



food & beverage

CCU



CCU brewery in Temuco, Chile

CCU is Chile's largest beer producer, supplying about 89% of the domestic market. The company, which has been in business for over 150 years, is much more than a brewer, having added over the years a range of complementary activities such as the bottling and distribution of non-alcoholic beverages, mineral waters and fruit juices, and the production and distribution of pisco and wine.

Beer production and marketing in Chile is handled directly through the Cervecería CCU Chile subsidiary, which manages a wide range of products including Cristal, Morenita, Royal Guard, Royal Light, Escudo, Austral, Kunstmann, Lemon Stones, Orange Stones and others. At the same time, the business produces under licence, or imports, international brands of such renown as Heineken, Budweiser, Paulaner and Guinness.

In the international arena, the company is among the principle brewers and beer marketers in Argentina, with a variety of brands including Heineken, Budweiser, Schneider, Córdoba, Salta and Santa Fe. Beer production in Argentina is part of a long-term effort by the company to broaden its operational base and become an important player in the local market.

CCU produces soft drinks, which are bottled and distributed through the Embotelladoras Chilenas Unidas S.A. (ECUSA) subsidiary. Its products include Watt's, Orange Crush, Canada Dry Limón Soda, Canada Dry Ginger Ale, Canada Dry Agua Tónica, Gatorade, Pepsi and 7 Up – all made under licence – as well as the brands Bilz, Pap, Kem, Kem Xtreme and Show, all developed and owned by CCU. In the soft drinks segment, CCU has a 23% share of the local market. Apart from this, ECUSA produces the top-selling Cachantun and Porvenir mineral water brands, which together can claim 62% of the market.

The production and sale of wine is handled in Chile by Viña San Pedro, which includes the Santa Helena operation. These two wineries produce a wide range of varieties and brands, including Cabo de Hornos, 1865, Castillo de Molina, Las Encinas, 35 Sur, Urmeneta, Gato, Santa Helena and Etiqueta Dorada. In 2000, San Pedro bought Finca La Celia, in Mendoza, Argentina, which produces and commercializes the La Celia and La Consulta brands. Last year, in a joint venture

with Agrícola y Ganadera Río Negro, the company created Viña Tabalí.

San Pedro is the third-largest selling winery in Chile, with a 17% market share. It is also the country's second-largest exporter, with a presence in about 70 countries around the world. To meet the demands of these markets, the company owns 2,900 hectares of plantations across Chile and Argentina, which supply about one-quarter of the production. The remaining supply is bought from other wine grape producers.

One of the big events for CCU in the 2003 reporting period was the entry of Heineken N.V., the world's second-largest brewer, into Inversiones y Rentas, the entity which together with Quiñenco controls 61.6% of CCU. As a result of this partnership, in June of last year CCU began producing Heineken beer in Chile and Argentina.

During 2003, CCU sold its interest in the Croatian brewer, Karlovacka Pivovara, to Heineken N.V., generating an attractive return on its original investment.

Last year also saw the creation of Pisonor, a CCU subsidiary dedicated to the production,



marketing and distribution of pisco under the brand name Ruta Norte. In under a year of operation, Piscoconor has become the third-largest producer in the country, with a 12% market share in the 35 alcohol-grade class, and an 8% share of total sector sales. Piscoconor produces and bottles Ruta Norte in a production plant located 8 kilometers from Vicuña, in Chile's 4th Region.

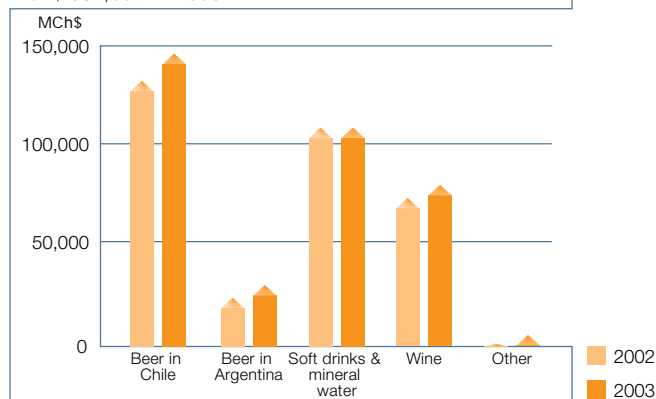
Finally, as part of a broader plan to develop complementary product lines, ECUSA acquired 50% of Calaf, a cookie and candy manufacturer, in a joint venture with Lucchetti, another Quiñenco-controlled company. The purchase takes the company into the ready-to-eat market, which it plans to cover through an extensive distribution network of more than 90,000 retailers.

