UNITED BREWERIES LIMITED

ANNUAL REPORT 2006 - 2007

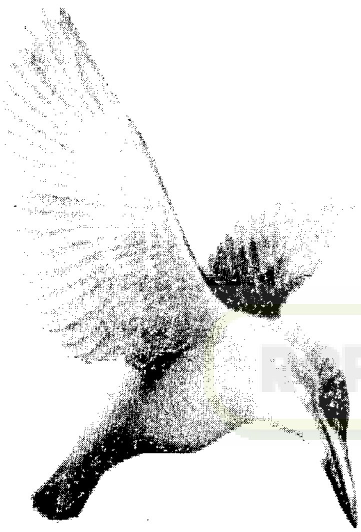
CONTENTS

Dr. Vijay Mallya
Chairman

Chairman's Statement

Dear Fellow Shareholders,

It gives me great pleasure to welcome you to this 8th Annual General Meeting of United Breweries Limited, which comes at the end of another successful year. As a result of the continual efforts by the industry, led by United Breweries, to encourage a supportive regulatory framework, the year witnessed success on the front in many North Indian markets. You will recall that the beverage alcohol markets in North India were typically controlled by private cartels that paid scant respect to consumer choice. Profiteering by these monopolistic cartels resulted in high end consumer prices for beer across most of North India, leading to very low consumption and poor profitability.



Your Company had been championing the industry cause to change the regulatory framework in the States in favour of either a free market or distribution by Government undertakings. While the first, viz., free market is the most desirable operating environment for any business, it was felt that even a change over to State Government distribution would be a step forward, as the State undertakings are accountable to consumers.

The current year saw this effort coming to fruition, with the States of Punjab & Haryana moving away from the existing pernicious auction system to a license fee based distribution system. Consequently, both these States witnessed a boom in demand, resulting in overall industry growth of nearly 30%. The overall volume for the industry stood at about 137 million cases at the end of March 2007, of which our Company, along with its subsidiaries and associates sold 66.1 million cases. This signifies a record of sorts with beer consumption per capita reaching the 1 ltr per annum, which still continues to trail even emerging markets, which average about 24 ltrs per capita. Robust growth continues in the current year and is expected to reach sales of 155 million cases.

In order to cater to these growths, United Breweries had embarked upon an investment plan totalling about Rs.400 crores. This included setting up of two new greenfield breweries in Rajasthan and Orissa, which have been recently commissioned, as well as expansion of capacities at other locations. The two new breweries add over 8.5 million cases per annum to our capacity, whereas expansion at other locations will increase the capacity of existing breweries by about 20%.

We all have reason to be proud of Kingfisher Strong, which in eight short years since introduction, has overtaken Kingfisher Premium Lager to become India's top selling brand of beer, with sales of over 26 million cases. The brand witnessed a growth of 45% during the period under review.

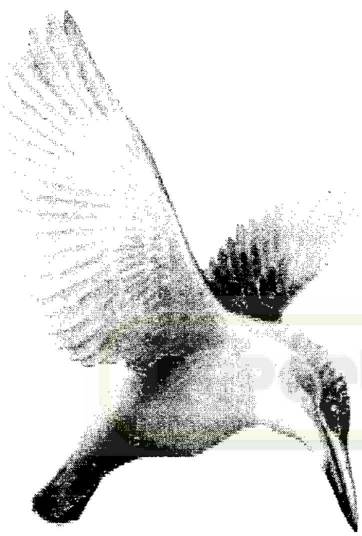
UNITED BREWERIES LIMITED

Chairman's Statement (contd.)

Kingfisher Premium Lager continues to be India's leading mild beer, commanding a market share of nearly 66% of the mild beer market. Overall, the Kingfisher brand soars over the industry with nearly 2 out of every 5 beers consumed in the country being a Kingfisher.

Many innovations are under way including the Kingfisher Strong 330ML Can, the Kingfisher 330ML pint bottle, the 500ML King Can and also a multi-can pack.

I have long believed in brand building and over the years, our Company has been in the forefront of Indian FMCG companies in this regard, making Kingfisher one of the most well known and respected aspirational consumer brands in the country. Survey after survey has demonstrated the close links that the brand has successfully formed with the youth of India, who are emerging as a large consuming base for the future. Kingfisher continues to be the iconic representation of the good things in life, which the youth of India aspire to.



