



Standing tall -
the leadership stance



UNITED BREWERIES (HOLDINGS) LIMITED

ANNUAL REPORT 2007 - 2008



CONTENTS

Report of the Directors	1
Report on Corporate Governance	7
Auditor's Report	19
Balance Sheet	22
Profit and Loss Account	23
Cash Flow Statement	24
Schedules	26
Significant Accounting Policies	33
Balance Sheet Abstract	43
Consolidated Financial Statement	45

Chairman's Statement

Dear Fellow Shareholders,

We meet today in the twin shadows of a global melt down that emanated from the US and quickly engulfed the world, as well as the horror of a heinous terrorist attack on India's financial capital.

These two incidents will, I believe, result in long term structural changes both globally and more specifically in India. Companies that have prospered in the warmth of a benign economic environment, fuelled by an abundance of money, increase in global trade and low inflation, will need to square up to new, perhaps unimagined challenges in the future.

The world is tottering on the brink of recession. The causes of this situation are likely to challenge the very fundamentals of free trade, globalization and Anglo Saxon capitalism, which, despite having lifted millions out of poverty, stands today as the prime accused for the global financial melt down. I expect to see a greater role of governments and regulators in the years to come. I see the emergence of new multi lateral institutions to step into the shoes of the World Bank and IMF, which were created to tackle the ills of a bygone century. The so called "Emerging Economies" including India, China and Russia will have a far greater role to play in the 21st century than in the previous 300 years.

India has not been immune to the aftermath of this crisis even though the presence of a large public sector in the financial arena has provided a valuable cushion. The freezing up of credit markets consequent to "The Sub Prime" virus was quickly addressed by the Government, which took extraordinary steps to infuse liquidity into the markets. However, Government actions have not yet succeeded in overcoming the crisis of confidence and the fierce bearish sentiments that haunt our markets today.

Adding to these woes and constraining a forceful response has been the tragedy of the recent terror attacks on Mumbai, which claimed untold lives and created apprehensions about India's destination in the minds of the world at large. Our hearts go out to those who lost their lives and we salute those who reached out to help others, even at the cost of their own lives.

The timing of both these events in the run up to the national elections has further complicated the situation. It is my fervent hope that political parties will rise above their narrow electoral interests and come together to present a unified response that will benefit the country as a whole.

Dear Friends, I am happy to report to you that despite all adverse and challenging circumstances, each of our companies in the UB Group have done well in their respective fields, further consolidating their leadership position:

United Spirits Limited (USL) our flagship spirits company has had a stellar year having achieved sales of 73.9 million cases during the year, a growth of 11%. The company has reported profits from operations of Rs. 5.175 billion during the year compared to Rs. 3.898 billion in the previous year.

- McDowell's No.1, the umbrella brand, which has presence across whisky, brandy and rum, registered an outstanding 21% growth to achieve overall sales of 27.5 million cases. The McDowell's brand is now the Nation's largest consumer brand by retail sales value.
- Bagpiper, with sales of about 14 million cases, remains the world's largest non Scotch whisky.
- With Romanov joining the millionaire club with a historic 17% growth, USL can boast of 17 brands in this rare category of millionaire brands.
- Innovations in packaging have not only helped to keep your Company's products contemporary with other world class offerings, but has also helped to contain costs in a difficult environment.

The acquisition of the world's fourth largest Scotch company Whyte & Mackay of Glasgow has been well timed. Strong appetite for scotch, particularly in Asia, combined with scarcity of liquid has ensured that this company's inventories have gained significantly since the acquisition. Whyte & Mackay post our acquisition in March '07 for the period ended March 31, 2008 earned an EBITDA of GBP 52 million on sales of 153 million. The EBITDA for the previous period prior to acquisition i.e. October '06 to March 15, 2007 (the date of acquisition) was £11 mio.

The outlook for the spirits business continues to be bright with a young demographic, willing and able to purchase high quality products for personal consumption. USL is well placed to take advantage of the emerging demands from its investments on branding, manufacturing, as well as people and processes.

It has been interesting times for **United Breweries Limited** consequent to the acquisition of our joint venture partner, Scottish & Newcastle Plc., by Heineken in April 2008. Consequent to this global transaction, Heineken N.V., producer of world famous



Chairman's Statement (Contd.)

brands like Heineken, Amstel etc. has effectively become the holder of 37.5% of the capital of the company.

