agreements and foreign currency forward exchange contracts. The contracts are accounted for in accordance with Technical Bulletin No. 57, "Accounting for Derivative Contracts" ("TB 57") of the Chilean Institute of Accountants. Under TB 57 all derivative instruments are recognized on the balance sheet at their fair value. Derivative instruments are accounted for as follows:

*Hedge of forecasted transactions*

The derivative instrument is stated at its fair value on the balance sheet and any change in the fair value is recognized on the balance sheet as an unrealized gain or loss in Accrued expenses and Other liabilities or in Other assets. When the contract is settled, the unrealized gain or loss on the instrument is recognized in earnings in Non-operating income or expense in the Consolidated Statements of Income.

*Hedge of firm commitments*

The hedged item and derivative instrument are measured at fair value on the balance sheet. With respect to open contracts, if the net effect is a loss, it is expensed immediately. If the net effect is a gain, it is deferred and recognized when the contract is settled. The unrecognized gains associated with the derivative instrument are included in Accrued expenses and Other liabilities in the Consolidated Balance Sheets.

*Investment Contracts (non-hedging)*

These derivate contracts are shown in the financial statements at fair value. Changes in fair value are recognized directly against the results of the year in which such changes occurred.

*t) Cash equivalents*

For purposes of the consolidated statement of cash flows, the Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents, including time deposits, money market funds and securities purchased pursuant to 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 received and, in general, all those cash 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 consolidated statements of income.

The balance of cash and cash equivalents is as follows:

	At December 31,	
	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Cash .....	19,692,702	14,919,261
Time deposits .....	25,333,669	6,873,600
Money market funds.....	45,552,765	3,628,807
Securities purchased pursuant to resale agreements.....	<u>26,135,000</u>	<u>43,496,997</u>
Total .....	116,714,136	68,918,665
	=====	=====

*u) Revenue recognition*

The Company and subsidiaries recognize revenues upon the physical delivery of the product, at which time title passes to the customer. Viña San Pedro S.A. recognizes revenues relating to export sales of wine when the wine is shipped which, in accordance with established sales terms, is when the title passes to the customer.

*v) Advertising and sales promotion costs*

Media advertising is expensed as incurred, generally when the ads are aired, printed or presented to the public. At December 31, 2007 and 2006, Ch\$ 6,771 million and Ch\$ 1,594 million, respectively, of advertising were reported as assets. Advertising expense amounted to Ch\$ 43,656 million, Ch\$ 42,524 million and Ch\$ 41,301 million for the years ended December 31, 2007, 2006 and 2005, respectively.

**NOTE 2 - ACCOUNTING CHANGES**

During 2007 and 2006, there were no accounting changes compared to the prior years that could have a significant effect on the interpretation of these financial statements.

**NOTE 3 - TIME DEPOSITS AND MARKETABLE SECURITIES**

Time deposits and marketable securities are summarized as follows:

	At December 31,	
	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Time deposits .....	25,349,529	12,093,761
Money market funds.....	45,553,883	3,628,794
Common equity shares .....	<u>273,212</u>	<u>273,212</u>
Total .....	<u>71,176,624</u>	<u>15,995,767</u>

**NOTE 4 - ACCOUNTS RECEIVABLE - TRADE AND OTHER**

Accounts receivable are summarized as follows:

	At December 31,	
	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Trade accounts receivable .....	108,257,006	102,518,554
Other accounts receivable .....	12,649,282	11,934,267
Advances to suppliers.....	2,733,335	3,080,501
Allowance for doubtful accounts .....	<u>(3,579,848)</u>	<u>(4,156,215)</u>
Total .....	<u>120,059,775</u>	<u>113,377,107</u>

The changes in the allowance for doubtful accounts during the years ended December 31, 2007, 2006 and 2005 were as follows:

<u>Year</u>	<u>Balance at beginning of period</u>	<u>Additions charged to cost and expenses</u>	<u>Write-offs of bad debts</u>	<u>Foreign exchange differences</u>	<u>Balance at end of period</u>
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
2007	4,156,216	1,616,483	(2,082,363)	(110,488)	3,579,848
2006	5,075,384	1,080,323	(2,047,348)	47,856	4,156,215
2005	6,963,542	182,422	(1,935,533)	(135,047)	5,075,384

**NOTE 5 – INVENTORIES**

Inventories are summarized as follows:

	At December 31,	
	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Finished goods .....	19,544,603	19,198,836
Production in process and semi-manufactured goods .....	2,036,235	1,900,918
Raw materials .....	49,146,747	48,769,175
Raw materials in transit.....	3,473,225	3,026,052
Supplies .....	2,353,466	2,121,469
Grape crop development and processing costs.....	1,835,911	1,410,478
Obsolescence provisions .....	<u>(1,009,593)</u>	<u>(1,100,466)</u>
Total .....	<u>77,380,594</u>	<u>75,326,462</u>

**NOTE 6 - OTHER CURRENT ASSETS**

Other current assets are summarized as follows:

	At December 31,	
	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Securities purchased pursuant to resale agreements .....	26,189,688	43,566,304
Deferred income taxes (Note 13) .....	1,582,061	2,898,274
Syndicated loan issuance cost .....	610,728	552,314
Materials .....	437,205	460,209
Bond issuance cost .....	229,818	225,932
Fair value of forward contracts .....	113,761	185,033
Other .....	<u>1,023,360</u>	<u>71,964</u>
Total .....	<u>30,186,621</u>	<u>47,960,030</u>



**NOTE 7 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment (net) are summarized as follows:

	At December 31,	
	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Machinery and equipment.....	303,358,773	316,495,810
Bottles and containers .....	145,550,582	140,312,411
Land and buildings .....	99,795,091	97,689,977
Promotional assets.....	82,924,824	82,018,718
Construction in progress.....	74,647,543	39,819,222
Fixtures and fitting .....	48,807,823	49,845,274
Vineyards .....	33,472,857	33,243,309
Increase arising from technical appraisal .....	9,535,008	9,537,569
Fixed assets in transit .....	1,861,471	5,021,469
Software (net).....	1,136,429	1,614,091
Other fixed assets .....	13,606,955	668,832
Accumulated depreciation.....	<u>(420,716,441)</u>	<u>(409,632,826)</u>
Total property, plant and equipment (net) .....	<u>393,980,915</u>	<u>366,633,856</u>

**NOTE 8 - OTHER ASSETS**

	At December 31,	
	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Investments in unconsolidated affiliates (a).....	31,525,454	13,570,462
Goodwill, net (b) .....	29,709,060	33,620,753
Trademarks.....	12,182,653	28,519,199
Accumulated amortization of trademarks .....	(4,459,334)	(4,070,405)
Land and buildings held for sale (c).....	12,149,585	17,870,735
Deferred expenses for severance indemnities .....	4,828,776	4,719,062
Syndicated loan and bond issuance cost.....	3,758,894	4,596,249
Prepaid expenses .....	3,652,514	1,990,247
Advance payment for production capacity .....	2,981,340	-
Negative goodwill, net (d).....	(623,484)	(731,145)
Bond discount (Note 12) .....	812,051	866,176
Recoverable taxes (minimum imputed income tax in Argentina) .....	719,817	2,629,561
Recoverable taxes (value added tax in Argentina).....	409,385	263,408
Accounts receivable from related companies .....	284,457	297,947
Accounts receivable-trade and other .....	27,037	63,229
Investments in other companies .....	19,743	17,130
Other.....	<u>252,396</u>	<u>148,399</u>
Total.....	<u>98,230,344</u>	<u>104,371,007</u>

(a) Investments in unconsolidated affiliates at December 31, of each year are summarized as follows:

<u>Company</u>	Percentage owned		Investment carrying value		Equity in net earnings (losses) of affiliated companies recognized in income		
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
	%	%	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Calaf S.A.....	50.00	50.00	8,032,399	7,779,298	(1,398,910)	(322,398)	(249,652)
Viña altaïr S.A. ....	-	50.00	-	1,335,542	(313,815)	-	-
Cervecería Austral S.A.....	50.00	50.00	2,153,788	2,099,650	54,139	82,158	89,417
Viña Valles de Chile S.A. ....	50.00	50.00	3,793,732	2,355,972	(603,939)	-	-
Compañía Cervecera Kunstmann S.A. ....	-	50.00	-	-	-	310,007	384,190
Promarca S.A. ....	50.00	-	<u>17,545,535</u>	-	<u>827,255</u>	-	-
Total .....			<u>31,525,454</u>	<u>13,570,462</u>	<u>(1,435,270)</u>	<u>69,767</u>	<u>223,955</u>

#### Calaf S.A.

During the fiscal year 2007, an unrealized net loss of ThCh\$25,267 (income of ThCh\$49,890 historical in 2006) is included on its proportional equity value, generated by sales of Calaf products to the subsidiary ECUSA.

On October 26, 2007, the Fourth General Shareholders Meeting, was agreed to reform the corporate by-laws, and increase the capital. As a consequence, it was agreed to increase the capital of Calaf S.A. to ThCh\$27,763,946. For these effects, it was proposed to increase the capital on ThCh\$13,205,146 through the issuance of 13,205,146 shares, which will have to be completely subscribed and paid in cash, during a year period, since the date of the meeting. As at December 31, 2007, ThCh\$3,277,798 have been subscribed and paid-in.

#### Viña Altaïr (previously Viña Dassault San Pedro S.A.)

In January 2007, the capital increase of Viña Altaïr S.A. approved at the General Shareholders Meeting dated September 26, 2007, corresponding to ThCh\$5,250,000 (US\$10,000,000) dividend into 900,000 payment shares, without nominal value, was subscribed and paid.

The subsidiary Viña San Pedro S.A. subscribed 450,000 shares, which allowed it to maintain its participation on this society.

As described in note 1b) Viña Altaïr S.A. became a subsidiary and it consolidates its financial results with Viña San Pedro S.A. since September 2007.

#### Viña Valles de Chile S.A.(previously Viña Tabalí S.A.)

On March 27, 2007, the name of Viña Tabalí S.A. was changed to “Viña Valles de Chile S.A.” and, for commercial and marketing effects, the names “Viña Leyda S.A.”, “Viña Tabalí S.A.” and “VTL S.A.” were included.

During February 2007, the capital increase of Viña Valles de Chile S.A. approved at the General Shareholders Meeting dated January 22, 2007, corresponding to ThCh\$3,816,260 (historical), through the issuing of 73,390 payment shares without nominal value, was subscribed and paid. The subsidiary Viña San Pedro S.A. subscribed 36,695 shares, which allowed it to maintain its participation on this company.

Until December 31, 2006 Viña Altair S.A. and Viña Valles de Chile S.A. were in development stage.

#### Compañía Cervecera Kunstmann S.A.

During 2006, CCU. recognized the accrued results obtained by its investment in Compañía Cervecera Kunstmann S.A., which included part of the results obtained in December 2005 which were not recognized that year. The additional accrued results for that month corresponded to a loss of ThCh\$ 7,112 (historical).

As described in Note 1b) Compañía Cervecera Kunstmann S.A. became a consolidated subsidiary of Compañía Cervecerías Unidas S.A in November 2006.

#### Promarca S.A.

On January 30, 2007, according to the records of the Extraordinary Shareholders Meeting, it was agreed to merge by absorption Promarca Watt's S.A. and Promarca Ecusa S.A., remaining the first one as the continuing and successor entity for all the legal and tax effects. As part of the same process, Promarca Watt's S.A. changed its name to Promarca S.A.

The merge was effective as of January 1, 2007. As of December 31, 2007 the shareholders of Promarca S.A are New Ecusa S.A. and Watt's Dos S.A., with 50% ownership each, respectively.

On December 22, 2006, according to the agreement between New Ecusa S.A. and Watt's S.A., it was established that if the products made under the acquired brands increases percentage wise its revenues for a three-year period, New Ecusa S.A. will have to pay an eventual price for the rights of the acquired brands.

As of December 31, 2007, according to the revenues obtained from those products and considering a sustained increase of Watt's products during the last five years, New Ecusa S.A. has considered probable the payment of the eventual price, registering a long term provision for a total of ThCh\$1,423,584.

Considering that the payment of the eventual contingent price corresponds to part of the brands' value that New Ecusa S.A. acquired, this liability was recognized as an increase on the investment value on related companies.

Goodwill (net of accumulated amortization) is summarized as follows:

<u>Company</u>	At December 31,	
	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Compañía Písquera de Chile S.A. ....	9,808,549	10,376,999
Compañía Industrial Cervecera S.A. ....	6,898,984	8,991,519
Embotelladoras Chilenas Unidas S.A. ....	7,563,763	8,202,952
Viña San Pedro S.A. ....	3,542,356	3,990,680
Cervecería Austral S.A. ....	1,894,770	2,057,906
Aguas Minerales Cachantun S.A. ....	<u>638</u>	<u>697</u>
Total .....	<u>29,709,060</u>	<u>33,620,753</u>

(c) Land and buildings held for sale are summarized as follows:

<u>Location</u>	At December 31,	
	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Quilicura.....	2,645,288	2,419,316
Limache.....	1,752,181	1,752,182
Santiago.....	1,366,768	2,320,634
Concepción.....	208,254	209,649
Osorno.....	3,225,903	6,861,897
La Serena.....	45,721	2,825,072
Antofagasta.....	76,647	76,309
Temuco.....	14,750	14,246
Argentina.....	2,394,806	851,404
Valparaíso.....	395,820	516,579
Lonquén.....	<u>23,447</u>	<u>23,447</u>
Total lands and buildings held for sale.....	<u>12,149,585</u>	<u>17,870,735</u>

(d) Negative goodwill (net of accumulated amortization) is summarized as follows:

<u>Company</u>	At December 31,	
	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Compañía Industrial Cervecera S.A.....	267,295	339,994
Compañía Cervecerías Unidas Argentina S.A.....	276,480	292,280
Cervecería Austral S.A.....	<u>79,709</u>	<u>98,871</u>
Total.....	<u>623,484</u>	<u>731,145</u>

#### **NOTE 9 - SHORT-TERM BORROWINGS**

Short-term borrowings relate to bank loans due within one-year and are mainly denominated in foreign currencies:

	At December 31,	
	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
United States dollars.....	4,088,389	4,982,908
Unidad de Fomento (UF).....	771,653	16,350
Other.....	<u>753,052</u>	<u>1,003,746</u>
Total.....	<u>5,613,094</u>	<u>6,003,004</u>

The annual average rate of interest in 2007 related to the borrowings was approximately 7.77% (6.46% in 2006).