These investments in building up the brand equity of Kingfisher in a multiplicity of ways will stand the Company in good stead particularly with the entry of a number of multinationals into the Indian market, in anticipation of explosive growth over the next decade. Several international brands have made forays in the past only to meet with very limited success in the face of our Company's offering as well as our dominance over the Indian distribution infrastructure.

In keeping with our caring traditions, United Breweries has also made significant investments in socially desirable areas. Rainwater harvesting, protection of ground water, investment in bio-mass boilers, which use agricultural waste as fuel, and establishment of primary health and education facilities in villages adjoining the Company's breweries, are examples of various such initiatives.

As a consequence of all the foregoing, the capital market recognizes our Company as one of the leaders in the field, and all of us, as shareholders, are being rewarded appropriately by the markets. The market capitalization of United Breweries last September was about Rs.3000 crores, which has more than doubled itself currently to be in excess of Rs.6600 crores, despite trying market conditions. I am sure that you all share my happiness in this reward and recognition.

It remains for me to say thank you to all who have contributed to our success, namely, our staff, directors, customers, suppliers, bankers and most importantly all of you – our shareholders.

Dr Vijay Mallya
Chairman

UNITED BREWERIES LIMITED

Report of the Directors

The Directors of United Breweries Limited have pleasure in presenting their Annual Report with Audited Accounts of your Company for the year ended March 31, 2007.

SCHEME OF AMALGAMATION

In order to consolidate all brewing entities of the group under one umbrella and streamline the brewing operations, your Company had implemented yet another scheme for amalgamation of Karnataka Breweries and Distilleries Private Limited (KBDL), London Pilsner Breweries Private Limited (LPBPL) and London Draft Pubs Private Limited (LDPPL) into your Company. The said Scheme has been granted by the Honourable High Courts of Karnataka and Bombay respectively with retrospective effect from April 01, 2006. Amalgamation of these Companies has ensured creation of a larger entity and synergies in the business besides economies of scale which has ultimately resulted in cost savings, pooling of managerial skills and enhancement of management focus thereby leading to higher profitability and enhancing shareholder value.

FINANCIAL RESULTS

Your Company's financial performance for the year ended March 31, 2007 is summarised below. The figures for the financial year under review include operations of the amalgamated Companies viz., KBDL, LPBPL and LDPPL and are, therefore, not directly comparable with the previous year. However, for proper understanding of key financial indicators, comparable figures to reflect the operations of KBDL, LPBPL and LDPPL in the previous year are provided under the head "Operations" in this report.

(Figures in Million Rupees)

	2006-2007	2005-2006
Net Turnover	**10537.8**	6873.5
Profit before Interest & Depreciation	**1615.1**	1371.6
Interest	**279.8**	239.0
Depreciation	**385.4**	208.6
Profit before non recurring items	**949.9**	924.0
Non recurring items	—	304.7
Profit before Taxation	**949.9**	619.3
Provision for Taxation	**(299.0)**	(425.3)
Profit after Tax available for appropriations	**650.9**	194.0
Appropriations		
Dividend on Equity Shares (including Taxes thereon)		
Interim Dividend paid	**37.0**	37.0
Final Dividend proposed	**19.0**	18.5
Dividend on Preference Shares paid (including Taxes thereon)	**84.5**	93.1
Balance your Directors propose to carry to the Balance Sheet	**434.2**	10.6

DIVIDEND

Your directors declared an interim dividend on equity shares @ 15% in January 2007. Your directors take pleasure in declaring a final dividend of 10% to make a total equity dividend distribution of 25% for the year ended March 31, 2007.

Your Company paid a dividend on the cumulative redeemable preference shares at the rate of 3% under the terms of the issue of the 24.69 million cumulative redeemable preference shares held by Scottish & Newcastle.

CAPITAL

During the year under review, the authorised share capital of the Company remained unchanged at Rs.2,800 million comprising of equity share capital of Rs.300 million and preference share capital of Rs.2,500 million. The issued, subscribed and paid-up share capital as on March 31, 2007 stood at Rs.2,685 million comprising of Rs.216 million (Re.1/- each) equity share capital and Rs.2,469 million cumulative redeemable preference shares.

In terms of the earlier scheme of arrangement granted by the Honourable High Court of Karnataka, your Company allotted, 42,180 equity shares of Re.1/- each to the existing equity shareholders of Mangalore Breweries & Distilleries Limited (MBDL) on 4th November 2006. The paid-up equity share capital base has expanded marginally on this account.

