

## **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 approximately 89.9% of our revenues in 2003 were generated from our Chilean operations. Thus, our results of operations and financial condition are to a large extent dependent on the overall level of economic activity in Chile . Although the Chilean economy experienced an average yearly growth of 7.7% between 1990 and 1997, it experienced an average yearly growth of only 2.5% between 1998 and 2003. Historically, slower economic growth in Chile has negatively affected demand for our products and adversely affected our profitability. We cannot make any assurances that economic growth in Chile will return to its prior levels.

**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 accounting and reporting standards and U.S. 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 25 to our consolidated financial statements for a description of the principal differences between Chilean GAAP and U.S. GAAP as they relate to us and reconciliation to U.S. GAAP of our net income and total shareholders' equity.

**The relative liquidity and volatility of Chilean securities markets may increase the volatility of the price of our ADSs and adversely impact a holder's ability to sell any shares of our common stock withdrawn from our ADR facility.**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\$86 billion as of December 31, 2003 while as of December 31, 2003, The New York Stock Exchange had a market capitalization of approximately US\$17.3 trillion and the NASDAQ National Market had a capitalization of approximately US\$2.8 trillion. In addition, the Chilean securities markets may 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 compared 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 against the U.S. dollar could adversely affect the dollar value of our ADSs 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. In the period from December 31, 1999 to

December 31, 2002, the value of the Chilean peso relative to the U.S. dollar declined 35.6% in nominal terms, or an average of 10.7% per year, based on the observed exchange rate for U.S. dollars on those dates. See "Exchange Rates".

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

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

Although the securities laws of Chile which govern open stock corporations or publicly listed companies such as us have as a principal 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 recent prolonged recession and economic crisis in Argentina 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 2003, we derived Ch\$39,022 million, or 10.2%, of our revenues from our Argentina operations, and, as of December 31, 2003, Ch\$109,614 million, or 19.0%, of our assets were located in Argentina. In recent years, Argentina has 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 in the last year, 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\$2,987 million for the year 2002 and our subsidiary, Finca La Celia, reported a loss due to the devaluation in 2002 of Ch\$995 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 recent appreciation of the Argentine peso against the U.S. dollar, we cannot assure if the Argentine economy will continue to recover or if the crisis will continue, and if the crisis continues 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 applied by the Argentine government in recent years 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. However, in 2003 the inflationary trend slowed, with the consumer price index rising 3.7% from January to December 2003 and the wholesale price index rising 2.0% in the same period. In 2003, Argentina's gross domestic product increased by an estimated 7.9%. We cannot predict how the current Argentine government, which took office on May 25, 2003, will be able to maintain a strict monetary policy and control inflation in response to the changing economic situation. The unpredictability, timing and scope of possible

measures enacted by the Argentine government, including expropriations, higher taxes and exchange control measures, may adversely affect our Argentinean operations and our 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 increase may adversely affect our profitability.

**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, 2004, Inversiones y Rentas S.A. , or IRSA, a Chilean closed corporation, owned 61.62% 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 2003, our market share of the Chilean beer market by volume was 89%. 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. In May 2002, Quilmes and Companhia de Bebidas das Américas, or AmBev, announced an agreement by which AmBev will assume control of Quilmes within a seven-year period. As of the date of this annual report the merger has not been completed. We estimate that Cervecería Chile had a market share by volume in Chile of approximately 10% in 2003. 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.**

Beer consumption in Chile historically has been influenced by changes in domestic wine prices. Increases in domestic wine prices have tended to lead to increases in beer consumption, while reductions in wine prices have tended to reduce or slow the growth of beer consumption. In the last four years, wine prices have decreased and we expect that they will remain at a low level, becoming a threat to beer consumption. 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 has slowed 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 . In 2003, we estimate that Quilmes had a market share of 78%, Warsteiner had a market share of 7% and Galicia had a market share of less than 1%. We estimate that our year-end market share of the Argentine beer market was 14% in 2003. 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.**

In May 2002, AmBev and Quilmes announced an agreement by which AmBev will assume control of Quilmes within a seven-year period . Additionally, on March 2004, AmBev and Interbrew announced an agreement to merge, creating the world's largest brewer under the name InterbrewAmBev. As of the date of this annual report, this deal has not yet been completed. In Chile , InterbrewAmBev would sell its beer through Cervecería Chile , which had a market share of approximately 10% in 2003, and in Argentina , InterbrewAmBev would sell its beer through Quilmes , which had a market share of approximately 78% in 2003. 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 gas supply from Argentina.**

In recent months, the Argentine government began restricting gas exports to Chile due to supply problems in that country. We expect that this situation will increase the costs of operating our beer production plants in Chile and Argentina , as well as our soft drinks plants in Chile . Additionally, we expect an increase in 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 not exceed Ch\$1,100 million for 2004.

**Profitability of the wine business.**

We have taken measures to improve the profitability of Viña San Pedro by reducing costs and expenses, rationalizing stock keeping units, or SKUs, optimizing prices, and focusing efforts on its most important markets. However, if the strengthening of the Chilean peso continues throughout 2004, it could neutralize the effects of part of these efforts. In addition, there can be no assurance that the measures taken to improve profitability will have the expected outcome.

**License agreements.**

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.

**RISKS RELATING TO OUR ADSs**

**Possible disposition of Anheuser-Busch International Holdings, Inc. Chile II of CCU's shares of common stock**

On March 9, 2004, Anheuser- Busch Companies Inc., or A-BC, informed us that it was considering a possible disposition, through an underwritten secondary offering in Chile and in the international markets, of the shares of common stock held by its affiliate Anheuser-Busch International Holdings, Inc. Chile II Ltda., representing 20% of our outstanding capital stock. Currently, and as requested by A-BC, we are

negotiating the form and conditions under which such possible offering might be effected with the support of our management. A-BC expressly stated that the disposition of our shares held by its affiliate will not affect the license agreement currently in force for Budweiser beer in Argentina . As of the date of this annual report, there can be no assurance that A-BC will consummate a secondary offering or other disposition of our shares and the potential risks of this possible disposition.

**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 depository 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 of 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.

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#### **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 included the production and marketing of soft drinks since 1902 and the bottling and selling of mineral water products since 1960.

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, bottling, and distribution of beverages.

Our principal executive offices are located at Bandera 84, Sixth Floor, Santiago , Chile . Our telephone number in Santiago is (56-2) 427-3000, the fax number is (56-2) 427-3215 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 owed 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, 2003, that interest amounted to 60.3%. In November 1994, we and Buenos Aires Embotelladora S.A. ("BAESA") (the PepsiCo bottler in Chile at that time) merged businesses to create Embotelladoras Chilenas