## **NOTE 10 - BANK BORROWINGS**

The details of bank and financial institutions borrowings at December 31, 2007, are summarized as follows:

<u>Institution</u>	<u>Currency</u>	<u>Current portion</u>	<u>Long-term</u>	Total at December 31, <u>2007</u>	Annual interest <u>rate</u>
		ThCh\$	ThCh\$	ThCh\$	%
JPMorgan Chase.....	US\$	374,745	49,689,000	50,063,745	Libor + 0.325
BBVA S.A. New York Branch	US\$	188,208	34,782,300	34,970,508	Libor + 0.27
Banco Crédito e Inversiones....	UF	128,837	9,202,676	9,331,513	3.6
Compañía Nacional de Seguros	UF	<u>46,467</u>	<u>13,436,566</u>	<u>13,483,033</u>	7.07
Total .....		<u>738,257</u>	<u>107,110,542</u>	<u>107,848,799</u>	
		=====	=====	=====	

The details of bank borrowings at December 31, 2006, are summarized as follows:

<u>Bank</u>	<u>Currency</u>	<u>Current portion</u>	<u>Long-term</u>	Total at December 31, <u>2006</u>	Annual interest <u>rate</u>
		ThCh\$	ThCh\$	ThCh\$	%
BBVA S.A. New York Branch	US\$	9,777,023	-	9,777,023	Libor + 0.3
Santander Overseas Bank .....	US\$	9,776,959	-	9,776,959	Libor + 0.3
BancoEstado.....	UF	1,007,115	-	1,007,115	5.98
JP.Morgan Chase.....	US\$	468,735	57,178,686	57,647,421	Libor + 0.3
Banco Crédito e Inversiones....	UF	<u>128,993</u>	<u>9,235,792</u>	<u>9,364,785</u>	3.6
Total .....		<u>21,158,825</u>	<u>66,414,478</u>	<u>87,573,303</u>	
		=====	=====	=====	

On May 24, 2005, the Company entered into two loans, each for US\$ 17 million, with Banco BBVA S.A. New York Branch and Santander Overseas Bank Inc., with interest rates are at Libor plus 0.3%. Both loans were paid on May 2007.

On November 4, 2004, the Company signed an agreement to obtain a US\$ 100,000,000, five year syndicated loan with JPMorgan Security Inc. acting as the lead agent. The interest rate on the loan is Libor plus 0.3% for the first three years and Libor plus 0.325% for the remaining two.

On November 23, 2007, the Company through its Agency, CCU Cayman Branch, subscribed a loan for US\$70 million, with Banco BBVA New York Branch, at an interest of Libor plus 0.27%. This loan expires on November 23, 2012.

As of December 31, 2007, the Company has leasing obligations in the short and long term at an interest rate of 7.07% per year.

Capital Lease disclosure

The future minimum lease payments required under capital leases, together with the present value of such minimum lease payments that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2007, were as follows:

Payable during the year ending		Capital leases (ThCh\$)
December 31,		
	2008	969,292
	2009	969,292
	2010	969,292
	2011	969,292
	2012	969,292
	2013	3,813,900
	2017	25,830,297
	2016	
	2031	
	Total minimum lease payments	34,490,657
	Less: Amount representing interest	(21,007,624)
	Present value of minimum lease payments	13,483,033
	Less: Current portion of obligation	(46,467)
	Long-term portion of leasing obligations	13,436,566

The loans requires the Company and its subsidiaries, Cervecera CCU Chile Limitada and Embotelladoras Chilenas Unidas S.A., to comply with certain interest, debt and equity covenants, including the following:

- i) The maintenance of a consolidated interest coverage ratio of at least 3.0, to be measured quarterly based on a moving average for the past four quarters.
- ii) The maintenance of a consolidated debt ratio lower or equal to 3.0.
- iii) The maintenance of a minimum consolidated equity of UF 15,000,000 at the end of each quarter. Additionally, the loan requires that the Company comply with certain operating covenants including maintenance of insurance, payment of taxes and limitation on mergers and sales of certain assets.

On August 22, 2005, the subsidiary Compañía Pisquera de Chile S.A. (CPCh) obtained a syndicated loan amounting to UF 468,982 with BCI, BBVA and Raboinvestment banks. The loan requires CPCh to comply with the following:

- a) To maintain a financial expense ratio net of subordinated debt not lower than 3. The covenant is valid until the termination of the contract on June 30, 2007.

- b) To maintain a debt ratio not higher than 1.5, excluding subordinated debt, valid until termination of loan.
- c) To maintain equity higher than UF 700,000 on December 31, 2005, and UF 800,000 from December 31, 2006 to the termination of the loan.

Additionally, the loan requires the subsidiary to adhere to certain restrictions such as maintaining insurance, limitations on sale of assets and acquisitions, and limitations of up to UF 10,000 on guarantees or mortgages.

At December 31, 2007, the Company was in compliance with all covenants associated with all obligations.

Scheduled maturities of bank, and financial institutions borrowings at December 31, 2007, are as follows:

<u>Maturing during the years</u>	<u>ThCh\$</u>
2008 .....	738,257
2009 .....	49,738,754
2010 .....	9,255,950
2011 .....	57,042
2012 .....	34,838,127
2013 to 2031 .....	<u>13,220,669</u>
Total .....	107,848,799 =====

#### **NOTE 11 - BONDS PAYABLE**

Bonds payable are summarized as follows:

	At December 31,	
	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Current portion		
Principal .....	3,433,965	3,594,022
Accrued interest .....	<u>566,817</u>	<u>604,488</u>
Subtotal .....	4,000,782	4,198,510
Long-term		
Principal .....	<u>55,973,638</u>	<u>59,621,381</u>
Total .....	59,974,420 =====	63,819,891 =====

On June 13, 2005, the subsidiary Viña San Pedro S.A. issued Series A bonds, in the amount of UF 1,500,000. The bonds were placed on July 20, 2005 at a premium of ThCh\$ 227,378 (historical) which is being deferred and amortized over the life of the bonds, 20 years.

The bonds have certain restrictive covenants, including the following:

- i) Maintenance of control over subsidiaries, which represent, at least, 30% of issuer's consolidated EBITDA.
- ii) Restrictions from certain related party transactions.
- iii) Restriction on the sale or transfer of certain essential operating assets.
- iv) Maintenance of an indebtedness ratio, measured according to consolidated financial statements, not higher than 1.2 at the end of each quarter.
- v) Maintenance of a financial expenses coverage, settled at the end of each quarter and on retroactive basis for periods of 12 months, measured according to financial statements or consolidated financial statements, not lower than 3.
- vi) Maintenance of a minimum equity of UF 4,000,000 at the end of each quarter.

On October 18, 2004, the Company issued its series E bonds for a total notional amount of UF 2,000,000. The bonds were placed on December 1, 2004 at a discount of ThCh\$ 897,857 (historical) which is being amortized over the term of the bonds.

The bonds have the following covenants:

- i) The Company is required to maintain a ratio of total liabilities to equity no greater than 1.5 to 1, calculated over its consolidated financial statements, and 1.7 to 1, calculated over its unconsolidated financial statements.
- ii) The maintenance of a coverage ratio of at least 3.0, measured quarterly based on a moving average for the past four quarters.
- iii) The Company must maintain a ratio of unpledged assets over its unsecured liabilities of at least 1.2, calculated quarterly over its unconsolidated and consolidated financial statements.
- iv) The Company must maintain, directly or indirectly, the ownership of at least 50% of the following subsidiaries: Cervecera CCU Chile Limitada, Embotelladoras Chilenas Unidas S.A. and Viña San Pedro S.A.
- v) The Company must maintain, directly or through a subsidiary, the ownership of the "Cristal" trademark (related to beer).
- vi) The Company must maintain a minimum consolidated equity of UF 15,000,000 at the end of each quarter.
- vii) The Company must not sell or transfer assets representing more than 25% of its consolidated assets.



At December 31, 2007, the Company was in compliance with all covenants related to these bonds.

Scheduled maturities of bonds payable at December 31, 2007, are as follows:

<u>Maturing during the years</u>	<u>ThCh\$</u>
2008.....	4,000,782
2009.....	3,433,965
2010.....	3,433,965
2011.....	3,433,965
2012.....	3,433,965
2013 to 2016.....	13,735,860
2017 to 2025.....	<u>28,501,918</u>
Total.....	59,974,420 =====

#### **NOTE 12 - ACCRUED EXPENSES AND OTHER LIABILITIES**

The detail of accrued expenses is summarized as follows:

<u>Short-term</u>	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Advertising expenses on invoices not received.....	12,175,536	8,729,486
Accrued expenses on invoices not received.....	5,619,963	5,931,199
Provision for vacation expenses.....	4,095,539	4,037,162
Directors dividend sharing.....	2,141,098	1,648,155
Bonus for employee achievements.....	1,440,435	1,213,905
Provision for severance indemnities.....	1,420,927	462,327
Accrued legal employee benefits.....	1,007,818	1,158,784
Sales commissions.....	487,813	553,400
Provision for restructuring expenses.....	230,000	1,731,288
Other benefits for employees.....	178,968	172,635
Salaries payable.....	168,841	124,123
Fair value of forward exchange contracts.....	-	321,638
Other accrued expenses.....	<u>2,719,597</u>	<u>2,248,351</u>
Total.....	31,686,535 =====	28,332,453 =====

<u>Long-term</u>	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Fair value of cross – currency swap .....	18,514,878	11,400,894
Provision for severance indemnities.....	6,546,475	7,108,123
Allowance for unrealized profit on hedge operation.....	2,510,944	861,173
Provision for lawsuits.....	1,466,351	1,565,453
Additional payment for brand rights (note 8a).....	1,423,584	-
Notes payables.....	1,393,209	-
Deferral of gain on sale of land.....	-	2,428,154
Other.....	<u>1,398,080</u>	<u>586,564</u>
Total .....	<u>33,253,521</u>	<u>23,950,361</u>

At December 31, 2007, the Company has two outstanding cross-currency swap derivative contracts intended to protect the Company against foreign currency and interest rate risk. The derivative contracts are a hedge against future interest and capital payments amounting to US\$ 170,000,000 related to the loans obtained on foreign currency at variable rate.

### **NOTE 13 - INCOME TAXES**

The Company's current tax provision for the year ended December 31, 2007 amounts to ThCh\$ 16,102,353 (ThCh\$ 12,342,529 in 2006). Although taxable results can not be consolidated under Chilean legislation, a portion of the income tax that would have been payable on 2007, 2006 and 2005 results has been reduced by the application of tax loss carryforwards available in subsidiaries. At December 31, 2007, the Company's Chilean subsidiaries had tax loss carryforwards amounting to ThCh\$ 18,587,034 (ThCh\$ 15,193,756 in 2006) which are available to apply against their own tax liabilities in future years. No expiration date is prescribed by Chilean law for tax loss carryforwards.

Additionally, CCU Argentina S.A. and its subsidiaries have tax loss carryforwards aggregating ThCh\$ 2,328,550 at December 31, 2007 (ThCh\$ 11,903,759 in 2006) which may be applied to reduce taxable income in Argentina during a five-year carryforward period.

The balance for corporate income tax at December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Income tax current provisions .....	16,055,791	12,264,901
Other taxes .....	<u>46,562</u>	<u>77,628</u>
Total current tax provision .....	16,102,353	12,342,529
Monthly provisional payments .....	(9,941,030)	(3,482,556)
Tax payment due to merger.....	(729,722)	(3,396,244)
Other credits .....	<u>(346,484)</u>	<u>(86,437)</u>
Total taxes payable .....	<u>5,085,117</u>	<u>5,377,292</u>

Taxes payable are presented as a current liability as "Income taxes payable". Recoverable taxes are included under prepaid taxes, together with VAT and other current tax credits.

	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Income taxes recoverable.....	1,220,331	-
Tax credit in Argentina .....	971,254	567,974
Exporters VAT credit .....	698,850	1,030,289
Income tax to be recovered .....	44,938	873,297
Other... ..	<u>-</u>	<u>104,854</u>
Prepaid taxes .....	<u>2,935,373</u>	<u>2,576,414</u>
	=====	=====

At December 31, 2007 and 2006, the accumulated balances from deferred taxes originating from temporary differences were as follows:

	2007				2006			
	Deferred assets		Deferred liabilities		Deferred assets		Deferred liabilities	
	<u>Short-term</u>	<u>Long-term</u>	<u>Short-term</u>	<u>Long-term</u>	<u>Short-term</u>	<u>Long-term</u>	<u>Short-term</u>	<u>Long-term</u>
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Allowance for doubtful accounts .....	567,420	1,017	-	1,079	598,589	1,092	-	-
Provision for staff vacation .....	543,475	-	-	3,248	581,692	-	-	-
Amortization of intangible assets.....	8,505	494,996	-	-	-	425,072	-	-
Depreciation of fixed assets .....	-	-	-	19,740,782	-	-	-	19,916,732
Severance indemnities .....	222,390	138,940	-	53,942	17,379	281,310	-	22,897
Adjustment on bottle and container deposits .....	-	-	-	3,169,593	-	-	-	3,053,967
Software expenses capitalized .....	-	-	-	500,542	-	-	-	452,017
Operating expenses – crop farm .....	-	-	1,698,835	-	-	-	1,966,708	-
Tax loss carryforwards.....	861,328	3,154,678	-	-	1,860,375	5,092,469	-	-
Unrealized profit on hedge operation.....	165,743	3,574,390	67,775	-	494,319	2,084,550	54,911	271,685
Allowance for land and buildings held for sale.....	9,010	755,724	-	-	41,735	925,277	-	-
Unrealized gain .....	-	256,112	-	-	-	180,610	-	-
Changes in allowances .....	505,362	1,544,086	-	4,235	869,806	946,276	-	-
Deferred debt issuance cost .....	-	-	86,119	355,115	-	-	113,256	509,676
Unrealized gain on sale of fixed assets .....	-	-	-	277,420	-	412,787	-	-
Other .....	1,349,599	71,239	798,042	547,102	788,077	663,115	609,784	361,516
Complementary accounts (net of amortization) .....	-	-	-	(2,787)	-	-	(390,961)	(9,361)
Subtotal .....	4,232,832	9,991,182	2,650,771	24,650,271	5,251,972	11,012,558	2,353,698	24,579,129
Valuation allowance .....	-	(465,719)	-	-	-	(3,256,272)	-	-
Total.....	4,232,832	9,525,463	2,650,771	24,650,271	5,251,972	7,756,286	2,353,698	24,579,129
	=====	=====	=====	=====	=====	=====	=====	=====

The complementary accounts correspond to the accumulated effect of deferred income taxes which were not recorded until January 1, 2000 when Technical Bulletin N° 60 was adopted. The complementary accounts are amortized over the weighted-average terms of reversal of the corresponding temporary differences.