MANAGEMENT DISCUSSION AND ANALYSYS

INDUSTRY OVERVIEW

The year under review has seen the Indian beer industry achieve unprecedented growth of nearly 30%. Following recent history of growth in the industry of between 7 – 8 % per annum, the industry continued to grow at double digit for the second year in a row, recording sales of about 137 million cases in 2006-2007 and is expected to cross 155 million cases by the end of the current financial year.

Report of the Directors (contd.)

Structural changes in the northern states of Punjab, Haryana and Chandigarh which led to the previous auction route to market being dismantled, resulted in significant growth across the north of India by making beer more affordable and increased availability. This growth was evidenced from the beginning of the first quarter of the financial year under review. It is clear that given the huge growth witnessed in the northern States following the introduction of more liberal policies, there is a significant demand for beer by consumers which current regulatory policy is suffocating, and in some instances driving consumers to drink spirits. Not only is this curtailing the growth of the industry, denying consumers a choice of low alcohol beverage, but governments too are losing high revenues in the form of taxation.

From a per capita consumption in 2000-2001 of around 0.1 litre, the industry has, during the last year, achieved a significant milestone with per capita consumption reaching 1 litre. This is phenomenal growth, however, when compared internationally, the consumption of beer in India remains at a very low level. The worldwide average per capita consumption is around 24 litres.

With less than 1/3rd of the Indian population of legal drinking age, accelerated growth can be expected in the coming years as the demography changes and consumer spending increases. As India will still boast the youngest population of any country in the World in 2020, the growth in beer consumption can be sustained for at least a further two decades. Further, today's youth hold more liberal views on alcohol consumption than earlier generations, and therefore as they achieve the legal drinking age, we expect a higher penetration in the future than currently.

In anticipation of this significant opportunity, and the fact that India now represents one of the fastest growing beer markets in the World, a number of International brewers have entered the Indian brewing Industry and existing manufacturers are planning expansion. Your Company has initiated substantial expansion plans which will help to retain and grow its market leadership.

The growth in India continues to be led by the Strong beer segment. This segment now accounts for around 65% of all beer drunk today, and has recorded growth of nearly 35% during the last 12 months. Mild beer too has grown by a robust 20%.

OPERATIONS

The acquisition of brewery business of KBDL in Karnataka was completed during the year, bringing this strategically important asset into your Company's business as a wholly owned subsidiary of your Company, and, which has now been amalgamated with your Company effective from April 01, 2006. The financial statements presented include the brewing operations of KBDL and merged numbers of LDPPL and LPBPL.

For proper understanding of key financial indicators, comparable figures to reflect the operations of KBDL, LPBPL and LDPPL in the previous year are appearing below:

(Rs. in Million)

	2006-2007	2005-2006
Net Turnover	**10,537.8**	8,512.1
Profit before Interest & Depreciation	**1,615.1**	1,406.1
Profit before Taxation	**949.9**	600.2
Provision for Taxation	**(299.0)**	(420.9)
Profit after Tax	**650.9**	179.3

In just 8 years since it's launch Kingfisher Strong overtook Kingfisher Premium during the year to become the top selling beer in India today. The brand achieved a record growth of over 45%, and became the first Indian beer to cross sales of 25 million cases.

In further record setting, Kingfisher Strong sold over 3 million cases in each of the States of Maharashtra, Karnataka and Tamil Nadu, as well as exceeding 1 million+ cases in 5 other States. Kingfisher Strong is the fastest growing beer brand in India.

Kingfisher Premium, the flagship superbrand, continues to record a sale of over 20 million cases for a second consecutive year, and remains the top selling Mild beer brand in India.

Price increases were implemented in a number of States leading to a low single digit increase in sales prices. Around 55% of the Company's volumes benefited from an increase, whilst on 45% of the volume, prices remained unchanged from the previous year, due to government intervention in pricing in a number of States. Given real increases in raw materials and packaging, your Company has not been able to pass on the full effect of even inflationary increases, and has to bear this strain in margins on the 45% of volume where prices have not changed. Maintenance of margins will remain a key challenge as long as industry is not in a position to set selling prices for its beer due to government policy. Increased demand and consequent economies of scale will offset this, overtime.

