

# Reaching for the sky



**UNITED BREWERIES (HOLDINGS) LIMITED**  
ANNUAL REPORT 2003-2004



## *Reaching beyond...*

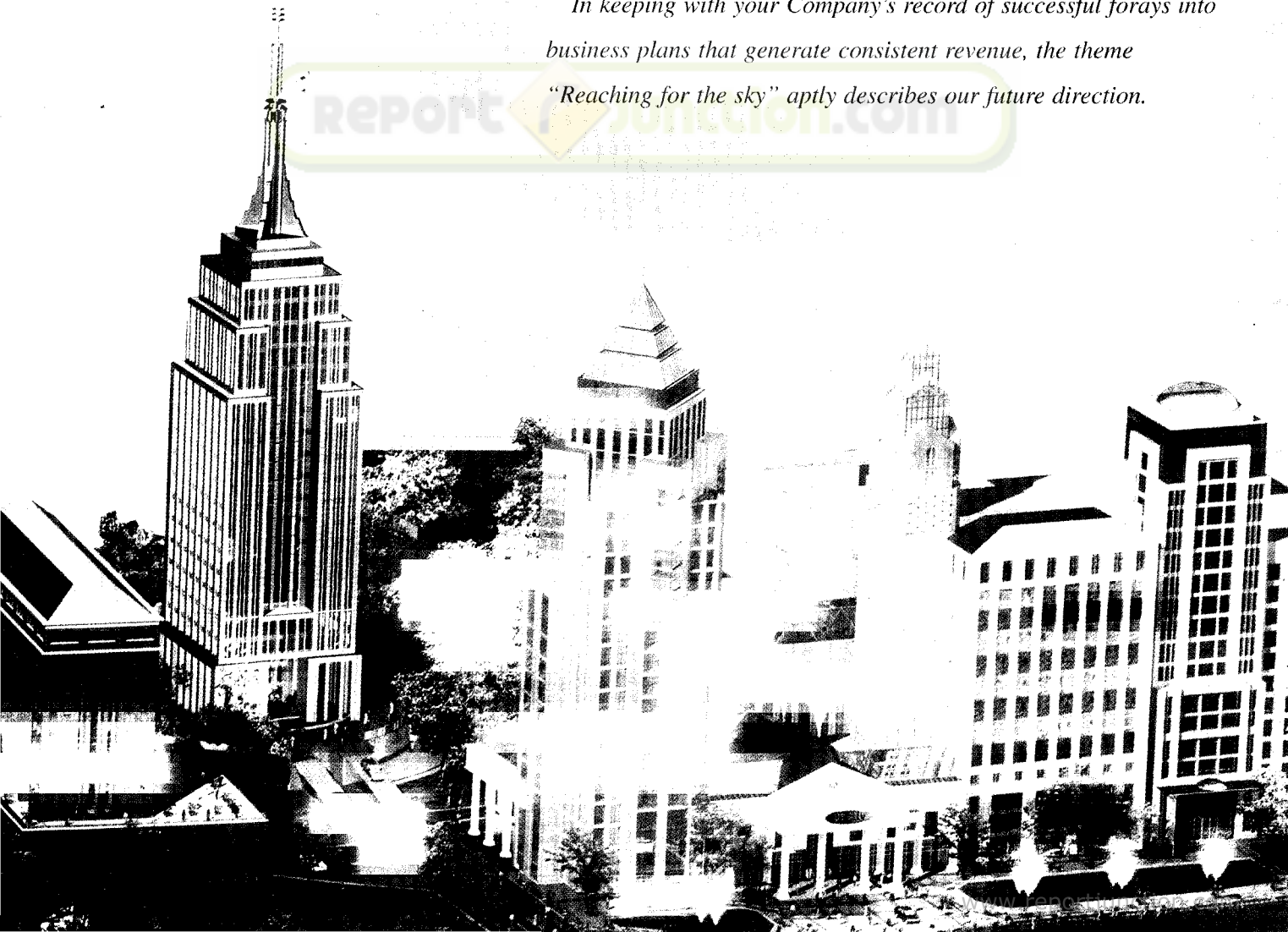
You will be pleased to know that the first phase of UB CITY, an Internet-ready, intelligent building complex, has commenced in earnest and will soon be ready for occupation.