Effect on income:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	ThCh\$	ThCh\$	ThCh\$
Current tax provision.....	(16,102,353)	(12,342,529)	(11,657,780)
Amortization of complementary accounts .....	(397,836)	(395,641)	(403,405)
Deferred income tax effects .....	(389,581)	(2,711,689)	2,236,590
Other .....	<u>221,357</u>	<u>161,786</u>	<u>(170,319)</u>
Total .....	(16,668,413)	(15,288,073)	(9,994,914)
	=====	=====	=====

**NOTE 14 - SHAREHOLDERS' EQUITY**

The changes in the Shareholders' equity accounts during 2005, 2006 and 2007 were as follows:

	Number of shares	Common stock ThCh\$	Share premium ThCh\$	Other reserves			Retained earnings ThCh\$	Retained earnings	
				Surplus on technical appraisal of fixed assets and other ThCh\$	Pre-operating stage deficit ThCh\$	Cumulative translation adjustment ThCh\$		Net income for the year ThCh\$	Total ThCh\$
Balances at December 31, 2004 (historical) .....	318,502,872	174,225,237	13,625,673	6,487,743	(362,710)	(6,178,795)	77,512,308	36,794,289	302,103,745
Allocation of 2004 net income .....	-	-	-	-	362,710	-	36,431,579	(36,794,289)	-
Final dividend of Ch\$ 62.80403 (Historical) per share .....	-	-	-	-	-	-	(20,003,264)	-	(20,003,264)
Price level restatement .....	-	6,272,109	490,524	193,363	-	(214,035)	3,341,855	-	10,083,816
Proportional share of loss of subsidiary in development period .....	-	-	-	-	(463,614)	-	-	-	(463,614)
Interim dividend of Ch\$ 30.00 per share .....	-	-	-	-	-	-	-	(9,555,086)	(9,555,086)
Translation adjustment for the year .....	-	-	-	-	-	(10,257,964)	-	-	(10,257,964)
Equity adjustments .....	-	-	-	(1,054,278)	-	-	-	-	(1,054,278)
Net income for the year .....	-	-	-	-	-	-	-	48,177,127	48,177,127
Balances at December 31, 2005 .....	318,502,872	180,497,346	14,116,197	5,626,828	(463,614)	(16,650,794)	97,282,478	38,622,041	319,030,482
Balances at December 31, 2005 restated to constant December 31, 2007 pesos .....	-	197,925,086	15,479,172	6,170,121	(508,378)	(18,258,495)	106,675,492	42,351,154	349,834,152
Balances at December 31, 2005 (historical) .....	318,502,872	180,497,346	14,116,197	5,626,828	(463,614)	(16,650,794)	97,282,478	38,622,041	319,030,482
Allocation of 2005 net income .....	-	-	-	-	463,614	-	38,158,427	(38,622,041)	-
Final dividend of Ch\$ 67.37364 per share .....	-	-	-	-	-	-	(21,458,698)	-	(21,458,698)
Price-level restatement .....	-	3,790,444	296,440	113,910	-	(349,665)	2,436,545	-	6,287,674
Proportional share of loss of subsidiary in development period .....	-	-	-	-	-	-	(647,730)	-	(647,730)
Interim dividend of Ch\$ 35.00 per share .....	-	-	-	-	-	-	-	(11,147,601)	(11,147,601)
Translation adjustment for the year .....	-	-	-	-	-	1,702,251	-	-	1,702,251
Equity adjustments .....	-	-	-	(371,570)	-	-	-	-	(371,570)
Net income for the year .....	-	-	-	-	-	-	-	55,832,734	55,832,734
Balances at December 31, 2006 .....	318,502,872	184,287,790	14,412,637	5,369,168	-	(15,298,208)	115,771,022	44,685,133	349,227,542
Balances at December 31, 2006 restated to constant December 31, 2007 pesos .....	-	197,925,086	15,479,173	5,766,486	-	(16,430,274)	124,338,079	47,991,832	375,070,382
Balances at December 31, 2006 (historical) .....	318,502,872	184,287,790	14,412,637	5,369,168	-	(15,298,208)	115,771,022	44,685,133	349,227,542
Allocation of 2006 net income .....	-	-	-	-	-	-	44,685,133	(44,685,133)	-
Final dividend of Ch\$ 77.62144 per share .....	-	-	-	-	-	-	(24,722,652)	-	(24,722,652)
Price-level restatement .....	-	13,637,296	1,066,536	389,689	-	(1,124,367)	10,217,338	-	24,186,492
Equity adjustments .....	-	-	-	(235,959)	-	-	-	-	(235,959)
Interim dividend of Ch\$ 47.00 per share .....	-	-	-	-	-	-	-	(14,969,635)	(14,969,635)
Translation adjustment for the year .....	-	-	-	-	-	(10,889,144)	-	-	(10,889,144)
Net income for the year .....	-	-	-	-	-	-	-	79,199,216	79,199,216
Balances at December 31, 2007 .....	318,502,872	197,925,086	15,479,173	5,522,898	-	(27,311,719)	145,950,841	64,229,581	401,795,860

- a) As required by Chilean Law, capital has been modified to reflect the annual capitalization of its price-level restatement.
- b) The Company's policy is to distribute 50% of net profits for the year as dividends.
- c) According to Circular Letter No. 1819 of the SVS dated November 14, 2006, companies that maintain ownership over companies on development stage, must value these investments using the same methodology applicable to the investments in companies in normal operation.

As of December 31, 2006, the subsidiary Viña San Pedro S.A. had 50% of Viña Altair S.A., and 50% of Viña Valles de Chile S.A. Entities which were on development stage. As a consequence, CCU registered on its equity an accumulated deficit of development stage for ThCh\$392,152 (historical) and ThCh\$255,578 (historical), respectively, which are presented under accumulated results, according to Circular Letter No. 1819 of the SVS.

- d) The 2004 credit to other reserves of ThCh\$ 2,899,435 ( historical), resulted primarily from tax benefits related to the merger between Comercial CCU Santiago S.A. and Embotelladoras Chilenas Unidas S.A. At December 31, 2007, ThCh\$252,920 (ThCh\$399,443 in 2006) of the above tax benefit was utilized during the year and accordingly recognized in results.
- e) On December 6, 2006, the Board of Directors agreed to distribute an interim dividend of ThCh\$11,147,601 (historical) corresponding to Ch\$ 35 per share. This dividend was paid on January 5, 2007.
- f) On December 5, 2007, the Board of Directors agreed to distribute an interim dividend of ThCh\$14,969,635 (historical) corresponding to Ch\$ 47 per share. This dividend was paid on January 11, 2008.
- g) On April 18, 2007, the Shareholders approved a charge to 2007 results for the accumulated deficit of the development stage entities as of December 31, 2006 for ThCh\$647.730.

Additionally, on the same meeting it was agreed to distribute, with charge to 2006 results, a dividend amounting to ThCh\$ 24,722,652 (historical) corresponding to Ch\$ 77,62144 per share. This dividend was paid on April 27, 2007.

- hj) On April 20, 2006, the Shareholders approved a charge to 2006 results for the accumulated deficit of the development stage entities as of December 31, 2005 for ThCh\$ 463,614 (historical).
- i) Additionally, on April 20, 2006, the Shareholders meeting agreed to distribute, with a charge to 2005 results, a dividend amounting to ThCh\$ 21,458,698 (historical) corresponding to Ch\$ 67,37364 per share. This dividend was paid on April 28, 2006.
- j) On December 7, 2005, the board of directors agreed to distribute an interim dividend of \$Ch 30 per share for a total of ThCh\$ 9,555,086 (historical).
- k) At the annual Shareholders meeting held on April 21, 2005, the Shareholders agreed to absorb the accumulated pre-operating stage deficit at December 31, 2004 amounting to ThCh\$ 362,710 (historical), with charge to 2004 results.
- l) At the same meeting the Shareholders agreed to distribute a final dividend of \$ 62.80403 per share, for a total of ThCh\$ 20,003,263 (historical) with charge to 2004 results. This dividend was paid on April 29, 2005.

**NOTE 15 - ACCOUNTS AND BALANCES WITH RELATED COMPANIES**

The consolidated balance sheets at December 31, 2007 and 2006 includes the following accounts with related companies:

<u>Entity</u>	<u>2007</u>		<u>2006</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>Receivable</u>	<u>Payable</u>
	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Calaf S.A. ....	3,790,232	309,060	2,817,356	1,217,249
Anheuser-Busch International Holdings Inc.....	1,123,974	-	1,150,069	-
Promarca S.A.....	439,195	810,034	-	-
Heineken International .....	94,903	-	1,260	-
Viña Valles de Chile S.A. ( Ex Viña Tabalí S.A.).....	75,838	690	24,766	252,856
Comercial Patagona Ltda. ....	62,724	17,245	121,184	-
Cervecera Austral S.A.....	46,990	243,530	41,793	130,664
Cooperativa Agrícola Control Pisquero de Elqui Ltda.	39,751	8,901	39,882	9,483
Compañía Cervecera Kunstmann Limitada .....	35,455	6,144	22,452	484
Sociedad Agrícola y Ganadera Río Negro Ltda. ....	12,210	-	13,114	-
Banco de Chile. ....	7,746	5,175	1,640	-
Heineken Supply Chain.....	3,792	-	-	15,853
Latincermex.....	746	-	1,259	-
Heineken Brouwerijern B.V.....	-	1,283,320	-	300,733
Anheuser-Busch Latin America Development Corporation.....	-	484,080	-	356,185
Cervecería Modelo.....	-	250,329	-	-
Entel PCS Telecomunicaciones S.A. ....	-	12,839	-	9,133
Entel Telefonía Local S.A. ....	-	7,700	-	2,989
Empresa Nacional de Telecomunicaciones S.A .....	-	3,729	-	10,066
Compañía Nacional de Teléfonos del Sur.....	-	830	-	405
Viña Altair S.A. ( Ex Dassault San Pedro S.A.).....	-	-	331,050	-
Hoteles Carrera S.A.....	-	-	20,844	-
Quiñenco S.A. ....	-	-	1,319	-
Madeco S.A. ....	-	-	463	-
Telefónica del Sur Net S.A.....	-	-	-	536
Heineken Beer Systems.....	-	-	-	309
Total .....	<u>5,733,556</u>	<u>3,443,606</u>	<u>4,588,451</u>	<u>2,306,945</u>



## **NOTE 16 - SIGNIFICANT TRANSACTIONS WITH RELATED COMPANIES**

The principal transactions with related companies are summarized below:

<u>Company</u>	<u>Relationship</u>	<u>Transaction</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
			ThCh\$	ThCh\$	ThCh\$
Alusa S.A.	Affiliate	Purchase of products	664,311	869,780	964,496
Anheuser Busch Latin America Development Corporation	Affiliate	Licenses and technical assistance (expense)	1,394,223	1,218,784	952,197
Anheuser Busch International Inc.	Affiliate	Purchase of products	720,148	540,658	2,913,705
		Sale of products	4,553,581	284,976	1,356,514
Banchile Corredores de Bolsa	Affiliate	Purchase of investments	-	4,188,600	22,310,586
Banco de Chile	Affiliate	Purchase of time deposits	39,094,868	53,471,609	75,687,461
		Interest paid	-	-	268,944
		Forward contract	16,097,217	26,187,950	7,109,097
		Loans obtained	-	3,430,721	6,181,824
Calaf S.A.	Equity investee	Payments on behalf of related companies	-	-	5,772,764
		Purchase of products	8,945,193	9,296,162	6,396,079
		Capital paid in	-	-	3,129,012
		Marketing contribution	-	783,502	-
		Services paid	3,621,600	-	-
Cervecería Austral S.A.	Equity investee	Purchase of products	506,692	368,022	-
		Royalties paid	-	-	450,543
Comercial Patagona Ltda. Compañía Cervecera Kunstmann S.A.	Affiliate	Purchase of products	-	-	2,510,089
Empresa Nacional de Telecomunicaciones S.A. Entel PCS	Affiliate	Services received (expense)	-	-	258,213
Telecomunicaciones S.A. Heineken Brouwerijen B.V.	Affiliate	Services received (expense)	-	-	609,781
	Indirect	Royalty	1,765,547	1,311,925	200,999
		Sale of products	1,325,918	1,320,956	169,637
		Licenses and technical assistance	789,420	645,255	558,351
Viña Altair (Ex. Dassault San Pedro S.A.)	Equity investee	Capital paid in	-	444,119	717,404
		Remittance paid	-	-	286,297
Viña Tabalí S.A.	Equity investee	Purchase of products	-	-	313,568
		Sale of products	-	-	482,541
		Remittance received	677,212	626,957	-
		Remittance paid	-	-	257,407
		Capital increase	1,997,812	1,168,512	-
Cooperativa Agrícola Control Pisquero del Elqui y Limarí Ltda. Promarca S.A.	Affiliate	Grape acquired	1,958,453	322,371	-
	Equity investee	Royalty paid	1,518,915	-	-

## **NOTE 17 - COMMITMENTS AND CONTINGENCIES**

At December 31, 2007, the Company was a defendant in a number of commercial and labour lawsuits of the type normally associated with the Company's business and involving claims for damages for minor amounts. The Company accrued a provision of ThCh\$ 1,466,351 at December 2007 for these amounts because management believes that most of the resulting judgments will be favorable and any further losses incurred will not result in any material liability to the Company.

## **NOTE 18 - REMUNERATION OF DIRECTORS**

During 2007, the Directors of the Company and its subsidiaries received ThCh\$ 535,331 (ThCh\$ 584,174 in 2006 and ThCh\$ 614,912 in 2005) with respect to fees for attendance at Board meetings, which have been included in the Consolidated Statements of Income under Selling and administrative expenses. In addition, an accrual of ThCh\$ 2,069,764 was recorded corresponding to the Directors' participation in dividend for the year 2007 (ThCh\$ 1,494,312 in 2006 and ThCh\$ 1,363,830 in 2005) which has also been included in Selling and Administrative expenses in the Consolidated Statements of Income. The participation in earnings is approved each year at the annual shareholders' meeting.