Last year your Company announced an investment of Rs. 4000 million in capacity expansion in existing breweries and 2 new Greenfield breweries, in Rajasthan and Orissa. Around half of the planned investment has been made to increase

Report of the Directors (contd.)

existing production capacity by 20%. Both Rajasthan and Orissa commenced production in early 2007 with a capacity of 7.2 million and 1.5 million cases per annum respectively. Your Company will continue to invest in enhancing capacities to maintain it's market leadership position in this fast growing market.

In order to finance the expansion, your Company negotiated new debt of Rs.1400 million, at the same time as renegotiating and re-financing the operations of Millennium Alcobev Private Limited (a 50% associate of your company), which has led to considerable savings in interest cost.

Though, remaining separate entities, synergies in the business operations of Millennium Alcobev Private Limited, with your Company have continued to accrue, resulting in further cost savings and a brand portfolio which offers a varied product to the consumer.

History was created, when your Company achieved the magical figure of US $ 1 billion market capitalisation in January 2007. The market capitalisation as on the date of this report stands at Rs.66,109 million equivalent to US $ 1.63 billion which is a record in beer industry in India.

SALES

Your Company continues to lead the beer market in India with an overall market share of just under 40% and a combined market share of around 48%. Achieving a volume growth of 24.7% over the previous year, the sales volumes of your Company crossed 54.2 million Cases (66.1 million Cases combined) recording a turnover of Rs.10,537.8 million as compared to a volume of 43.4 million Cases and a turnover of Rs.6,873.5 million as on March 31, 2006 reflecting a growth of 53.3%.

While Kingfisher Strong has a market share of 38%, Kingfisher Premium has a market share of 66%, the Kingfisher brand commands a market share of over 35% in its own right, meaning that every 1 in 3 beers drunk in India today is a Kingfisher. The brand licensing in Australia and New Zealand continues to enhance brand equity and retention.

With an undiluted focus on the consumer and emphasis on delivering value, your Company launched its new range of offerings across the Country. Kingfisher Strong 330ml Can was launched in Goa, Pondicherry, West Bengal and Rajasthan markets, and, Kingfisher Strong 330ml pint bottle was also launched in Goa. The 500ml King Can (Kingfisher Strong) was successfully launched in Mumbai, Maharashtra, Karnataka & Pondicherry. Your Company also launched an exciting Multi Can pack to offer consumers a convenient take home pack.

MANUFACTURING EXPENSES

The manufacturing expenses stood at 50.5% of the net sales as compared to 43.4% of the net sales in the previous year. The introduction of new pack sizes with a larger component of new bottles and Cans have in part, contributed to the increase in the manufacturing cost. In addition, an increase in the salience of Strong beer has further added to the cost base. During the last quarter your Company has faced significant increases in raw materials costs, in particular, barley and hops, where both are facing a worldwide shortage. Your Company has been able to better manage these costs through synergies obtained with the assistance of the Scottish & Newcastle Group procurement team. The impact of such increases in raw materials is expected to continue in the current financial year. The natural growth in volume and investment in new plant have helped to offset some of the increases through improved efficiencies and capacity utilisation.

PERSONNEL AND OTHER OPERATING EXPENSES

Personnel expenses of your Company stood at Rs. 668 million as compared to Rs. 472 million in the previous year. This constituted 6.34% of the net sales as against 6.87% of the net sales in the previous year. Other operating expenses amounted to Rs. 602.7 million constituting 5.72% of the net sales. Personnel and other operating expenses are commensurate with the increased volumes during the year at higher productivity levels.

ADVERTISEMENT AND BRAND PROMOTION

Your Company has spent 23.8% of the net sales on advertisement and brand promotion during the year compared to 22.8% of net sales spent in the previous year. Introduction of new innovative pack sizes coupled with increased volumes during the year has been the primary cause for increase in such spends. These innovative methods of marketing have not only retained target customers but have also ensured continuous recall of your Company's brands.

As a brand promotion initiative, your Company carried out a high decibel campaign during the football World Cup event in June 2006 to promote Kingfisher across the country through various mediums and also promoted local football events in Goa and West Bengal.

In yet another installment of movie promotions Kingfisher continued to be associated with various movies which have increased visibility of the brand. Your Company introduced Kingfisher Comedy performances inviting World renowned, stand up comedian, Jonathan Atherton to India for a whirlwind tour called "Kingfisher Comedy Nites" which were extremely popular.