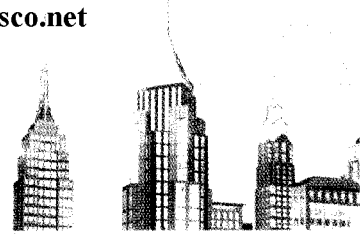
When completed, this complex covering 7-acres, will redefine the Bangalore skyline in chrome, glass and greenery. Seamlessly blending modern workspaces and natural flora, UB CITY will house offices, banks, retail stores, a luxury hotel, serviced apartments, restaurants, pubs, health clubs and cafes apart from multi-level parking areas.

## *...from within.*

In keeping with your Company's record of successful forays into business plans that generate consistent revenue, the theme

"Reaching for the sky" aptly describes our future direction.





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# A BIRD'S EYE VIEW - UBL



## United Breweries Limited (UBL)

The new UBL was carved out as the principal brewing company of the Group on demerger of the beer business from the erstwhile United Breweries Limited, now renamed United Breweries (Holdings) Limited. UBL has an association to brewing dating back over five decades and commands a 40% domestic market share. Its leading brands are Kingfisher, UB Export, London Pilsner, Premium Ice and Kalyani Black Label. UBL has recently entered into a multi-faceted strategic alliance with Scottish & Newcastle Plc. (S&N). This alliance, apart from having a joint venture in India will allow S&N to market its international brands in India, while UBL will leverage S&N's global network to further globalise its Kingfisher brands.

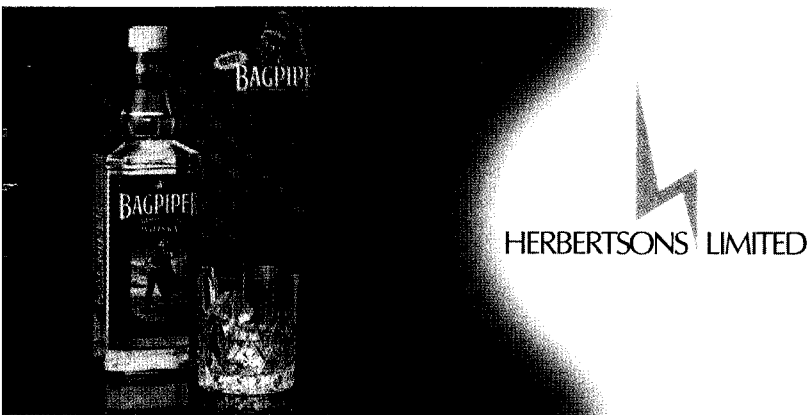
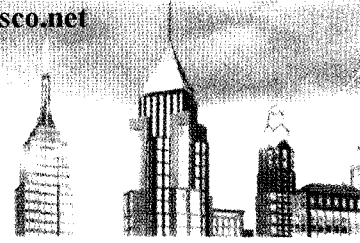
## McDowell & Company Limited (McD)

McD is the major player in the spirits business, its other partners being Herbertsons Limited and Triumph Distillers & Vintners Pvt. Ltd, a fledgling but fast growing company. United Breweries (Holdings) Limited has a stake of over 40% in McD. The Group's spirits business sold over 38 million cases during 2003-04 and occupies the pride of place in the UB Group, contributing a major chunk to the Group's turnover. The Spirits Division has been declared as the 4<sup>th</sup> largest spirits marketer in the world and offers 73 brands at varying price points - a reach that is unparalleled - and is an object of envy of its competitors. Some of its brands like McDowell's No.1 Whisky, No.1 Celebration Rum and No.1 Brandy occupy the top rungs in India in terms of volume. McDowell No.1 Brandy is the largest selling brandy in the world.