## **NOTE 19 – NON-OPERATING INCOME**

The following items are included in Non-operating income:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	ThCh\$	ThCh\$	ThCh\$
Gain on sale of shares (1).....	14,870,074	-	-
Gain on sale of properties held for sale and other assets...	678,713	3,702,158	479,511
Interest earned from investments in banks and other financial institutions .....	1,181,845	2,754,906	877,268
Gain on sales of glass, plastic boxes and by-products .....	423,356	565,627	384,468
Equity in net income of unconsolidated affiliates .....	881,394	438,109	429,702
Rental income.....	113,531	123,802	90,128
Amortization of negative goodwill.....	50,109	52,746	56,990
Adjustment to provision for properties held for sale and other assets .....	341,268	-	722,423
Other.....	<u>1,707,308</u>	<u>760,985</u>	<u>520,547</u>
Total.....	<u>20,247,598</u>	<u>8,398,333</u>	<u>3,561,037</u>

(1) On December 5, 2007, the Company and its subsidiaries Embotelladoras Chilenas Unidas S.A., Vending y Servicios Ltda. and Aguas Minerales Cachantun S.A., sold together a total of 2,106,704,471 shares that they had in Aguas CCU-Nestlé Chile S.A. resulting in a gain of ThCh\$14,367,555

## **NOTE 20- NON-OPERATING EXPENSES**

The following items are included in the Non-operating expenses:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	ThCh\$	ThCh\$	ThCh\$
Interest expense .....	8,730,563	8,176,814	8,128,048
Amortization of goodwill .....	2,717,794	3,844,360	2,826,132
Severance indemnities .....	2,718,212	1,022,061	330,658
Restructuring cost .....	-	1,731,289	-
Equity in loss of unconsolidated affiliates .....	2,341,931	322,398	422,063
Loss on sale, provision for impairment and write-offs of assets .....	1,283,281	1,524,993	111,830
Director's participation based on dividends .....	-	-	342,094
Other .....	<u>1,270,483</u>	<u>1,685,778</u>	<u>1,346,392</u>
Total .....	<u>19,062,264</u>	<u>18,307,693</u>	<u>13,507,217</u>

## **NOTE 21 - PRICE-LEVEL RESTATEMENT AND FOREIGN EXCHANGE DIFFERENCES**

The price-level restatement adjustment and foreign currency exchange gain (loss) is determined as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	ThCh\$	ThCh\$	ThCh\$
Restatement of non-monetary accounts based on Consumer Price Index and UF's:			
Property, plant and equipment and bottles and containers .....	22,726,974	5,972,902	10,430,430
Investments in related companies .....	9,637,164	2,546,883	4,793,227
Investments in other companies and marketable securities .....	349,009	146,296	238,629
Other assets .....	6,355,574	2,232,192	3,603,933
Shareholders' equity .....	(24,186,491)	(6,752,960)	(11,057,449)
Adjustment of Inventories .....	1,941,386	1,116,101	1,208,046
Increase in liabilities denominated in UF's due to indexation .....	(16,530,722)	(4,688,279)	(7,656,921)
Net restatements of income and expense accounts in terms of year-end constant pesos .....	<u>(4,726,789)</u>	<u>(1,016,634)</u>	<u>(2,157,357)</u>
Total price-level restatement .....	<u>(4,433,895)</u>	<u>(443,499)</u>	<u>(597,462)</u>

Remeasurement and translation of accounts in foreign currencies:

Cash.....	(1,037,325)	(53,536)	(275,991)
Time deposits and marketable securities .....	145,826	(26,493)	310,140
Accounts receivable-trade and other .....	276,150	549,529	43,275
Accounts receivable from related companies .....	(169,096)	59,750	(122,263)
Inventories .....	(40,886)	(22,957)	(105,727)
Other current assets .....	(252,504)	174,603	15,894
Other assets .....	9,052	(2,462)	27,392
Short-term borrowings .....	38,426	(7,772)	(881,937)
Other current liabilities.....	1,233,740	(495,724)	740,324
Income taxes.....	14,095	(1,394)	10,894
Long-term borrowings and other long-term liabilities .....	(125,300)	(141,775)	669,202
Foreign exchange loss arising from translation of assets and liabilities in Argentina (net) .....	<u>(180,209)</u>	<u>(268,857)</u>	<u>(44,885)</u>
Total foreign currency exchange (loss) .....	<u>(88,031)</u>	<u>(237,088)</u>	<u>386,318</u>
Total price-level restatement and exchange differences.....	<u>(4,521,926)</u>	<u>(680,587)</u>	<u>(211,144)</u>

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

	At December 31,	
	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
<b>Assets</b>		
Current assets.....	99,652,659	45,648,072
Property, plant and equipment.....	64,737,627	78,121,555
Other assets.....	<u>15,089,976</u>	<u>14,522,421</u>
Total .....	<u>179,480,262</u>	<u>138,292,048</u>
<b>Liabilities</b>		
Current liabilities .....	31,605,633	52,116,131
Long-term liabilities .....	<u>86,440,128</u>	<u>58,610,896</u>
Total .....	<u>118,045,761</u>	<u>110,727,027</u>

The amounts detailed above include the non-monetary assets and liabilities of investments in foreign subsidiaries and investees (Compañía Cervecerías Unidas Argentina S.A. expressed in US dollars in conformity with the application of Technical Bulletin No. 64 as described in Note 1 m).

## **NOTE 22 - SEGMENT REPORTING**

The Company has determined that the information used by its key decision makers for making operating decisions and assessing performance include the following five segments: production and sale of beer in Chile, production and sale of beer in Argentina, soft drinks and mineral water, wine and pisco. All other activities, including corporate activities not allocated to others segments, are presented under the title Other. This includes the production and sale of chocolates and candies, and the sale of plastic cases and containers to unaffiliated companies. Total revenue by segment includes sales to unaffiliated customers, as reported in the Company's Consolidated Statements of Income.

Operating income is total revenues less operating expenses, which include Cost of sales and Selling and administrative expenses. In computing operating income, none of the following items has been added or deducted: net interest expenses, equity in net income (loss) of unconsolidated affiliates, price-level restatement, other income and expenses, minority interest and income taxes.

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

Year Ended December 31, 2007

Statement of income data

	<b>Soft Drinks and</b>						
	<b>Beer Chile</b>	<b>Beer Argentina</b>	<b>Mineral waters</b>	<b>Wine</b>	<b>Pisco</b>	<b>Other</b>	<b>Consolidated</b>
	<b>ThCh\$</b>	<b>ThCh\$</b>	<b>ThCh\$</b>	<b>ThCh\$</b>	<b>ThCh\$</b>	<b>ThCh\$</b>	<b>ThCh\$</b>
Total Revenue	<u>248,399,129</u>	<u>69,269,341</u>	<u>172,944,896</u>	<u>87,002,570</u>	<u>39,831,657</u>	<u>10,836,529</u>	<u>628,284,122</u>
Operating income (loss)	<u>69,460,852</u>	<u>4,033,815</u>	<u>16,906,009</u>	<u>5,690,250</u>	<u>3,108,489</u>	<u>2,184,633</u>	<u>101,384,048</u>
Equity in net income of affiliated companies	-	-	-	-	-	-	(1,460,537)
Other income	-	-	-	-	-	-	18,184,359
Interest expense (net)	-	-	-	-	-	-	(7,548,718)
Other expenses	-	-	-	-	-	-	(7,989,770)
Price-level restatement	-	-	-	-	-	-	(4,521,926)
Income before income tax and minority interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,047,456</u>
Balance Sheet Data at December 31,2007:							
Identifiable assets	<u>238,264,370</u>	<u>75,482,497</u>	<u>114,597,890</u>	<u>109,316,426</u>	<u>35,759,264</u>	<u>20,878,277</u>	<u>594,298,724</u>
Cash and cash equivalents							116,714,136
Investments in un consolidated affiliated and other companies							31,545,197
Goodwill	1,894,770	6,898,984	7,564,401	3,542,356	9,808,549	-	29,709,060
Negative Goodwill	(79,709)	(543,775)	-	-	-	-	(623,484)
Corporate assets	-	-	-	-	-	-	54,972,854
Total consolidated assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>826,616,487</u>
Sales of each segment include:							
Beer	245,015,035	68,191,049	-	-	-	-	-
Carbonated drinks	-	-	111,733,901	-	-	-	-
Nectars	-	-	29,160,534	-	-	-	-
Mineral Water	-	-	31,096,142	-	-	-	-
Wine	-	-	-	80,795,492	-	-	-
Pisco	-	-	-	-	39,117,472	-	-
By-products	877,534	213,791	-	13,287	-	-	-
Other products	<u>2,506,560</u>	<u>864,501</u>	<u>954,319</u>	<u>6,193,791</u>	<u>714,185</u>	-	-
Total	<u>248,399,129</u>	<u>69,269,341</u>	<u>172,944,896</u>	<u>87,002,570</u>	<u>39,831,657</u>	-	-

Year Ended December 31, 2006

Statement of income data

	Soft Drinks and						
	Beer Chile	Beer Argentina	Mineral waters	Wine	Pisco	Other	Consolidated
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Total Revenue	233,766,702	62,084,248	161,602,056	81,888,064	36,039,722	10,805,328	586,186,120
Operating income (loss)	64,465,443	4,096,418	13,022,314	1,277,139	765,754	1,962,331	85,589,399
Equity in net income of affiliated companies	-	-	-	-	-	-	115,711
Other income	-	-	-	-	-	-	5,205,318
Interest expense (net)	-	-	-	-	-	-	(5,421,908)
Other expenses	-	-	-	-	-	-	(9,808,481)
Price-level restatement	-	-	-	-	-	-	(680,587)
Income before income tax and minority interest	-	-	-	-	-	-	74,999,452
Balance Sheet Data at December 31,2006:							
Identifiable assets	213,549,186	75,762,900	108,081,448	101,455,550	34,875,561	21,126,856	554,851,501
Cash and cash equivalents							68,918,665
Investments in un consolidated affiliated and other companies							13,587,592
Goodwill	2,057,906	8,991,519	8,203,649	3,990,680	10,376,999	-	33,620,753
Negative Goodwill	(98,871)	(632,274)	-	-	-	-	(731,145)
Corporate assets	-	-	-	-	-	-	79,227,369
Total consolidated assets	-	-	-	-	-	-	749,474,735
Sales of each segment include:							
Beer	230,466,670	61,515,834	-	-	-	-	-
Carbonated drinks	-	-	104,614,883	-	-	-	-
Nectars	-	-	24,430,837	-	-	-	-
Mineral Water	-	-	31,785,605	-	-	-	-
Wine	-	-	-	77,290,772	-	-	-
Pisco	-	-	-	-	35,674,489	-	-
By-products	894,942	153,762	-	8,736	-	-	-
Other products	2,405,090	414,652	770,731	4,588,556	365,233	-	-
Total	233,766,702	62,084,248	161,602,056	81,888,064	36,039,722	-	-

Year Ended December 31, 2005

Statement of income data

	<u>Beer Chile</u>	<u>Beer Argentina</u>	<u>Soft Drinks and Mineral waters</u>	<u>Wine</u>	<u>Pisco</u>	<u>Other</u>	<u>Consolidated</u>
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
Total Revenue	206,624,811	51,247,946	148,703,563	92,106,324	31,299,900	9,573,465	539,556,009
Operating income (loss)	<u>54,699,418</u>	<u>2,612,463</u>	<u>12,367,885</u>	<u>1,835,261</u>	<u>(1,638,373)</u>	<u>3,011,194</u>	<u>72,887,848</u>
Equity in net income of affiliated companies	-	-	-	-	-	-	7,639
Other income	-	-	-	-	-	-	2,254,067
Interest expense (net)	-	-	-	-	-	-	(7,250,780)
Other expenses	-	-	-	-	-	-	(4,957,106)
Price-level restatement	-	-	-	-	-	-	(211,144)
Income before income tax and minority interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,730,524</u>
Balance Sheet Data at December 31, 2005:							
Identifiable assets	<u>194,762,786</u>	<u>71,055,881</u>	<u>96,585,372</u>	<u>108,242,228</u>	<u>30,676,926</u>	<u>23,409,974</u>	<u>524,733,167</u>
Cash and cash equivalents							57,702,179
Investments in un consolidated affiliated and other companies							14,654,641
Goodwill	2,204,351	9,871,963	8,842,897	4,439,000	11,026,409	1,007,018	37,391,638
Negative Goodwill	(104,202)	(1,069,733)	-	-	-	-	(1,173,935)
Corporate assets	-	-	-	-	-	-	72,325,027
Total consolidated assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>705,632,717</u>
Sales of each segment include:							
Beer	203,901,866	50,865,733	-	-	-	-	-
Carbonated drinks	-	-	98,820,700	-	-	-	-
Nectars	-	-	20,411,748	-	-	-	-
Mineral Water	-	-	28,870,784	-	-	-	-
Wine	-	-	-	85,509,672	-	-	-
Pisco	-	-	-	-	30,922,323	-	-
By-products	541,308	77,925	-	11,779	-	-	-
Other products	<u>2,181,637</u>	<u>304,288</u>	<u>600,331</u>	<u>6,584,873</u>	<u>377,577</u>	<u>-</u>	<u>-</u>
Total	<u>206,624,811</u>	<u>51,247,946</u>	<u>148,703,563</u>	<u>92,106,324</u>	<u>31,299,900</u>	<u>-</u>	<u>-</u>



Depreciation was allocated to each of the segments as follows:

<u>Segment</u>	<u>2007</u> ThCh\$	<u>2006</u> ThCh\$	<u>2005</u> ThCh\$
Beer Chile .....	20,016,030	19,837,442	20,848,228
Beer Argentina .....	5,596,447	6,102,963	5,388,936
Soft Drinks & Mineral Water .....	10,176,170	10,668,694	11,262,890
Wine .....	5,575,037	5,454,835	4,934,622
Pisco .....	1,651,407	1,153,095	901,541
Other .....	<u>1,803,735</u>	<u>1,345,470</u>	<u>1,175,378</u>
Total .....	<u>44,818,826</u>	<u>44,562,499</u>	<u>44,511,595</u>

Capital expenditures for each of the segments were as follows:

<u>Segment</u>	<u>2007</u> ThCh\$	<u>2006</u> ThCh\$	<u>2005</u> ThCh\$
Beer Chile .....	19,465,082	17,448,447	17,151,613
Beer Argentina .....	7,074,419	6,269,023	8,653,401
Soft Drinks & Mineral Water .....	10,862,624	12,261,623	9,026,420
Wine .....	3,028,635	2,586,890	3,579,838
Pisco .....	5,012,800	4,719,441	906,454
Other .....	<u>7,775,367</u>	<u>3,277,609</u>	<u>2,736,807</u>
Total .....	<u>53,218,927</u>	<u>46,563,033</u>	<u>42,054,533</u>

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

	2007			
	<u>Chile</u> ThCh\$	<u>Argentina</u> ThCh\$	<u>Elimination</u> ThCh\$	<u>Consolidated</u> ThCh\$
Sales to third parties	<u>551,823,491</u>	<u>76,547,059</u>	<u>(86,428)</u>	<u>628,284,122</u>
Operating income (loss)	<u>96,920,853</u>	<u>4,463,195</u>	<u>-</u>	<u>101,384,048</u>
Total assets at December 31,2007	<u>709,021,700</u>	<u>117,725,282</u>	<u>(130,495)</u>	<u>826,616,487</u>

	2006			
	<u>Chile</u> ThCh\$	<u>Argentina</u> ThCh\$	<u>Elimination</u> ThCh\$	<u>Consolidated</u> ThCh\$
Sales to third parties	518,797,700	67,642,549	(254,129)	586,186,120
Operating income (loss)	81,758,450	3,830,949	-	85,589,399
Total assets at December 31,2006	635,514,069	115,464,130	(1,503,464)	749,474,735

	2005			
	<u>Chile</u> ThCh\$	<u>Argentina</u> ThCh\$	<u>Elimination</u> ThCh\$	<u>Consolidated</u> ThCh\$
Sales to third parties	484,049,660	55,713,474	(207,125)	539,556,009
Operating income (loss)	71,097,659	1,790,189	-	72,887,848
Total assets at December 31,2005	599,135,489	108,037,073	(1,539,845)	705,632,717

### **NOTE 23 - SUBSEQUENT EVENTS**

On October 4, 2007, the Company's subsidiary Compañía Industrial Cervecera S.A. ("CICSA") subscribed an agreement to purchase all of the shares of Inversora Cervecera S.A. ("ICSA"). The sale, the share's transfer and the payment of such shares by CICSA were subject to the prior approval of the Argentine Antitrust Commission (currently Secretaría de Comercio Interior), which was confirmed on March 31, 2008. On April 2, 2008, CICSA paid US\$ 83.6 million dollars in cash for the shares of ICSA and assumed debt of US\$ 4.4 million dollars.