2003 Results

CCU's consolidated sales revenues rose by 9.9% to Ch\$384,064 million, mainly attributable to a 9.0% increase in volume sold. With the exception of domestic wines, all of CCU's beverage segments experienced volume increases in 2003, most notably beer in Chile and Argentina. In general terms, volumes were influenced by the economic reactivation underway in Chile and to a certain extent, in Argentina, as well as by the addition of new products to CCU's portfolio. Higher average beer prices in Chile and Argentina more than compensated for the sharp drop in average wine prices during the year.

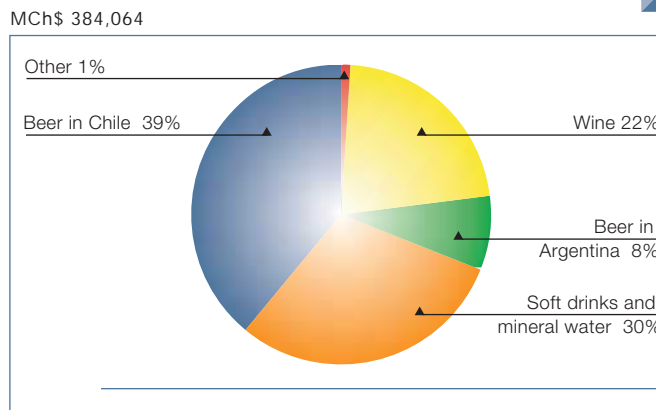
Operating income jumped by 20.2% to Ch\$45,863 million in 2003, mainly due to strong growth in revenues in the beer segment in Chile both in terms of volume and average prices, as well as lower cost of goods sold and SG&A expenses as a percentage of sales. Additionally, the beer segment in Argentina improved considerably compared to

SALES
MCh\$ 384,064 IN 2003



2002, reducing its operating loss by 67.2% to Ch\$3,665 million in response to a somewhat improved economic scenario. These increases were partially offset by a sharp decline in the operating profit associated with the wine segment which fell from Ch\$9,163 million to Ch\$3,801 million as a consequence of significant reductions in export wine prices as well as a deterioration in the operating profit associated with soft drinks/mineral water segment, which suffered from higher COGS.

2003 SALES COMPOSITION

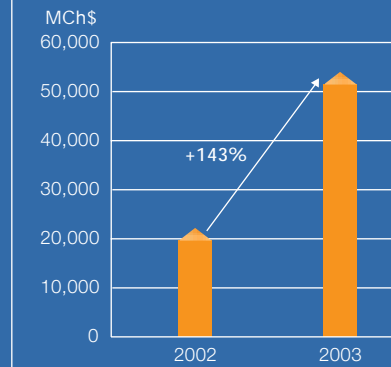


Compañía Cervecerías Unidas

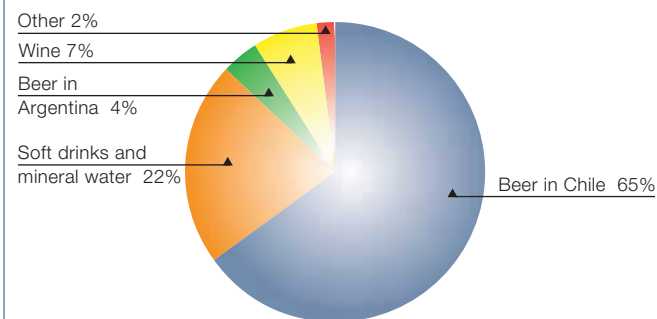


San Pedro winery in Molina, Chile

NET INCOME
MCh\$ 54,088 IN 2003



2003 EBITDA BY SEGMENT
MCh\$ 86,414



CCU reported non-operating income of Ch\$13,601 million, compared to a non-operating loss of Ch\$7,131 million in 2002. The variation in non-operating results can mainly be explained by an extraordinary gain of Ch\$20,321 million on the sale of CCU's investment in Karlovacka in 2003.