*McDowell & Company Limited*





### Herbertsons Limited (HL)

HL came into the UB fold in 1973 as the marketing channel for the Group's Indian Made Foreign Liquor (IMFL) brands, the third largest beverage alcohol company in India. Its brands Bagpiper Whisky and Honey Bee Brandy are millionaire brands. Bagpiper Whisky is the 4<sup>th</sup> largest selling whisky and largest selling non-scotch whisky brand in the world. HL sells over 10 million cases per year with a 65% share by Bagpiper.

### UB Global Corporation Limited (UBGCL)

The world is UBGCL's market. Forming the International Business Division of the group, the company is a 'golden status' recognised Export House. Its exports comprise beer, spirits, leather footwear, processed foods, pharmaceutical products and customised perfumeries. UBGCL has been instrumental in making Kingfisher Lager Beer available in 52 countries.



### UB Holdings (South Africa) (Pty.) Limited (UBHSAPL)

The UB Group invested in the equity and took management control of National Sorghum Breweries Ltd. (NSB) in late 1996 through its subsidiary viz., UBHSAPL. NSB has since changed its name to United National Breweries (SA) (Pty.) after the UB Group's share holding reached around 74.9%. UNB has nine operating breweries and a state-of-the-art Sorghum Malting Plant in South Africa, with an annual turnover around ZAR 550 Million, net of excise and VAT (Rs. 3850 Million).

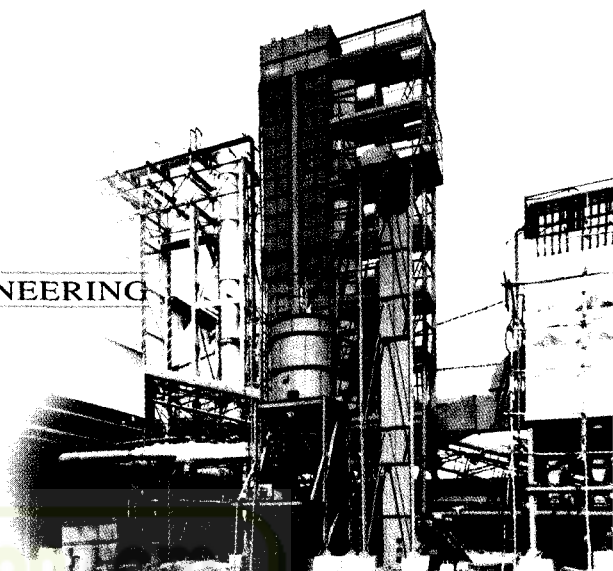


## UB Engineering Limited (UBE)

UBE is one of the leading Indian Engineering companies specialising in installation and erection of industrial plants. The company focuses on power, fertilizers, oil & gas, effluent treatment and agrotech sectors and is involved from concept to commissioning. UBE's specialised multi-disciplinary teams adapt their skills to engineering and constructing large and medium size plants with speed and efficiency. UBE has bagged a \$21 Million contract for the installation of electro-mechanical and instrumentation works at a power station in Abu Dhabi. It has an order booking for the current year in excess of Rs. 1000 Million.



**UB ENGINEERING**

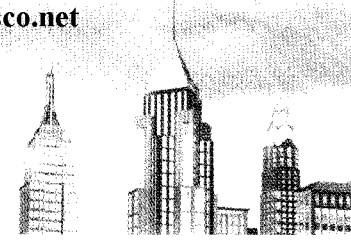


Report Junction

## Mangalore Chemicals & Fertilizers Limited (MCF)

The only fertilizer company in Karnataka has under UB's management, become one of the more efficient and profitable naphtha based urea producers in the country. The Govt. of Karnataka selected the UB Group in 1990 to take over the ailing MCF with accumulated losses in excess of Rs. 600 Million. This company has become a turnaround star in UB's stable with profits being recorded in each of the last six years and cash flows utilised for repayment of accumulated debts. Its brands, Mangala Urea and DAP have a strong brand equity with the farming community in the Southern States.