Currently, ICSA is negotiating the payment of a supplementary price as agreed in the purchase agreement signed on October 4, 2007.

ICSA is the owner of Palermo, Imperial and Bieckert beer brands, which together represents approximately 5.8% of the Argentine beer market, and a brewery in Luján, Buenos Aires, with a nominal production capacity of 2.7 millions hectoliters per year.

No other subsequent events have occurred between December 31, 2007 and the date of these consolidated financial statements (June 206, 2008) that may significantly affect them.

**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 in the 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 US GAAP 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, 2007 was approximately 13.1%.

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 historic 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, and as allowed by Item 18 to Form 20-F, the effect of price-level changes is not eliminated in the reconciliation to US GAAP.

*b) Revaluations of property, plant and equipment and fixed assets held for sale*

As mentioned in Note 1 k), certain property, plant and equipment and some fixed assets held for sale 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. As of December 31, 2005 these assets were fully depreciated. The effects of the reversal of this revaluation, as well as of the related accumulated depreciation and prior years depreciation charges, are shown in paragraph 1 t) below.

*c) Fixed assets held for sale*

i. Reversal of impairment

Net income reported in the Chilean GAAP financial statements for the years ended December 31, 2007 and 2005 included the effects of the reversal of a valuation allowance recorded in previous years to write-down the carrying value of property, plant and equipment held for sale to estimated market value (Note 19). This reversal of a provision, which established a new cost basis for Chilean GAAP purposes, was not in conformity with accounting principles generally accepted in the United States. In accordance with FASB 144 “Accounting for the Impairment or Disposal of Long-Lived Assets”, restoration of a previously recognized impairment loss is prohibited under US GAAP. The Chilean GAAP other income recognized in 2007 and 2005 has been reversed and is

reflected in the reconciliation of net income to US GAAP for the year in paragraph 1 t) below. The US GAAP adjustment will be reversed when these assets are sold.

ii. Accounting for assets held for sale

The Company has classified certain fixed assets as "Land and building held for sale". Under Chilean GAAP, long-lived assets are classified as held for sale when a Company has the intent to dispose of the asset. Intent is defined as management having a plan and commitment to dispose of an asset. The assets are written down to fair value when indicators of impairment are present and losses are recognized as other non-operating expenses. No depreciation is recorded for assets classified as held for sale.

Under US GAAP, long-lived assets to be disposed of by sale are accounted for under SFAS 144, "Accounting for Impairment or Disposal of Long-Lived Assets". SFAS 144 requires long-lived assets to be classified as held for sale only when certain criteria are met. These criteria include: management has the authority to approve action; the asset is available for immediate sale; an active program to locate a buyer has been initiated; the sale of the asset is probable; the asset is being actively marketed and; it is unlikely that a significant change to the disposal plan will be made. If at any time the criteria in this paragraph are no longer met, a long-lived asset classified as held for sale shall be reclassified as held and used. Long-lived assets classified as held for sale are measured at the lower of its carrying value amount or fair value less cost to sell and the asset is not depreciated. Losses are recognized for any subsequent impairment write-down to fair value.

These assets recorded as held for sale under Chilean GAAP do not meet the requirements to be classified as held for sale under US GAAP. For Chilean GAAP purposes, these assets were tested for impairment and written down to fair value when they were deemed to be impaired. This treatment is similar to the treatment under US GAAP for impaired assets. However, under US GAAP, these assets would have been continued to be depreciated. The effects of depreciating these assets were considered to be immaterial until December 31, 2006, as such no adjustments were recorded. The impact of depreciating these in 2007 under US GAAP, are reflected in paragraph 1 t) below.

d) *Reversal of gain on sale of land*

In December 2004, the Company sold land previously classified as land-held-for-sale and included in other assets. As part of the transaction, it was contemplated that the Company will lease eleven floors in an office building being constructed by a third party on the land. During 2007, the building was constructed and the Company signed, in May 2007, a lease agreement with the third party. In 2004 for Chilean GAAP purposes, the Company recognized a gain of ThCh\$ 3,108,950 (historical) for the portion of the building that the Company will not lease, and a liability, "Deferral of gain on sale of land" of ThCh\$ 2,260,851 included in other long-term liabilities. In 2007, the Company accounted for the lease agreement as a capital lease due to certain purchase options. For US GAAP purposes, the transaction was considered a direct financing lease and accordingly the sale and related gain were reversed and the land remained with the Company. Upon completion of construction and the signing of the lease agreement, the Company has also accounted for the transaction as a capital lease. For US GAAP purposes the entire gain of ThCh\$ 5,246,353 (historical) on the sale of the land in 2004 will be recognized when the purchase option expires. Also under US GAAP, the Company recognized rental income for the use of the land while the building is under construction and financing expenses in relation to the funds previously received for the land. Commencing in May 2007, the Company recognizes rental income for the use of the land associated with the floors that were not leased by the Company and continues to recognize financing expenses in relation to the funds previously received for the land. The impact of these adjustments are reflected in paragraph 1 t) below.

*e) Deferred income tax*

As discussed in Note 13, effective January 1, 2000, the Company began applying Technical Bulletin N° 60 of the Chilean Institute of Accountants concerning deferred income taxes. Technical Bulletin N° 60 requires the recognition of deferred income taxes for all temporary differences arising after January 1, 2000, whether recurring or not, using an asset and liability approach. For US GAAP purposes, the Company has always applied Statement of Financial Accounting Standard (“SFAS”) No.109, “Accounting for Income Taxes”, whereby income taxes are also recognized using substantially the same asset and liability approach. Deferred income tax assets and liabilities established for temporary differences between the financial reporting basis and tax basis of the Company’s assets and liabilities are based on enacted rates at the dates that the temporary differences are expected to reverse. The effect of changes in tax rates is included in income for the period that includes the enactment date.

Prior to the implementation of Technical Bulletin No. 60, no deferred income taxes were recorded under Chilean GAAP if the related timing differences were expected to be offset in the year that they were projected to reverse by new timing differences of a similar nature.

After the year ended December 31, 1999, Chilean GAAP and US GAAP differ due to the recognition for US GAAP purposes of the reversal of deferred income taxes included in the US GAAP reconciliations in years prior to 2000.

Furthermore, deferred income tax assets under both Chilean and US GAAP should be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The valuation allowance should be sufficient to reduce the deferred income tax asset to an amount that is more likely than not to be realized.

The effect of providing for deferred income taxes for the differences between the amounts shown for assets and liabilities in the balance sheet and the tax bases of those assets and liabilities is included in paragraph 1 t) below and certain disclosures required under FAS 109 are set forth under paragraph 3 c) below.

*f) Subsidiary recapitalization*

The Company completed the legal recapitalization of its subsidiaries, Embotelladoras Chilenas Unidas S.A. and Comercial CCU Santiago, in 2004. The transaction had no impact on operating results; however, resulted in an increase in the tax basis of the subsidiaries in the amount of ThCh\$ 17,064,171 (historical) and a corresponding increase of ThCh\$ 2,899,485 (historical) in the Company’s deferred tax asset. For Chilean GAAP purposes, this increase in deferred tax assets was recorded as a credit directly to Shareholders’ Equity to be amortized over future periods based on the consumption of the assets that originated it (Fixed Assets and Inventories). For US GAAP purposes, such changes in deferred taxes due to the reversals of timing differences were recorded for 2004 operating results as a credit to deferred tax expense. The effect of this adjustment is reflected in paragraph 1 t) 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 SFAS 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.

For the years ended December 31, 2007, 2006 and 2005 the Company's investments in marketable securities subject to SFAS No. 115 were not significant and therefore no adjustment to net income as reported pursuant to Chilean GAAP was necessary.

*h) Goodwill and purchase accounting*

Until January 1, 2004, under Chilean GAAP the excess of cost over the net book value of a purchased company is recorded as goodwill (the book value purchase method), which is then amortized to income over a maximum period of twenty years. The excess of net book value over the cost of an investment is considered to be negative goodwill under Chilean GAAP and is also amortized to income over a maximum period of twenty years.

Under US GAAP, goodwill and other intangibles are accounted for under SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires the purchase method of accounting be used for all business combinations and prohibits the use of the pooling-of-interests method of accounting after this date. With respect to the purchase method of accounting, the cost of an investment is assigned to the tangible and identified intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. Any excess of cost over the fair value of net assets acquired is recorded as goodwill. If an excess of acquired net assets over cost arises, the excess is allocated to reduce proportionally 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) is written off immediately as an extraordinary gain. SFAS No. 141 establishes specific criteria for the recognition of intangible assets separately from goodwill and requires unallocated negative goodwill to be written off immediately as an extraordinary gain (instead of being deferred and amortized).

SFAS No. 142, "Goodwill and Other Intangible Assets" establishes the following:

- The accounting for a recognized intangible asset is based on its useful life to the reporting entity. An intangible asset with a finite useful life is amortized over the life of the asset, but goodwill and other intangible assets with indefinite useful lives are not amortized.

- The remaining useful lives of intangible assets being amortized are evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying value of the intangible asset is amortized prospectively over the revised remaining useful life.
- Goodwill and other intangible assets with indefinite useful lives that are not subject to amortization are tested for impairment at least annually.
- All goodwill must be assigned to a reporting unit, which is defined as an operating segment or one level below an operating segment.

SFAS No. 142 became effective for years beginning after December 15, 2001. Accordingly, goodwill amortization was ceased for US GAAP purposes beginning in 2002.

In March 2005, the Company purchased, an 80% ownership in the entity Compañía Pisquera de Chile (see Note 1 b) (4)). The transaction was accounted for as a purchase under Chilean GAAP Technical Bulletin N°. 72, Business Combinations, (TB 72) and accordingly the assets new carrying value was determined based on the fair value at the date of purchase. In accordance with TB 72, the Company recognized goodwill for the excess purchase price over the fair value of the assets acquired in the amount of ThCh\$ 10,055,509 (historical). For US GAAP, this transaction was accounted for in accordance with FAS 141 and was not considered material to the Company. There were no material differences related to the application of purchase accounting under Chilean GAAP and US GAAP for this transaction.

The effects of the differences between Chilean and US GAAP in accounting for goodwill and negative goodwill (reversal of amortization for US GAAP) are shown in paragraph 1 t) below.

Under Chilean GAAP, the cost of an equity method investment is separated into an investment component (based on the purchase of the proportionate share of equity according to book values) and a goodwill component (based on the difference between the amount paid and the proportional book value of the investment). Under US GAAP, these components are combined in one balance sheet caption as an investment, and goodwill is determined in a manner similar to a consolidated subsidiary based on proportionate ownership. No disclosure has been presented of the effect of the reclassification between goodwill as determined under Chilean GAAP for equity method investments and goodwill determined under US GAAP as the effect of this reclassification is not significant.

*i) 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 adjusted for the deficit under developing period as determined in accordance with Chilean GAAP. Under Chilean GAAP, even though the minimum dividend is a legal requirement, the dividend is not recorded until it is declared by the Company. Since the payment of the 30% dividend out of each year's income is a legal requirement in Chile, a provision has been made in the accompanying US GAAP reconciliation in paragraph 1 t) below to recognize the corresponding decrease in net equity at December 31, 2007, 2006 and, 2005.

*j) Trademarks and brands names*

Under Chilean GAAP, beginning in 1998 trademarks are amortized over a period not exceeding 20 years; prior to 1998, trademarks were not required to be amortized. Under US GAAP, trademarks with definite useful lives are amortized over the remaining legal life or a period not exceeding 40 years. With respect to the purchase in 1999 of the additional 45% interest in ECUSA, the purchase price exceeded the fair value of the assets acquired and liabilities assumed on the date of purchase. As a result, trademarks with an assigned fair value of ThCh\$ 7,548,303 (historical) were determined. Under

US GAAP these trademarks were amortized over a period of five years which was determined to be the legal life of the trademark. As of December 31, 2004, these trademarks were fully amortized for US GAAP purposes. Additionally, trademarks held by Viña San Pedro S.A. and Compañía Cervecerías Unidas Argentina S.A. are being amortized over 20 years for Chilean GAAP but 40 years for US GAAP as there is no limited legal life. In 2005, as part of the CPCh acquisitions (see Note 24 1 h) above), the Company purchased various pisco brands names for a total cost of ThCh\$ 514,483 (historical). Under Chilean GAAP these brands are being amortized over the maximum permissible period of 20 years. For US GAAP these brands were also determined to have a 20 useful life. The adjustments for differences in amortization periods are made in the reconciliation between Chilean GAAP and US GAAP in the paragraph 1 t) below.

*k) Staff severance indemnities*

For Chilean GAAP purposes, the Company provides for severance indemnities when rights to such benefits have been formally guaranteed to employee groups. Severance indemnities are included in Accrued expenses and other liabilities in the Consolidated Balance Sheets.

As of December 31, 2007 and 2006 the liabilities for mandatory severance indemnities have been determined at their current value, based on the accrued cost of the benefit, using an annual discount interest rate of 6% . The calculation also considers the estimated years of service that the personnel will have at the date of their retirement. Until December 31, 2005, only certain agreements were considered mandatorily payable. Liabilities for certain others remaining agreements were recorded at their current value, considering certain contractual restrictions that required the Company to pay severances only for a limited amount of personnel each year.

In the case of the costs for severance indemnities that resulted from changes in the collective contractual agreements, which included increasing the agreed benefits, these effects have been recognized as an asset and are being amortized on the basis of the average expected term of permanence of the employees in the Company.