As usual, Kingfisher extended its long standing association with the Mumbai Marathon again, amidst more excitement and good times than ever before.

Report of the Directors (contd.)

The Kingfisher Swimsuit Calendar continues to be a spectacular success and received the Wall Calendar's Gold award at the 46th annual awards night conducted by the Association of Business Communications of India. Your Company continues its association with Baichung Bhutia for Kingfisher and Upendra for UB Export Lager.

Events like "Voice of Goa" and "Bangla Rock" continue to attract the attention of the youth of Goa and West Bengal. "The great Indian Oktober Festival" organised in Bangalore was attended by around 25,000 people and has been a success for the second consecutive year.

Significant investment has been made to improve the visibility of our brands. Across 7 States, over 1,200 chiller units have been installed to aid visibility and ensure that the consumer can enjoy a perfectly chilled beer. As a further innovation, investment has been made in creating the perfect experience and ambience to enjoy a Kingfisher through the establishment of Kingfisher lounges. Two have been recently opened at INOX (Goa) and PVR (Bangalore) serving exclusively Kingfisher beer.

PROFIT BEFORE INTEREST, DEPRECIATION AND TAXATION (PBIDT)

PBIDT for the year under review stood at Rs. 1,615 million as compared to Rs.1,372 million in the previous year reflecting an increase of 17.7%. This spectacular increase is on account of increased volumes, price rise in some States, stringent cost management and creation of capacities in critical markets.

INTEREST AND DEPRECIATION

Interest paid during the year amounted to Rs. 279.8 million as against Rs. 239 million in the previous year. New funding raised to support the investment in new breweries and capacity expansion was drawn down during the year and has resulted in the increase in interest costs. Depreciation for the year was Rs.385.4 million as compared to Rs.208.6 million in the previous year, the increase due to the investment in new capacity at existing breweries, and the acquisition of the KBDL brewery during the year. Goodwill arising out of amalgamation of KBDL, LDPPL and LPBPL amounting to Rs. 623.9 million is amortized over a period of 5 years. The amortization charge for the year is Rs.124.6 million which is included in this block.

PROFIT BEFORE AND AFTER TAXATION

The Profit Before Taxation stood at Rs.949.9 million as compared to the Profit Before Taxation of Rs.619.3 million, an increase of 53.4%. The Profit After Taxation stood at an impressive figure of Rs.650.9 million as against Rs.194 million in the previous year. The amalgamation of the brewing business of Associated Breweries & Distilleries Limited and amalgamation of Mangalore Breweries & Distilleries Limited has helped the Company to optimize its tax affairs and profitability. Amalgamation of KBDL effective April 01, 2006 will further optimise the cost and levies thereby increasing profitability and shareholder value.

PROSPECTS

The annual beer production in India has now reached 11 million hecto litres (HL) reflecting a steady increase from the year 2000 – 2001 when it had stood at 5.5 million HL. The per capita consumption of around 1 litre, is still very low compared to other emerging countries around the World, where consumption stands at around 24 litres per capita. Coupled with an attractive demographic landscape, sound economic growth with a consequent rise in GDP, and a young population with more liberated views towards alcohol, the future opportunity of the Indian beer industry offers huge potential.

In a very progressive move, the State of Maharashtra has recognized the agricultural link that both beer and wine share, and have commenced the separate licensing of beer and wine retail outlets in the State. This increased availability will assist the growth of beer in this very important market. In addition, positive signs such as the structural changes brought about in the States of Punjab, Haryana and Chandigarh last year, have not only resulted in beer becoming available at affordable prices but have increased availability leading to a growth in volumes. Having regard to the growth in the northern markets and the need for increased capacity, the Company has already commissioned its green field projects in the States of Orissa and Rajasthan which will increase the capacity by over 8 million cases per annum. This increased capacity, in the new state of the art production facilities will not only enhance volumes but will also assist in improving product quality.

To meet the growing demand, offer high quality beer, and maintain our market leadership position, your Company also proposes to further upgrade its equipment and increase capacity by accelerating investment ahead of earlier plans, in capital expenditure. Further, your Company has plans to launch a number of new innovative products during the next 12 months to continue to excite the consumer.

In the light of new competitors, and to maintain market leadership your Company anticipates further investment behind brand building activity, giving rise to the likelihood of reduced margins.