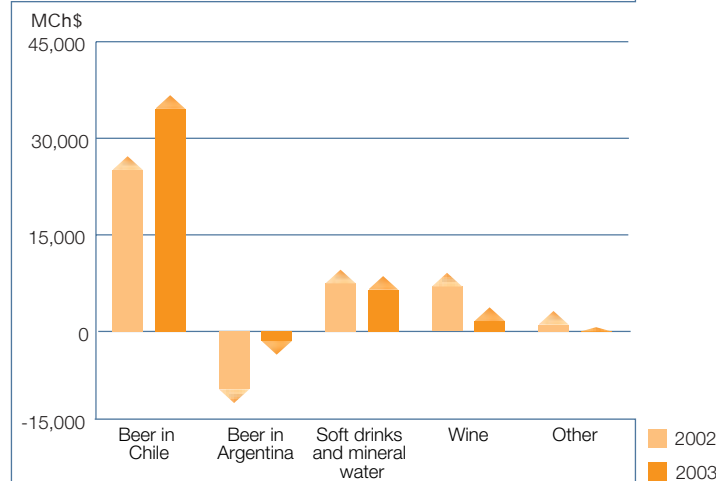
Net profit for the year amounted to Ch\$54,088 million, an increase of 142.7% over 2002, as a result of the aforementioned improvements in both operating and non-operating results.

MARKET SHARE	2003	2002
Beer in Chile	89%	88%
Beer in Argentina	14%	13%
Soft drinks	23%	23%
Mineral water	62%	63%
Fruit juice	52%	50%
Domestic wine (VSP)	17%	17%
Export wine (VSP)	13%	13%

VOLUME SOLD (*)	2003	2002	VARIATION
Beer in Chile	3,710	3,502	+6%
Beer in Argentina	1,904	1,604	+19%
Soft drinks and mineral water	4,284	4,136	+4%
Domestic wine (VSP)	503	512	-2%
Export wine (VSP)	704	455	+55%
Pisco	32	-	n/a

(*) Thousands of hectoliters

OPERATING INCOME
MCh\$ 45,863 IN 2003





Lucchetti, the traditional food company linked to Quiñenco since the 1960s and renowned for its tasty and nutritious pastas, is undergoing a process of important change, which will culminate in 2004 with the sale of its main business.

After having sold its Argentine operation in 2001 and following the forced closure of its plant facilities on the outskirts of Lima, Peru, in early 2003, Lucchetti's only remaining business was its Chilean-based pasta, edible oil and soup operation. Under this scenario, the company decided to redirect its development strategy to the local ready-to-eat food market. Financed by a capital increase at the end of 2003, Lucchetti entered into a joint venture with CCU's soft drinks subsidiary, ECUSA, to acquire Calaf, a local cookies and candy manufacturer. Together, the two companies hope to capitalize on their combined distribution channels, synergies and known-how to explore this new business opportunity.

Unexpectedly, at the end of 2003, Lucchetti received an offer from a local food company to buy its Chilean pasta, edible oil and soup business for Ch\$60,000 million. After an extensive evaluation, Lucchetti's Board of Directors decided to accept the offer in a deal which is expected to be finalized in the first half of 2004. Assuming that the sale goes through, it will mean the divestment of approximately 85% of Lucchetti's total consolidated assets. Thereafter, Lucchetti will concentrate on its investment in Calaf. It is also awaiting the resolution from arbitrators at CIADI in Washington on the Lucchetti Perú case.

2003 Results

Lucchetti reported sales of Ch\$59,115 million for the year 2003, down by 30.2% from 2002. The reduction in sales is mainly due to the discontinuation of activities in Peru following the forced closure of plant facilities in early 2003. Sales in Chile also experienced a downturn, falling from Ch\$65,656 million in 2002 to Ch\$59,115 million in 2003. Sales in Chile were affected by a sharp reduction in the volume of edible oils sold as the domestic market was flooded by Argentine imports. Pasta and soup sales in Chile rose by 5.2% and 22.1% respectively, although this did not compensate for the decline in edible oil sales.

Operating profit was Ch\$2,894 million, up by 7% from the Ch\$2,705 million reported in 2002. In 2002, the Peruvian operation generated operating losses of Ch\$903 million. The absence of these losses in 2003 partly explain the positive variation in operating results, although a reduction in the operating profits attributable to the Chilean operations of Ch\$714 million partially offsets this effect. Operating profits in the Chilean operations were mainly due to the aforementioned drop in sales of edible oils.

Non-operating losses amounted to Ch\$6,733 million, compared to operating losses of Ch\$40,119 million in 2002. 2002 non-operating results included the write-off of 100% of the investment in Peru of Ch\$30,110 million following its forced closure, mainly explaining the variation between the two years. In spite of the aforementioned improvements at the operating and non-operating levels in 2003, Lucchetti reported a net loss of Ch\$2,136 million for the year.