### Aventis Pharma Limited (Aventis)

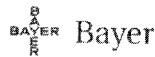
UBHL's stake in Aventis is over 10%. A global pharmaceutical company that discovers, develops and markets branded prescription drugs and vaccines to protect and improve the quality of life of people around the world. Aventis has been a focused value-driven corporate. The company seeks to consolidate and penetrate fresh markets in its key therapeutic segments. The market value of UBHL's investments in Aventis as on 31.3.04 was close to Rs. 1700 Million.



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### Bayer India Limited (Bayer)

With a 3.89 % stake held by your company and a subsidiary, Bayer is a high performing agro-chemical investment. Consequent to the merger of Bayer India Limited and Bayer Cropscience Limited (formerly Aventis Cropscience Limited) in 2003, the name of Bayer India Limited was changed to Bayer Cropscience Limited. The merger with Bayer has resulted in the company consolidating its position in the cropscience business and is today the largest cropscience company in India. Bayer maintains an extensive and elaborate R&D network around the globe and is a key global provider of crop solutions, products and services.



# CHAIRMAN'S STATEMENT

**Dear Fellow UB Shareowners,**

It gives me great pleasure to meet you at the 88<sup>th</sup> Annual General Meeting of our Company, United Breweries (Holdings) Limited.

The year 2003-04 was a turbulent one for the global economy, with hostilities in the Middle East, spread of new epidemics in the Asia-Pacific regions and other factors contributing to increased economic uncertainty. Towards the end of the financial year, rising crude prices, fears of an economic slowdown in China and likelihood of higher global interest rates added to concerns on the general outlook of global business. Our country stands out in such a volatile environment as a beacon of growth and prosperity. The year gone by saw a real turn-around in the Indian economy with GDP growth in excess of 8%, substantial increase in foreign-exchange reserves and a marked appreciation in the value of the Indian Rupee against the US Dollar. India is marching forward to meet its second tryst with destiny in becoming an economic super-power.

The changed domestic political scenario does not appear to have put obstacles in the established path of liberalization, growth and globalization though the priorities of segmental development may change with a marked emphasis on the rural sector. Given that the majority of Indians still live in rural areas, this emphasis, if properly implemented, could see an improvement in the living conditions of our villages, with consequential positive rub off on demand for a wide variety of goods and services. Improved domestic growth will not only result in increased standard of living for our countrymen but also reemphasize our position as a global player with a vast knowledge base, technical expertise and industrial competitiveness. The perception of India and her economic achievements in the eyes of the global powers augurs well for the future of our company and the UB Group at large, given the sizable role that we play in the nation's economy.

As a holding company, with investments in a number of businesses, the leveraging of larger opportunities and improved prospects in beverage alcohol, chemicals and fertilizers, pharmaceuticals and engineering would translate into enhanced valuation of your company and thereby higher financial returns for shareholders.

As you would be aware, the development of UB CITY at the premises of the erstwhile Bangalore Brewery is well under way, and construction of the entire complex comprising office space, retail, entertainment, restaurants & food courts, and serviced apartments amounting in all to 8,60,000 sq ft is expected to be completed on schedule by 2008. A portion of the land, amounting to about 3 acres has been sold for a lump sum consideration of Rs 43.50 crores. This property will be developed into a super deluxe hotel by the purchasers. The money realized from the sale has been applied to partly pay down debt.

There has been a great deal of excitement in the real estate field in Bangalore as a consequence of this development, which is expected to redefine the skyline of the city. Once completed, our share of the constructed area should conservatively fetch in excess of Rs 20 crores per annum by way of rental, thus providing a steady cash flow to the Company.

The beverage alcohol businesses continue to show growth in volumes, but the profitability of the industry remains clouded by the twin problems of excessive taxation and over regulation. As industry leaders in both beer and IMFL, the UB Group is driving measures aimed to correct this situation, while leveraging our market leadership, strong brand portfolio, well dispersed manufacturing units and traditional skills of innovation to enhance our position.