In accordance with Emerging Issues Task Force Issue No. 88-1, for US GAAP purposes the severance indemnities described above are determined based on the vested benefits to which the employees are entitled if they separate immediately (settlement basis). The difference in accounting for staff severance benefits between Chilean and US GAAP is included in the reconciliation to US GAAP under paragraph 1 t) below.

*l) Capitalization of interest*

Under Chilean GAAP, the capitalization of interest cost associated with projects under construction is optional when incurred on debt that is not directly related to such projects. Under US GAAP, the capitalization of interest of qualifying assets under construction is required, regardless of whether interest is associated with debt directly related to a project or not. The effect of the required capitalization pursuant to US GAAP and the related depreciation expense of this difference are included in paragraph 1 t) below.

*m) Capitalization of financing costs related to repaid debt*

At December 31, 2003, the Company had capitalized, within other assets, certain financing costs associated with two series of bonds issued in previous years and a syndicated loan issued during 2003. Both the bonds and the syndicated loan were subsequently repaid in full prior to maturity during September and November 2004, respectively, with the proceeds from a new series of bonds and a new syndicated loan (See Notes 10 and 11). For Chilean GAAP purposes, the unamortized capitalized financing costs from the initial bonds and loan, as well as the repayment costs, are carried forward as part of the capitalized financing costs of the new bonds and loan. Such aggregated financing costs are being amortized over the life of the new debt. For US GAAP purposes, the initial bonds and loan are



considered extinguished and a gain or loss is calculated on the extinguishment of debt taking into consideration all of the related capitalized financing costs associated with the extinguished debt. The effect of this difference is reflected in paragraph 1 t) below.

*n) Comprehensive income*

Comprehensive income (loss) is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For US GAAP purposes, companies are required to report comprehensive income and its components in a full set of general purpose financial statements. US GAAP requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Under Chilean GAAP, certain investments in foreign subsidiaries which operate in countries exposed to significant risk are accounted for under TB 64 (see Note 1 m)). As such, the differences between the investments' equity value arising from the financial statements remeasured at the beginning of the year restated by Chilean inflation, plus the proportional share of the investments income (or loss) for the year, is recorded in Shareholders' equity. For US GAAP, this difference would be reported in Comprehensive Income. Other Comprehensive Income and Accumulated Other Comprehensive Income required to be disclosed by this standard is shown in paragraph 1 t).

*o) Development stage results of operations*

Until December 31, 2006 for Chilean GAAP purposes, investments in majority-owned subsidiaries in the development stage are recorded by the equity method and the investor's proportional share of the subsidiary's results of operations are recorded as a component of Shareholders' equity. For US GAAP purposes, majority-owned subsidiaries in the development stage are consolidated and the results of their operations charged directly to income. The difference between charging development stage results to equity under Chilean GAAP until December 31, 2006 and to income under US GAAP has been included in the reconciliation of income under paragraph 1 v) below. No disclosure of the effects of consolidation of such subsidiaries has been made because the effects are not material.

*p) Accounting for joint venture in Viña Dassault San Pedro S.A.*

By Public Deed dated October 4, 2001, Viña San Pedro S.A. and Dassault Investment Fund Inc. formed Viña Totihue S.A., a closed Chilean company with a capital of US\$ 7 million (equivalent to ThCh\$ 4,930,559 historical pesos) and with 70,000 shares of no par value. Dassault Investment Fund Inc. received 35,000 shares (50% ownership interest) for its contribution in cash of US\$ 3.5 million (equivalent to ThCh\$ 2,465,279 historical pesos). Viña San Pedro S.A. also subscribed to 35,000 shares with a payment of US\$ 800,000 (equivalent to ThCh\$ 563,410 historical pesos) and the contribution of land with a value of US\$ 2.7 million (equivalent to ThCh\$ 1,901,787 historical pesos). The land consists of two parcels of land in Chile referred to as "Totihue" which will be used for the production of wine grapes. On May 7, 2003 Viña Totihue S.A. changed its name to Viña Dassault San Pedro S.A.

This transaction resulted in a gain under Chilean GAAP of ThCh\$ 869,740 (historical) because the book value of the land was ThCh\$ 1,032,047 (historical). Since Viña Totihue S.A. is an equity method investee of Viña San Pedro S.A., the Company deferred 50% of the gain generated in the transaction and recognized the other 50% in Other income in the statement of income for 2001. The deferred gain is being amortized to income annually under Chilean GAAP over period of 20 years.

Under US GAAP, the exchange of the land for an interest in the joint venture did not result in gain recognition because the investee received no cash. Accordingly, the gain on the exchange, and the subsequent amortization of the deferred gain, have been reversed in the reconciliation in paragraph 1 t) below.

*q) Subsidiary issuance of shares – negative goodwill*

In June 2005, the Company's subsidiary CCU Argentina S.A. issued shares of common stock. The subsidiary's minority investor did not participate in the offering and all shares were purchased by the Company. The stock was issued at a price below the book value of the shares resulting in an increase in the Company's percentage of ownership in its subsidiary. For Chilean GAAP purposes, the excess of the fair value of the acquired shares, and related assets, was recorded as negative goodwill and is being amortized over a period of 20 years. For US GAAP, when an investor buys more than its proportion of shares sold by an investee at a price under book value, the excess should first be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the eligible acquired assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess should be recognized as a gain. For US GAAP the related gain associated with this transaction is presented as a reconciling item in paragraph 1 t) below.

*r) Derivative financial instruments*

The Company enters into foreign currency forward exchange contracts to cover the risk of exposure to exchange rate differences on existing items on the balance sheet denominated in US dollars. Under these forward contracts, for any rate above or below the fixed rate, the Company receives or pays the difference between the spot rate and the fixed rate for the given amount at the settlement date. The terms of the foreign currency forward exchange contracts are generally less than one year. It also enters into cross-currency interest rate swaps in order to hedge its exposure to exchange rate and interest rate differences. Under these contracts the Company either, receives a fixed US dollar amount at a variable interest rate and pays a UF peso amount at a fixed interest rate. Counter-parties to these financial instruments expose the Company to credit-related losses in the event of nonperformance; however, counter-parties to these contracts are major financial institutions and the risk of loss due to nonperformance is believed to be minimal.

Under Chilean GAAP, derivatives are accounted for in accordance with Technical Bulletin 57, "Accounting for Derivative Contracts" ("TB 57"). Under TB 57, all derivative financial instruments should be recognized on the balance sheet at their fair value. In addition, TB 57 requires that derivative financial instruments be classified as Non-hedging (investment) instruments and Hedging instruments, the latter further divided into those covering existing transactions and those covering anticipated transactions.

Contracts to cover existing transactions hedge against the risk of a change in the fair value of a hedged item. The differences resulting from the changes in the fair value of both the hedged item and the derivative instrument should be accounted for as follows:

- a. If the net effect is a loss, it should be recognized in earnings in the period of change.
- b. If the net effect is a gain, it should be recognized when the contract is closed and accordingly deferred on the balance sheet.
- c. If the net effect is a gain and net losses were recorded on the transaction in prior years, a gain should be recognized in earnings in the current period up to the amount of net losses recorded previously.
- d. If the effect is a net loss and net gains were recorded (as deferred revenue) on the transaction in prior years, the gain should be utilized to offset the net loss before recording the remaining loss in the results of operations for the year.

Contracts to cover anticipated transactions are those that have the objective of protecting cash flow risks of a transaction expected to occur in the future (cash flow hedge). The hedging instrument should be recorded at its fair value and the changes in fair value should be stated on the balance sheet as unrealized gains or losses. When the contract is closed the unrealized gains or losses on the derivative

instrument should be recognized in earnings without affecting the cost or sales price of the asset acquired or sold in the transaction. However, probable losses arising from purchase commitments should not be deferred.

Non-hedging (investment) instruments should also be presented at their fair value, with changes in fair value reflected in the earnings of the period in which the change in fair value occurs.

At December 31, 2007, the Company has two cross-currency interest-rate swap agreement (US dollar to Chilean peso) to buy and sell US dollars for a notional amount of US\$ 170,000,000. At December 31, 2006 and 2005, the Company, had three cross-currency interest-rate swap agreement (US dollar to Chilean peso) to buy and sell US dollars for a notional amount of US\$ 134,000,000. These contracts were obtained to protect the Company from foreign exchange and interest-rate risk with respect to long-term bank debt denominated in US dollars.

At December 31, 2007, the Company has twenty three derivative contracts consisting of forward contracts to sell US dollars for a notional amount of US\$ 118,660,000 maturing throughout 2008. At December 31, 2006, the Company has eleven derivative contracts consisting of forward contracts to sell US dollars for a notional amount of US\$ 23,450,000. At December 31, 2005, the Company had fourteen derivative contracts consisting of forward contracts to sell US dollars for a total notional amount of US\$ 27,610,000. In addition, at December 31, 2007, the Company has ten derivative contracts consisting of forward contracts to buy US dollars for a notional amount of US\$ 33,786,000 maturing throughout 2008. At December 31, 2006, the Company has eight derivative contracts consisting of forward contracts to buy US dollars for a notional amount of US\$ 33,400,000. At December 31, 2005, the Company has eighteen derivative contracts consisting of forward contracts to buy US dollars for a notional amount of US\$ 18,588,000. These forward contracts were obtained to protect the Company from foreign exchange risk with respect to mutual fund shares and trade accounts receivable denominated in US dollars.

Under US GAAP, the Company applies SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS 137 and SFAS 138 on the same matter (collectively referred to herein as "SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS 133 requires that all derivative instruments be recognized on the balance sheet at fair value and that changes in the fair value be recognized in income when they occur, the only exception being derivatives that qualify as hedges. To qualify the derivative instrument as a hedge, the Company must meet strict hedge effectiveness and contemporaneous documentation requirements at the initiation of the hedge and assess the hedge effectiveness on an ongoing basis over the life of the hedge. At December 31, 2007, 2006 and 2005, the forward contracts and the cross-currency interest-rate swap contracts designated as hedges for Chilean GAAP purposes, did not meet the documentation requirements to be designated as hedges under US GAAP. Accordingly, for US GAAP purposes the Company recognizes all changes in fair values in results as incurred. During the year ended December 31, 2007, 2006 and 2005, deferred gains have been recognized for certain derivative contracts under Chilean GAAP. Deferrals are not permitted under US GAAP for companies that not qualify for hedge accounting. These deferred gains have been adjusted for in paragraph 1 t ) below.

*s) Provision for Restructuring Costs*

The Company recorded under Chilean GAAP provisions related to the restructuring of a portion of its operations. The provisions were made mainly for the costs of termination indemnity payments.

The recognition of liabilities related to a restructuring process under US GAAP is prescribed by SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). In order to recognize a liability for employee termination benefits and other restructuring costs under SFAS 146, prior to the date of the financial statements, certain specific conditions must be met or exist.

At December 31, 2007 and 2006, some of the required conditions had not been met or did not exist with respect to the restructuring process of the Company and certain of its subsidiaries; therefore, an adjustment to reverse the restructuring provisions was included in the reconciliation to US GAAP for the years ended December 31, 2007 and 2006 is included in paragraph 1 t), below.

t) *Effects of conforming to US GAAP*

The adjustments to reported net income pursuant to Chilean GAAP 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, 2007 purchasing power):

	<u>2007</u> ThCh\$	<u>2006</u> ThCh\$	<u>2005</u> ThCh\$
Net income as shown in the Chilean GAAP financial statements.....	79,199,216	59,964,357	52,828,822
Reversal of revaluation of fixed assets held for sale (par. 1c ).....	1,085,398	892,841	-
Adjustment to depreciation of fixed assets held for sale (par. 1c).....	(1,457,305)	-	-
Reversal of impairment of fixed assets held for sale (par. 1c).....	(341,268)	-	(722,424)
Adjustment related to sale of land (par. 1d).....	(161,752)	(179,795)	(196,708)
Adjustment for deferred income taxes (par. 1e).....	156,933	1,782,202	600,909
Deferred tax assets generated from the merger of subsidiaries (par. 1f).....	(235,920)	(399,443)	(1,156,073)
Adjustment for amortization of goodwill and negative goodwill (par. 1h).....	2,667,685	3,791,614	2,769,144
Adjustment for amortization of trademarks with different useful lives (par. 1j).....	270,560	283,837	306,347
Adjustment for employee severance indemnities (par. 1k).....	437,779	(10,085,932)	(3,709,720)
Adjustment for capitalization of interest cost (par. 1l).....	2,770,491	883,919	451,471
Adjustment for capitalized costs on repaid debt (par. 1m).....	356,135	356,135	356,135
Reversal of deficit during development period of subsidiary (par. 1o).....	-	(695,662)	(508,379)
Reversal of gain on investment in Viña Dessault San Pedro S.A. (par. 1p).....	(14,368)	(14,368)	(14,368)
Reversal of negative goodwill for share issuance of Compañía Cervecerías Unidas Argentina S.A. (par.1q).....	-	-	724,390
Derivative financial instrument (par. 1r).....	1,328,133	(1,450,947)	2,633,758
Provision for Restructuring Cost (par. 1s).....	(1,501,288)	1,731,288	-
Net income according to US GAAP.....	<u>84,560,429</u>	<u>56,860,046</u>	<u>54,363,304</u>
Other comprehensive income adjustments:			
Foreign currency translation adjustments.....	(10,889,144)	1,828,218	(11,483,110)
Unrealized gains (losses) on securities (par. 1g).....	-	-	90,487
Other comprehensive gains (loss) income adjustments.....	<u>(10,889,144)</u>	<u>1,828,218</u>	<u>(11,392,623)</u>
Comprehensive income in accordance with US GAAP (par. 1n).....	<u>73,671,285</u>	<u>58,688,264</u>	<u>42,970,681</u>