Your Company also continues its association with sponsoring events like the Kingfisher derby, corporate football, hockey, cricket and fashion shows.

ENVIRONMENT AND SOCIAL INITIATIVE

Your Company continues its commitment towards protecting the environment and renewing scarce resources where possible. In addition to Palakkad unit, rain water harvesting has been implemented at its new unit located at Rajasthan. The technology adopted recharges the equivalent amount of ground water drawn thereby maintaining the ground water table. The unit at Rajasthan is the first of its kind in India, designed to optimise water consumption and recycles most of the water used in the

Report of the Directors (contd.)

process. As investments have been made during the year to expand capacity, your Company has made sure that the latest technology has been deployed to further reduce water usage. The results from this investment have led to a 15% reduction in water consumption during the last 12 months. In another initiative, 8 out of the 18 Acres of land at the Rajasthan unit has been designated as a green area, where your Company will focus only on horticulture and eco-friendly initiatives.

In the light of increased fuel oil prices your Company has been making investments in bio mass boilers which use agricultural waste for fuel, in order to generate steam. In addition to reducing energy costs, this also reduces greenhouse emissions. Bio mass boilers have been commissioned in four breweries, with more planned for installation in 2007-08.

As part of its corporate social responsibility initiative your Company is proposing to set up a re-charge tank and bore-well to supplement the drinking water needs and water requirements for livestock in a nearby village in Rajasthan. Further, your Company, as part of its social welfare initiative, is also proposing to establish primary health and education facilities in neighbouring villages where your Company's units are located.

Your Company's Palakkad unit has already undertaken a rain water harvesting project at a nearby village and addressed the perpetual problem of scarcity in drinking water to the farming community. As part of the project rain water harvesting systems have been installed to collect roof and surface water and recharge the ground after adequate treatment. In addition a 5000 litre capacity storage tank along with necessary pumps and pipelines have been installed to pump water from the well and distribute the drinking water to every household in the village. This has ensured the open well is adequately recharged and addresses the drinking water needs of 50 families in the village.

INTERNAL CONTROL SYSTEM

Your Company has in place an established system of internal controls to ensure assets are safeguarded and transactions are appropriately authorised, recorded and correctly reported. Internal Audit evaluates the functioning and quality of internal controls and provides assurance of its adequacy and effectiveness through periodic reporting. Your Company's internal control systems are adequate and are routinely tested and certified by statutory, as well as internal auditors. The process adopted provides reasonable assurance regarding the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

In order to continuously upgrade the internal control system, to be in line with International best practice and to ensure total corporate governance, your Company has implemented risk assessment of business risks, an annual control self assessment and legal compliance management, all of which are reviewed quarterly by the Audit Committee. These have been updated during the year under review.

The internal control system evaluates adequacy of segregation of duties, reliability of management information systems, including controls in the area of authorisation procedures and steps for safeguarding assets. Planned periodic reviews are carried out for identification of control deficiencies, if any, opportunities for bridging gaps with best practices and formalisation of action plans to minimize risk.

Your Company believes that the overall internal control system is dynamic, reflecting the current requirements at all times and hence it is ensured that appropriate procedures and controls are operating and monitoring practices are in place.

Internal Audit reports to the Audit Committee and recommends control measures from time to time.

OPPORTUNITIES AND THREATS

As already highlighted, the Indian beer market represents one of the fastest growing beer markets in the World today, with very attractive drivers in place (demographics, GDP, etc.) for sustainable growth for at least the next 2 decades. During the last year, a number of International brewers have entered the market through relationships with local brewers and in an independent capacity, clearly attracted by the opportunities the market has to offer. Whilst their investment in the beer industry will help to sustain the growth of the Industry, and provide the consumer with more choice, clearly their entry presents itself as a threat to the indigenous players, such as ourselves. We remain confident that our flagship brand Kingfisher, can continue its market leadership position for years to come, and grow its brand equity with our continuing investment behind the brand. Kingfisher is an iconic brand in India, and given the advertising restrictions in place, in addition to the highly complex and regulated nature of the Industry, it will be difficult for a new brand to become a significant threat in a reasonable timeframe.

Your Company has a pipeline of innovative new products under development, a number of which will be launched during the current financial year. This will ensure we continue our market leadership position and continue to provide the consumer with exciting new products. We also intend to enter the fast growing wine market to add to our existing portfolio of brands.