FY04 has seen the Spirits Division of the group go from strength to strength, culminating in its recognition by prestigious international industry journal IMPACT INTERNATIONAL as the 4<sup>th</sup> largest distilled spirits marketer in the world, with sales exceeding 38 million cases including 11 millionaire brands. This is a rare distinction, and reflects the growing size and significance of our business in this field.

Pursuant to an offer made by Phipson Distillery Ltd. in concert with McDowell & Company Ltd. and our Company, 676,984

shares, representing 7.11 % of the capital of Herbertsons Ltd. was acquired taking the group holdings to 35.65 %. The legal cases against Mr Kishore Chhabria continue as also efforts to find an amicable out of court settlement.

Despite sluggish conditions prevailing in the brewing industry, United Breweries has clocked a growth of 9 % and in the process, enhanced its market share to 40%. This has been possible through the continuing success of Kingfisher Strong which, in 5 short years, has crossed the 10 million cases mark, and the introduction of path breaking innovations such as the low priced pint offering and the 5 Ltr Pub-at-Home cask of draught beer.

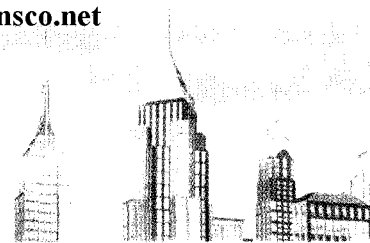
Our Company's holdings in Aventis Pharma Ltd. continue to add value as one of the premier pharma companies in the nation, delivering the latest generation of drugs to treat a variety of chronic and life-threatening diseases. Cardiac care and Diabetic care products include products that are the result of years of painstaking and extensive research. As you may be aware, the international business of Aventis is being acquired by Sanofi-Synthelabo, a French pharma company. Consequent to this development, the Indian arm of Sanofi has made an offer to the public to acquire up to 20% of the capital at an offer price of Rs 792.20 per share. The market value of UBHL's investments in Aventis as on 31.3.04 was close to Rs. 1700 million.

The Bayer group which acquired the agri-sciences business of Aventis Crop Science has been through a number of internal reorganization and the current Bayer CropScience Ltd. which incorporates the erstwhile Aventis business, is the leading player in the field today. UB Holdings has a 3.89% in the equity of Bayer CropScience.

Mangalore Chemicals & Fertilizers Ltd. stands out in the industry as a model of efficient operations. The dramatic turnaround engineered by the UB Group in this company has resulted in profits and positive cash flows for the last several years. MCF is today a debt free company too, a far cry from the loss and loan-ridden entity that we took over several years ago, from the jaws of sickness. The MANGALA brand of fertilizers is much sought after in Karnataka and other key markets. The future of the company will be dependant on Government regulation of the industry. Current policies are strangulating, particularly in the light of rising prices of naphtha and other







inputs. MCF is today the only profit making and viable naphtha based unit on the South-West coast of the country.

UB Global Corporation Ltd., our export trading subsidiary, has notched several awards for export performance in its 10 year history. This includes the prestigious APEDA award for 5 consecutive years, recognizing its performance in the export of beers and spirits. The Company is also a leading exporter of mango pulp to the discerning European market. In recent years, UB Global, has developed several lines of leather footwear selling nearly 800,000 pairs under various international labels. The Company is now one of the top exporters of shoes to Europe. New markets in America and Asia are being opened up.

UB Engineering's skills are well documented. However, the company has not been able to live up to its reputation in recent years on account of financial difficulties brought on by non-payment of dues by several public sector customers, in some cases, despite Court Orders in our favour. I am personally following up these cases, and am hopeful of an early settlement of a significant number of them. The cash so realized will be sufficient to put the Company back on the path of growth and profitability.

We have, for some time now, been focused on our core business of beverage alcohol. This focus has helped us to be market leaders in both spirits and brewing. As you are aware, deregulation in this industry has not kept pace with the opening up of other segments of the economy. In this context, we have been evaluating a number of possibilities for extending our brand equity into other industries, such that a mutually beneficial symbiosis can be exploited.