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

	<u>2007</u> ThCh\$	<u>2006</u> ThCh\$	<u>2005</u> ThCh\$
Net equity as shown in the Chilean GAAP financial statements.....	401,795,860	375,070,382	349,834,152
Reversal of revaluation of property, plant and equipment (par. 1b).....	(3,109,827)	(3,109,827)	(3,109,827)
Reversal of accumulated depreciation on revaluation of property, plant and equipment (par. 1b).....	(274,210)	(274,210)	(274,210)
Reversal of revaluation of fixed assets held for sale (par. 1c).....	(6,361,410)	(7,732,986)	(8,461,286)
Reversal of accumulated depreciation on revaluation of fixed assets held for sale (par. 1c).....	1,111,599	1,397,777	1,233,236
Adjustment to depreciation of fixed assets held for sale (par. 1c).....	(1,457,305)	-	-
Reversal of previously recognized impairment losses (par. 1c).....	(1,063,692)	(722,424)	(722,424)
Reversal of gain on sale of land (par. 1d).....	(4,070,115)	(3,908,363)	(3,728,568)
Assets (liabilities) from deferred income taxes under FAS 109 (par. 1e).....	2,869,704	2,712,771	930,569
Adjustment of goodwill and negative goodwill on equity investments (par. 1h).....	29,913,179	27,245,494	23,453,880
Minimum dividend permitted by law (par. 1i).....	(8,790,130)	(6,016,784)	(5,370,979)
Amortization of trademarks for different useful lives (par. 1j).....	(6,462,753)	(6,733,313)	(7,017,150)
Adjustment of employee severance indemnities (par. 1k).....	(15,961,064)	(16,398,843)	(6,312,911)
Adjustment for capitalization of interest cost (par. 1l).....	9,600,657	6,830,166	5,946,246
Reversal of capitalized issuance costs (par. 1m).....	(1,061,068)	(1,417,203)	(1,773,338)
Reversal of gain on investment in Viña Dassault San Pedro S.A. (par. 1p).....	(597,774)	(583,406)	(569,038)
Reversal of negative goodwill for change Compañía Cervecerías Unidas Argentina S.A. participation (par. 1q).....	724,390	724,390	724,390
Derivative financial instruments (par. 1r).....	2,510,944	1,182,811	2,633,758
Provision for Restructuring Cost (par. 1s).....	230,000	1,731,288	-
Net equity according to US GAAP.....	399,546,985	369,997,720	347,416,500
Accumulated other comprehensive income (loss) at January 1°.....	(16,444,887)	(18,273,105)	(6,880,482)
Other comprehensive income (loss) adjustments.....	(10,889,144)	1,828,218	(11,392,623)
Accumulated Other Comprehensive Income (Loss) in accordance with US GAAP.....	(27,334,031)	(16,444,887)	(18,273,105)

The following summarizes the changes in Shareholders' equity under US GAAP during the years ended December 31, 2007, 2006 and 2005:

	<u>ThCh\$</u>
Balance at December 31, 2004.....	337,392,740
Dividend declared.....	(33,280,711)
Reversal of accrued minimum dividend from prior year.....	5,701,259
Minimum dividend at year-end required by law.....	(5,370,979)
Net income for the year.....	54,363,304
Cumulative translation adjustment for the year.....	(11,248,407)
Unrealized losses on securities.....	(140,706)
Balance at December 31, 2005.....	347,416,500
Dividend declared.....	(35,461,239)
Reversal of accrued minimum dividend from prior year.....	5,370,979
Minimum dividend at year-end required by law.....	(6,016,784)
Net income for the year.....	56,860,046
Cumulative translation adjustment for the year.....	1,828,218
Balance at December 31, 2006.....	369,997,720
Dividend declared.....	(41,348,674)
Reversal of accrued minimum dividend from prior year.....	6,016,784
Minimum dividend at year-end required by law.....	(8,790,130)
Net income for the year.....	84,560,429
Cumulative translation adjustment for the year.....	(10,889,144)
Balance at December 31, 2007.....	399,546,985
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## 2. US GAAP Condensed Financial Statements

**CONSOLIDATED BALANCE SHEET**  
Adjusted for general price-level changes and expressed in thousands  
of constant Chilean pesos of December 31, 2007

	As of December 31, 2007		
	Consolidated Balance Sheet under <u>Chilean GAAP</u>	US GAAP adjustments and <u>reclassifications</u>	Consolidated Balance Sheet <u>under US GAAP</u>
	ThCh\$	ThCh\$	ThCh\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents (1).....	116,714,136	-	116,714,136
Marketable securities.....	290,189	(273,212)	16,977
Investments in available-for-sale securities.....	-	273,212	273,212
Accounts receivable-trade and other.....	120,059,775	-	120,059,775
Accounts receivable from related companies.....	5,733,556	-	5,733,556
Inventories.....	77,380,594	-	77,380,594
Prepaid expenses.....	7,239,983	-	7,239,983
Prepaid taxes.....	2,935,373	-	2,935,373
Deferred income taxes.....	1,582,061	-	1,582,061
Other current assets.....	<u>2,469,561</u>	<u>-</u>	<u>2,469,561</u>
Total current assets.....	<u>334,405,228</u>	<u>-</u>	<u>334,405,228</u>
PROPERTY, PLANT AND EQUIPMENT, net.....	393,980,915	5,080,189	399,061,104
OTHER ASSETS.....	<u>98,230,344</u>	<u>9,629,237</u>	<u>107,859,581</u>
Total assets.....	<u>826,616,487</u>	<u>14,709,426</u>	<u>841,325,913</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Short-term borrowings.....	5,613,094	-	5,613,094
Current portion of long-term debt.....	4,739,039	-	4,739,039
Dividends payable.....	15,672,558	8,790,130	24,462,688
Accounts payable.....	56,763,503	-	56,763,503
Notes payable.....	3,606,563	-	3,606,563
Other payables.....	6,557,196	-	6,557,196
Accounts payable to related companies.....	3,443,606	-	3,443,606
Accrued expenses.....	31,686,535	(230,000)	31,456,535
Withholding taxes payable.....	16,545,050	-	16,545,050
Income Tax.....	5,085,117	-	5,085,117
Other current liabilities.....	<u>1,002,823</u>	<u>-</u>	<u>1,002,823</u>
Total current liabilities.....	<u>150,715,084</u>	<u>8,560,130</u>	<u>159,275,214</u>
<b>LONG-TERM LIABILITIES</b>			
Long-term debt.....	163,084,180	4,070,115	167,154,295
Accrued expenses.....	11,953,355	7,197,760	19,151,115
Deferred income taxes.....	15,124,808	(2,869,704)	12,255,104
Other long-term liabilities.....	<u>29,348,868</u>	<u>-</u>	<u>29,348,868</u>
Total long-term liabilities.....	<u>219,511,211</u>	<u>8,398,171</u>	<u>227,909,382</u>
Total liabilities.....	<u>370,226,295</u>	<u>16,958,301</u>	<u>387,184,596</u>
MINORITY INTEREST.....	54,594,332	-	54,594,332
<b>SHAREHOLDERS' EQUITY</b>			
Common stock.....	197,925,086	-	197,925,086
Share premium.....	15,479,173	-	15,479,173
Other reserves.....	(21,788,821)	235,920	(21,552,901)
Retained earnings.....	<u>210,180,422</u>	<u>(2,484,795)</u>	<u>207,695,627</u>
Total shareholders' equity.....	<u>401,795,860</u>	<u>(2,248,875)</u>	<u>399,546,985</u>
Total liabilities and shareholders' equity.....	<u>826,616,487</u>	<u>14,709,426</u>	<u>841,325,913</u>

(1) This caption includes time deposits, marketable securities and securities under resale agreements amounting to ThCh\$ 25,333,669, ThCh\$ 45,552,765 and ThCh\$ 26,135,000, respectively, which are cash equivalents.



**CONSOLIDATED BALANCE SHEET**  
**Adjusted for general price-level changes and expressed in thousands**  
**of constant Chilean pesos of December 31, 2007**

	As of December 31, 2006		
	Consolidated Balance Sheet under Chilean GAAP ThCh\$	US GAAP adjustments and reclassifications ThCh\$	Consolidated Balance Sheet under US GAAP ThCh\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents (1).....	68,918,654	-	68,918,654
Marketable securities.....	5,493,373	(273,212)	5,220,161
Investments in available-for-sale securities.....	-	273,212	273,212
Accounts receivable-trade and other.....	113,377,107	-	113,377,107
Accounts receivable from related companies.....	4,588,451	-	4,588,451
Inventories.....	75,326,462	-	75,326,462
Prepaid expenses.....	3,726,380	-	3,726,380
Prepaid taxes.....	2,576,414	-	2,576,414
Deferred income taxes.....	2,898,274	(2,898,274)	-
Other current assets.....	1,564,757	-	1,564,757
Total current assets.....	<u>278,469,872</u>	<u>(2,898,274)</u>	<u>275,571,598</u>
PROPERTY, PLANT AND EQUIPMENT, net.....	366,633,856	1,832,038	368,465,894
OTHER ASSETS.....	<u>104,371,007</u>	<u>11,496,908</u>	<u>115,867,915</u>
Total assets.....	<u><u>749,474,735</u></u>	<u><u>10,430,672</u></u>	<u><u>759,905,407</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Short-term borrowings.....	6,003,004	-	6,003,004
Current portion of long-term debt.....	25,357,335	-	25,357,335
Dividends payable.....	12,760,358	6,016,783	18,777,141
Accounts payable.....	47,175,996	-	47,175,996
Notes payable.....	1,114,521	-	1,114,521
Other payables.....	6,548,611	-	6,548,611
Accounts payable to related companies.....	2,306,945	-	2,306,945
Accrued expenses.....	28,332,453	(2,592,461)	25,739,992
Withholding taxes payable.....	14,952,032	-	14,952,032
Income Tax.....	5,377,292	-	5,377,292
Other current liabilities.....	2,572,728	-	2,572,728
Total current liabilities.....	<u>152,501,275</u>	<u>3,424,322</u>	<u>155,925,597</u>
<b>LONG-TERM LIABILITIES</b>			
Long-term debt.....	126,035,859	8,760,069	134,795,928
Accrued expenses.....	9,551,064	11,358,142	20,909,206
Deferred income taxes.....	16,822,843	(5,611,045)	11,211,798
Other long-term liabilities.....	24,252,178	(2,428,154)	21,824,024
Total long-term liabilities.....	<u>176,661,944</u>	<u>12,079,012</u>	<u>188,740,956</u>
Total liabilities.....	<u>329,163,219</u>	<u>15,503,334</u>	<u>344,666,553</u>
MINORITY INTEREST.....	45,241,134	-	45,241,134
<b>SHAREHOLDERS' EQUITY</b>			
Common stock.....	197,925,086	-	197,925,086
Share premium.....	15,479,173	-	15,479,173
Other reserves.....	(10,663,788)	399,443	(10,264,345)
Retained earnings.....	172,329,911	(5,472,105)	166,857,806
Total shareholders' equity.....	<u>375,070,382</u>	<u>(5,072,662)</u>	<u>369,997,720</u>
Total liabilities and shareholders' equity.....	<u><u>749,474,735</u></u>	<u><u>10,430,672</u></u>	<u><u>759,905,407</u></u>

(1) This caption includes time deposits, marketable securities and securities under resale agreements amounting to ThCh\$ 6,873,600 ThCh\$ 3,628,807 and ThCh\$ 43,496,997, respectively, which are cash equivalents.

## CONSOLIDATED STATEMENT OF INCOME

**Adjusted for general price-level changes and expressed in thousands  
of constant Chilean pesos of December 31, 2007**

	As of December 31, 2007		
	Consolidated Statement of Income <u>under Chilean GAAP</u>	US GAAP adjustments and <u>reclassifications</u>	Consolidated Statement of Income <u>under US GAAP</u>
	ThCh\$	ThCh\$	ThCh\$
<b>OPERATING RESULTS</b>			
Net sales.....	628,284,122	-	628,284,122
Cost of sales.....	<u>(295,281,857)</u>	<u>(31,188,157)</u>	<u>(326,470,014)</u>
Gross margin.....	333,002,265	(31,188,157)	301,814,108
Selling and administrative expenses.....	<u>(231,618,217)</u>	<u>32,106,416</u>	<u>(199,511,801)</u>
Operating income.....	<u>101,384,048</u>	<u>918,259</u>	<u>102,302,307</u>
<b>NON-OPERATING RESULTS</b>			
Non-operating income.....	20,247,598	694,021	20,941,619
Non-operating expenses.....	(19,062,264)	3,827,920	(15,234,344)
Price-level restatements and exchange differences.....	<u>(4,521,926)</u>	<u>-</u>	<u>(4,521,926)</u>
Income before income taxes and minority interest.....	98,047,456	5,440,200	103,487,656
<b>EXTRAORDINARY ITEMS</b>			
Income taxes.....	(16,668,413)	(78,987)	(16,747,400)
Minority interest.....	<u>(2,179,827)</u>	<u>-</u>	<u>(2,179,827)</u>
NET INCOME.....	<u>79,199,216</u>	<u>5,361,213</u>	<u>84,560,429</u>

## CONSOLIDATED STATEMENT OF INCOME

**Adjusted for general price-level changes and expressed in thousands  
of constant Chilean pesos of December 31, 2007**

	As of December 31, 2006		
	Consolidated Statement of Income under Chilean GAAP	US GAAP adjustments and reclassifications	Consolidated Statement of Income under US GAAP
	ThCh\$	ThCh\$	ThCh\$
<b>OPERATING RESULTS</b>			
Net sales.....	586,186,120	-	586,186,120
Cost of sales.....	<u>(279,121,320)</u>	<u>(28,640,642)</u>	<u>(307,761,962)</u>
Gross margin.....	307,064,800	(28,640,642)	278,424,158
Selling and administrative expenses.....	<u>(221,475,401)</u>	<u>16,255,471</u>	<u>(205,219,930)</u>
Operating income.....	<u>85,589,399</u>	<u>(12,385,171)</u>	<u>73,204,228</u>
<b>NON-OPERATING RESULTS</b>			
Non-operating income.....	8,398,333	840,096	9,238,429
Non-operating expenses.....	(18,307,693)	7,058,005	(11,249,688)
Price-level restatements and exchange differences.....	<u>(680,587)</u>	<u>-</u>	<u>(680,587)</u>
Income before income taxes and minority interest.....	74,999,452	(4,487,070)	70,512,382
<b>EXTRAORDINARY ITEMS</b>			
Income taxes.....	(15,288,073)	1,382,759	(13,905,314)
Minority interest.....	<u>252,978</u>	<u>-</u>	<u>252,978</u>
<b>NET INCOME.....</b>	<u><u>59,964,357</u></u>	<u><u>(3,104,311)</u></u>	<u><u>56,860,046</u></u>

**CONSOLIDATED STATEMENT OF INCOME**

**Adjusted for general price-level changes and expressed in thousands  
of constant Chilean pesos of December 31, 2007**

	As of December 31, 2005		
	Consolidated Statement of Income under Chilean GAAP ThCh\$	US GAAP adjustments and reclassifications ThCh\$	Consolidated Statement of Income under US GAAP ThCh\$
<b>OPERATING RESULTS</b>			
Net sales.....	539,556,009	-	539,556,009
Cost of sales.....	<u>(258,467,566)</u>	<u>(25,399,022)</u>	<u>(283,866,588)</u>
Gross margin.....	281,088,443	(25,399,022)	255,689,421
Selling and administrative expenses.....	<u>(208,200,595)</u>	<u>21,027,948</u>	<u>(187,172,647)</u>
Operating income.....	<u>72,887,848</u>	<u>(4,371,074)</u>	<u>68,516,774</u>
<b>NON-OPERATING RESULTS</b>			
Non-operating income.....	3,561,037	(779,414)	2,781,623
Non-operating expenses.....	(13,507,217)	6,515,743	(6,991,474)
Price-level restatements and exchange differences.....	<u>(211,144)</u>	<u>-</u>	<u>(211,144)</u>
Income before income taxes and minority interest.....	62,730,524	1,365,255	64,095,779
<b>EXTRAORDINARY ITEMS</b>	-	724,390	724,390
Income taxes.....	(9,994,914)	(555,163)	(10,550,077)
Minority interest.....	<u>93,212</u>	<u>-</u>	<u>93,212</u>
<b>NET INCOME</b> .....	<u>52,828,822</u>	<u>1,534,482</u>	<u>54,363,304</u>

3. Additional disclosure requirements

a) *Reclassifications for US GAAP purposes*

*Income and expenses*

Under Chilean GAAP the following expenses arising during the years 2007, 2006 and 2005 are classified as Non-operating expenses whereas under US GAAP they would be classified as Operating expenses:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	ThCh\$	ThCh\$	ThCh\$
Non-operating expenses:			
Director's participation on dividend .....	-	-	342,094
Loss on sale, provision for impairment and write-offs of assets .....	1,283,281	1,911,243	383,100
Severance indemnities.....	<u>2,718,212</u>	<u>1,022,061</u>	<u>330,658</u>
Total	4,001,493	2,933,304	1,055,852
	=====	=====	=====

*Selling and administrative expenses* - Under Chilean GAAP, shipping and handling costs are charged to Selling and administrative expenses whereas under US GAAP, the Company's policy is to classify shipping and handling costs in costs of sales. Shipping and handling costs amounted to ThCh\$ 29,730,852, ThCh\$ 27,944,980 and ThCh\$ 24,890,643 in 2007, 2006 and 2005, respectively.