Continued investment will be made to upgrade and expand our manufacturing facilities to ensure that the products we produce are of the highest international standard, and we have capacity to meet the growing demand.

RISKS AND CONCERNS

Given the very high levies of duty on beer, and the lack of distinction between spirits (which typically contain 45% alcohol) and beer (which has alcohol content ranging 5–8%), in India, unlike other markets beer is a very expensive beverage and as a consequence makes up less than 5% of all alcoholic beverages. In the last few months we have been affected by significant price increases on malt and hops, driven by a worldwide shortage of these key raw materials. Additionally, the continuing control exercised by a number of state governments on pricing, which has resulted in our inability to raise prices on roughly 45% of our sales, has a direct bearing upon the Company's profitability. This scenario continues in the current financial year, resulting in a number of key markets becoming unattractive from a financial perspective.

Your Company has explored a number of avenues to contain the risk of continued increase in basic costs and has entered into a number of long term arrangements for sourcing malt. There has been a continuing review of the long term strategy for the supply of barley, and your Company has extended its own contract farming initiatives in the State of Punjab, in addition to entering into a long term agreement with Pepsi Co Foods Division for contract farming of barley utilising the infrastructure that Pepsi has in place. Following on from the research conducted last year into developing high quality barley seed, VJM201, the first harvest of this barley, in March 2007, has proven to be highly successful, producing a high yield crop of exceptionally high quality.

Excessive regulation and further extensions of government intervention, in the areas of distribution and pricing, is affecting the growth and profitability of the industry as well as restricting government revenues. In addition, restrictions on advertising and licensing of retail outlets continues to present challenges to the Industry.

HUMAN RESOURCES

Your Company has taken initiatives in order to align its human resource (HR) strategy to the overall organisation strategy and the objectives outlined in the UB balanced scorecard. Your Company believes that human capital is the key driver that creates sustainable competitive advantage. The competency mapping exercise undertaken last year was a step in this direction, and your Company is pleased to inform that this is now being implemented across the organisation. Cognisant of the competitive environment that the Company operates in, your Company has also benchmarked its compensation to the industry, and is in the process of refreshing the remuneration package of its employees in the light of the findings. Your Company has also embarked on a succession planning exercise that provides a framework for gaining visibility to our talent pool, identifying professional development opportunities and ultimately ensuring we have talent ready to contribute ahead of the business need. Your Company intends to continue its focus on strengthening competencies and creating a culture based on commitment, teamwork and values.

The HR agenda in 2006-07 also focused on improving productivity across all manufacturing units through the process of negotiation and driving process improvements. During the course of this year, there was a cordial industrial relations environment at all the breweries.

Your company is pleased to announce that its employee strength now stands at 2061 and the Directors express their appreciation for their commitment.

SUBSIDIARY COMPANIES

The Honourable High Courts of Karnataka and Bombay have approved the amalgamation of Karnataka Breweries and Distilleries Private Limited, London Pilsner Breweries Private Limited and London Draft Pubs Private Limited, the erstwhile subsidiary Companies into your Company. As a consequence the entire business and whole of the undertaking, along with all the statutory license, permissions, etcetera, of these Companies have been amalgamated with your Company.

Associated Breweries & Distilleries Limited, the investment holding company remains the sole subsidiary of your Company.

Your Company has received approval from the central government exempting your Company from attaching the Accounts of Associated Breweries & Distilleries Limited with the balance sheet of your Company. In terms of the approval so granted by the central government, the Accounts, etcetera, of Associated Breweries & Distilleries Limited are not required to be attached with the balance sheet of the holding Company. However, these Accounts will be provided on request to any member requesting for a copy, upon receipt of such request by Company Secretary at the Registered Office of the Company.

Statement pursuant to Section 212(1)(e) forms part of the Annual Report.

CONSOLIDATION

As per the Listing Agreement, Consolidated Accounts conforming to applicable Accounting Standards are attached to this Annual Report.

DEPOSITORY SYSTEM

Your Company has entered into Agreement with National Securities Depository Limited and Central Depository Services (India) Limited in accordance with the provisions of the Depositories Act, 1996 and as per the directions issued by Securities and Exchange Board of India.

DIRECTORS

Mr. Chugh Yoginder Pal and Mr. Sunil Alagh, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Mr. John Dunsmore resigned from the Board effective July 20, 2007 and Mr. John Nicolson was appointed as additional Director, effective the said date.