After detailed and careful evaluation, I am pleased to put before you a remarkable opportunity that presents itself to exploit the franchise of the Kingfisher brand in the domestic airline business. India today, has an extremely poorly developed Civil Aviation Sector, with only a few African countries traveling less per capita than Indians. Our entire population of over 1.1 billion people is served by a mere 150 planes as compared to over 750 aircraft in China. Malaysia, with a population of 23 million has as many air travelers as India! **More people travel by rail each day than the traffic of the entire Aviation Sector over a year!** Archaic regulations which were intended to stifle competition and protect the government owned carrier are in the process of being dismantled, and we are headed for a much more "Open Skies" policy. It is a well established fact that Air Traffic in any country grows at approximately twice the growth rate of the economy at large. This would presage a growth of between 12% and 15% over the next several years, requiring a near doubling of fleet capacity over the next 10 years.

In this background, a new company-Kingfisher Airlines Ltd. has been set up as an ultimate subsidiary of UB Holdings Ltd. to pursue this opportunity. Aimed primarily at the value and aspiration seeking corporate traveler and discerning vacationer, Kingfisher Airlines will provide a new and unique experience in the air on board its fleet of new modern Airbus A 320 aircraft. Extremely aggressive purchase price of new planes, equally low lease rentals

on the four aircrafts that are to be leased immediately to commence operations before delivery of new machines, extensive use of technology and out sourcing of a variety of functions, all combine to give Kingfisher Airlines the edge when it comes to offering attractive fares. Designer interiors, In-seat multi channel video and audio entertainment, etc. are intended to give the passenger a never before experience in the air. FLY THE GOOD TIMES is not just a slogan, but a cult and an obsession. Initial discussions on the business model have been enthusiastically received by both the traveling public and Banks and Financial Institutions.

All the above initiatives will, I believe, serve to make UB Holdings a very valuable entity in the near future.

Before closing, I wish to place on record my sincere appreciation of the enthusiastic support of all our Directors and Staff without whose dedication, we would not be able to set forth in the direction detailed. You, my fellow Shareholders, have always been very supportive and I look forward to this in future as well. Our Financial Partners have been very helpful during the year and I am sure that their support will be forthcoming in pursuit of our plans in the years ahead.

Thank you.

Dr. Vijay Mallya  
Chairman

# B OARD OF DIRECTORS & TEAM



**SUBHASH R. GUPTÉ**  
Executive Vice Chairman  
The UB Group



**RAVI NEDUNGADI**  
President & CFO  
The UB Group



**N. SRINIVASAN**



**S. G. RUPAREL**



**M. NARAYANASWAMI**



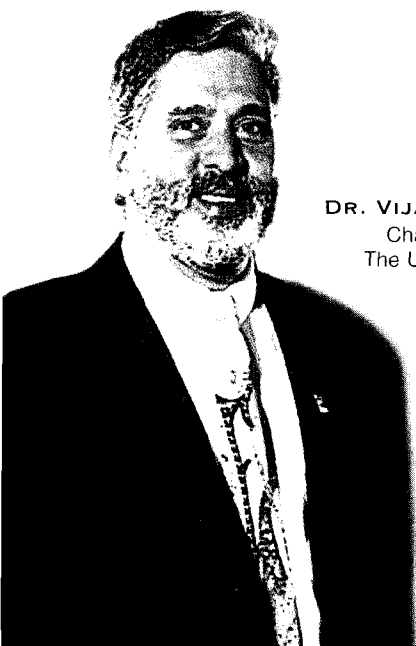
**A. HARISH BHAT**



**P.A. MURALI**



**R N PILLAI**  
Managing Director



**DR. VIJAY MALLAYA**  
Chairman  
The UB Group

## Auditors

M/s. Vishnu Ram & Co.  
Chartered Accountants  
Bangalore - 560 010

## Registered Office

UB ANCHORAGE  
5th Floor, No. 100/1  
Richmond Road  
Bangalore - 560 025



**P. SUBRAMANI**  
Senior Vice President - Legal  
& Company Secretary