*Cash and cash equivalents* - As shown in Note 1 t), Cash and cash equivalents included in the Consolidated Statement of Cash Flows are recorded in separate captions on the balance sheet under Chilean GAAP. They are required to be shown combined as a single caption in balance sheets prepared under US GAAP. Accordingly, the following cash equivalents should be reclassified and included in the caption Cash and cash equivalents for US GAAP presentation purposes:

	<u>2007</u>	<u>2006</u>
	ThCh\$	ThCh\$
Time deposits .....	25,333,669	6,873,600
Mutual fund shares .....	45,552,765	3,628,807
Securities purchased under resale agreements .....	<u>26,135,000</u>	<u>43,496,997</u>
Total.....	97,021,434	53,999,404
	=====	=====

b) *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:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	Ch\$	Ch\$	Ch\$
Basic and diluted earnings per share under US GAAP .....	268.74	178.52	170.68
Weighted-average number of shares of common stock outstanding for basic and diluted earnings per share (in thousands).....	318,503	318,503	318,503

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

c) *Income taxes*

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	ThCh\$	ThCh\$	ThCh\$
Current tax expense	(15,880,996)	(12,180,743)	(11,828,100)
Deferred tax under Chilean GAAP	(787,417)	(3,107,330)	1,833,187
Deferred tax assets generated from the merger (Note 24.1.f)	(235,920)	(399,443)	(1,156,073)
Additional deferred tax to conform with US GAAP	<u>156,933</u>	<u>1,782,202</u>	<u>600,909</u>
Total provision for US GAAP	(16,747,400)	(13,905,314)	(10,550,077)
	=====	=====	=====

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	ThCh\$	ThCh\$	ThCh\$
Property, plant and equipment	(19,635,397)	(19,916,732)	(19,846,951)
Inventories	(2,068,067)	(2,403,702)	(1,585,112)
Adjustment on bottles and container deposits	(3,169,593)	(3,053,967)	(2,975,415)
Other liabilities	<u>(2,387,797)</u>	<u>(2,276,971)</u>	<u>(2,668,957)</u>
Gross deferred tax liabilities	(27,260,854)	(27,651,372)	(27,076,435)
Accounts receivable	567,359	599,681	730,544
Tax loss carryforwards	4,016,006	6,952,844	10,600,363
Less: Valuation allowance	(465,719)	(3,256,272)	(3,421,674)
Employee severance indemnities	3,020,769	3,063,596	1,018,913
Other assets	7,072,589	6,363,163	6,019,183
Other	<u>2,376,807</u>	<u>2,716,562</u>	<u>2,948,284</u>
Gross deferred tax assets	16,587,811	16,439,574	17,895,613
Net deferred tax assets (liabilities)	(10,673,043)	(11,211,798)	(9,180,822)
	=====	=====	=====

The changes in the valuation allowance during the years ended December 31, 2007, 2006 and 2005 were as follows:

<u>Year</u>	<u>Balance at beginning of period</u>	<u>Additions charged to cost and expenses</u>	<u>Charged against income</u>	<u>Foreign exchange effects</u>	<u>Balance at end of period</u>
	ThCh\$	ThCh\$	ThCh\$	ThCh\$	ThCh\$
2007	3,256,272	-	(2,588,384)	(202,169)	465,719
2006	3,421,674	-	(289,497)	124,095	3,256,272
2005	4,842,016	536,738	(1,441,167)	(515,913)	3,421,674

The provision for income taxes differs from the amount of income taxes determined by applying the applicable Chilean statutory income tax rate of 17% during the years 2005 to 2007, to pretax income as a result of the following differences:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	ThCh\$	ThCh\$	ThCh\$
At statutory Chilean tax rate	15,556,880	11,737,190	15,908,897
Increase (decrease) in rates resulting from:			
Non-deductible expenses	7,041,582	7,697,472	4,380,363
Non-taxable income	(6,561,688)	(6,719,368)	(9,612,045)
Tax credits	(961,746)	(985,334)	(921,099)
International income tax differences	<u>1,672,372</u>	<u>2,175,354</u>	<u>793,961</u>
At effective tax rates	<u>16,747,400</u>	<u>13,905,314</u>	<u>10,550,077</u>

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.

The Argentine enacted income tax rate was 35% during the years 2005 to 2007.

Certain of the Chilean subsidiaries have tax loss carryforwards aggregating ThCh\$ 18,587,034 at December 31, 2007 (ThCh\$ 15,193,756 in 2006) which have no expiration date. Additionally, CCU Argentina and its subsidiaries and Finca La Celia S.A. and subsidiary, have tax loss carryforwards aggregating ThCh\$ 2,328,550 at December 31, 2007 (ThCh\$ 11,903,759 in 2006) which may be applied to reduce taxable income in Argentina during a five-year carryforward period. These tax losses resulted in a deferred tax asset for 2007 of ThCh\$ 4,016,006 (ThCh\$ 6,952,844 in 2006 and ThCh\$ 10,600,363 in 2005). Valuation allowances of ThCh\$ 465,719 in 2007 (ThCh\$ 3,256,272 in 2006 and ThCh\$ 3,421,674 in 2005) were provided against certain of the deferred tax assets of the Argentine subsidiaries because it is currently expected that those assets will probably not be realized before they expire.

*d) Investment securities*

The book value of investment securities totaled ThCh\$ 273,212 at December 31, 2007 and ThCh\$ 273,212 at December 31, 2006. There was no significant difference between book value and market value at December 31, 2007 and 2006 (see paragraph 1 f) above). All investment securities are classified as available-for-sale at December 31, 2007 and 2006.

*e) Intangible Assets - Trademarks*

The Company's other intangible assets consists primarily of trademarks related to beers, wines, pisco, juices, soft drink and snacks. Trademarks are considered to have definite lives and are amortized over the life of either the legal trademark agreement, or 20 years. The weighted average amortization period is 40 years for US GAAP purposes. Trademarks are reviewed for impairment, whenever events or changes in business circumstances indicate the carrying value of the assets may not be fully recoverable or the useful lives are no longer appropriate.

The changes in the carrying amount of trademarks during the periods were:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
2007	26,135,427	-	(16,786,999)(1)	9,348,428
2006	10,215,800	16,153,773	(234,146)	26,135,427

The aggregate amortization expense for trademarks was ThCh\$ 2,078,766 and ThCh\$ 1,903,283 for the years ended December 31, 2007 and 2006, respectively. The estimated amortization expense for each of the five succeeding fiscal years is ThCh\$ 271,543.

(1) Correspond to a trademarks contributed to the equity investee.

*f) Fair value*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument at December 31, 2007 and 2006 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.
- Accounts receivable, accounts payable, notes payable and other payables  
Fair value approximates carrying amounts due to the short-term maturity of these instruments.
- Investments in other companies  
Fair value of common stock in companies is based on quoted market prices for the stock.



- Securities purchased under resale agreements  
Fair value of securities purchased under resale agreement 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.
- Financial instruments

The fair value of foreign currency forward exchange contracts and swap contracts is based on estimated market valuations. Such values attempt to approximate the economic value at the balance sheet date of a position using prices and rates at the average of the estimated bid and offer for the respective underlying assets or reference rates and/or mathematical models, as deemed appropriate by the Company. In the absence of sufficient or meaningful market information, such valuations or components thereof may be theoretical in whole or in part.

The estimated fair values of the Company's financial instruments is summarized as follows:

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	<u>Carrying Amounts</u>	<u>Fair Value</u>	<u>Carrying Amounts</u>	<u>Fair Value</u>
<u>Assets</u>				
Cash.....	19,692,702	19,692,702	14,919,261	14,919,261
Time Deposits And Marketable Securities.....	71,176,624	71,490,301	15,995,767	16,262,539
Accounts receivable-trade and other, net....	120,059,775	120,059,775	113,377,107	113,377,107
Investments in Other companies.....	19,743	19,743	17,130	17,130
Securities purchased under resale agreements.....	26,189,688	26,189,688	43,566,304	43,566,304
Other Current Assets.....	840,546	840,546	778,246	778,246
Forward Contracts.....	284,917	284,917	181,926	181,926
Total Assets.....	<u>238,263,995</u>	<u>238,577,672</u>	<u>188,835,741</u>	<u>189,102,513</u>
<u>Liabilities</u>				
Bank Borrowings (short-term).....	5,613,094	5,502,743	6,003,004	5,962,376
Bond Payable (short-term).....	4,000,782	5,557,121	4,198,510	5,898,027
Current Portion of Long-Term Bank Borrowings.....	738,257	2,671,607	21,158,825	21,805,745
Bank Borrowings (long-term).....	107,110,542	98,403,822	66,414,478	66,115,119
Bond Payable (long-term).....	55,973,638	54,893,264	59,621,381	58,402,387
Accounts payable, notes payable and other payables.....	66,927,262	66,927,262	59,741,703	59,741,703
Forward Contracts.....	974,961	974,961	66,997	66,997
Swap Contracts.....	18,401,118	18,401,118	13,891,032	13,891,032
Total Liabilities.....	<u>259,739,654</u>	<u>253,331,898</u>	<u>231,095,930</u>	<u>231,883,386</u>

*g) Concentrations of credit and other risk*

The Company has accounts with a variety of banks and does not hold significant deposits with any single bank. The Company has a wide customer base and trades with a large number of small customers. Consequently, the Company does not believe that it has any significant concentrations of credit risk at December 31, 2007. The beverage business is highly competitive in both Chile and Argentina, where the Company competes with other enterprises. Additionally, in view of the favorable long-term economic conditions in Chile, other enterprises may be expected to enter the country's beer, wine and soft drink markets.

The Company's results may 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, wine and soft drinks markets in Chile and Argentina.

*h) Derivative instruments and hedging activities*

The Company's activities expose it to a variety of market risks, including risks related to the effects of changes in foreign currency exchange rates and interest rates. These financial exposures are monitored and managed by the Company as an integral part of its overall risk management program. The Company's risk management program focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on its operating results.

At December 31, 2007, the Company has two cross-currency interest-rate swap agreement (US dollar to Chilean peso) to buy and sell US dollars for a notional amount of US\$ 170,000,000. At December 31, 2006 and 2005, the Company, has three cross-currency interest-rate swap agreement (US dollar to Chilean peso) to buy and sell US dollars for a notional amount of US\$ 134,000,000. These contracts were obtained to protect the Company from foreign exchange and interest-rate risk with respect to long-term bank debt denominated in US dollars

At December 31, 2007, the Company has twenty three derivative contracts consisting of forward contracts to sell US dollars for a notional amount of US\$ 118,660,000 maturing throughout 2008. At December 31, 2006, the Company has eleven derivative contracts consisting of forward contracts to sell US dollars for a notional amount of US\$ 23,450,000. At December 31, 2005, the Company had fourteen derivative contracts consisting of forward contracts to sell US dollars for a total notional amount of US\$ 27,610,000. In addition, at December 31, 2007, the Company has ten derivative contracts consisting of forward contracts to buy US dollars for a notional amount of US\$ 33,786,000 maturing throughout 2008. At December 31, 2006, the Company has eight derivative contracts consisting of forward contracts to buy US dollars for a notional amount of US\$ 33,400,000. At December 31, 2005, the Company has eighteen derivative contracts consisting of forward contracts to buy US dollars for a notional amount of US\$ 18,588,000. These forward contracts were obtained to protect the Company from foreign exchange risk with respect to mutual fund shares and trade accounts receivable denominated in US dollars.

As described further in Note 1 r) at December 31, 2007, 2006 and 2005, the forward contracts, and at December 31, 2006 and 2005, the cross-currency interest-rate swap contracts designated as hedges for Chilean GAAP purposes, did not meet the documentation requirements to be designated as hedges under US GAAP.

#### 4. Recent accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. The provisions of this statement are to be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, with any transition adjustment recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The provisions of SFAS No. 157 are effective for the fiscal years beginning after November 15, 2007 for financial assets and liabilities and November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) liabilities others . The Company is currently evaluating the impact that will result from the adoption of SFAS 157.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Options for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 allows, on a contract-by-contract basis, to make an irrevocable election to account for certain types of financial instruments and warranty and insurance contracts at fair value, rather than historical cost, with changes in the fair value, whether realized or unrealized, recognized in earnings. SFAS No. 159 is effective as of the beginning of the entity's first fiscal year that begins after November 15, 2007. The Company is evaluating the impact, if any, of the adoption of SFAS No. 159.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) "Business Combinations" ("SFAS No. 141(R)"). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 141(R) to have an effect on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160") – an amendment of ARB No. 51. SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity.

The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains it controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the adoption of SFAS 160 will have an effect on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161 “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”). The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is in the process of evaluating the financial impact of adopting SFAS 161.

## Signatures

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

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



Roberto Jofre  
Chief Executive Officer

*BJ*

Date: June 27, 2008