We welcome Heineken's shareholding in the company, being an extremely reputed brewer with probably the best known brands in the world. However, certain conflicts arising from the existing and ongoing brewing activities of their associate company, Asia Pacific Breweries are seen to be in conflict with the interest of United Breweries. We are in discussion with Heineken to resolve such conflicts and negotiate a new Shareholder Agreement.

With the successful completion of the rights issue of Rs. 424.88 crores in May 2008, United Breweries has been sufficiently capitalized with equity infusion to finance its modernization and expansion programs.

India is seen as one of the largest potential growth markets for beer in the world. Consequently, all the leading international brewers have now entered the country and a furious expansion and upgrading process is seen across the industry as different players compete for pre-eminence as the market evolves and opens up in the future. With around 70% of the nation's population being below the age of 35, the country has a potential to witness explosive growth, subject to a regulatory environment that delinks a mild beverage like beer from the taxation and regulatory environment, applicable to the spirits segment.

Kingfisher continues to be India's favourite beer. With Kingfisher Strong emerging as India's largest brand, we now have the distinction of being the market leader in both the strong beer and lager beer segments.

Our company's latest and largest initiative is the airline business. **Kingfisher Airlines (KFA)** after the merger with Deccan has emerged as India's largest domestic airline with a market share of 29%, which has been achieved in a short four year time frame since inception.

Not only has Kingfisher Airlines set a scorching pace of growth but it has done so with unstinting commitment to quality and dedicated to the premise that the consumer comes first. Our success in this area can be demonstrated by the receipt of 20 national and 5 international awards over the last four years, the latest feather in the cap being recently adjudged the "Best Airline Brand in Asia Pacific" unseating the redoubtable Singapore Airlines in the process.

It has been, no doubt, a difficult period for the global aviation industry and more particularly for us here in India. Viewed as a luxury industry catering to the "Rich", the aviation industry

in India has a skewed cost structure driven by regulation which makes operations in the country about 70% higher than other parts of the world. High levels of sales tax coming on top of steep margins on Aviation Turbine Fuel, wastage of fuel due to congestion and poor airport infrastructure, the need to fly to extremely un-remunerative destinations for regulatory reasons etc., are just some of the unique hazards of running an airline in this country. Adding to this legal cocktail, was the government's decision to allow all and sundry to enter the space over recent years without regard to available infrastructure and capacity constraints.

The previous several months have seen airlines globally hit by the unprecedented rise in the price of fuel. A year ago crude was trading at US\$ 97.92 per barrel and reached a peak of US\$ 147 per barrel in the month of July 2008.

Friends, the worst is behind us and Kingfisher has come through a most difficult period in the aviation industry and is well positioned to take advantage of a sound and sustainable future. The price of fuel has come off dramatically against its peak and is currently trading at US\$ 43.81 per barrel. Even though the dollar has appreciated considerably against the Indian rupee, industry stands to gain considerably.

The Government has finally acknowledged that aviation is an infrastructure industry and therefore requires support. They have come up with a series of measures including waiver of customs duty and a plan to reduce sales tax on aviation turbine fuel to about 4% from the current average of 26%.

The combination of lower oil prices, government intervention and KFA's own efforts to drive down costs and enhance capacity utilization, are all coming together, and I feel optimistic of our not just breaking even but moving into profitable territory in the coming year. The difficult times of the recent past have made the entire industry more aware of the need to calibrate capacities and adopt a rational pricing policy, which will stand all players in good stead in future. Civil Aviation is critical to our Nation's Economic Growth, more particularly since the geography of our country do not permit rail and road transport to be viable alternatives to air travel.

UB Engineering Limited is one of the leading Indian engineering companies, specializing in the erection and installation of industrial plants. The restructuring of the Company, which began in 2006-2007, started showing results and the Company achieved turnover to Rs. 2632.10 million in the year 2007-2008, from Rs. 2162.90 million in the previous year with substantial improvement in profit to Rs. 128.4 million.

Chairman's Statement (Contd.)



Consequent to Rights issue with significant orders in hands and reduced debt burden, the company is now well poised to take benefits from present infrastructure development in the country.

The Company has recently bagged an order worth Rs. 174 crores from the J & K Power Development Department for 220KV / 132 KV substation works. This is the single largest contract ever awarded to UB Engineering, since inception.

UB Engineering is targeting to achieve growth of 70% during the current year.

UB Global – Export of leather footwear continued to show impressive growth along with our core business of beverage alcohol. Apparel exports commenced in a large manner. Despite a disadvantaged currency environment, export sales showed strong growth.

The worsening recession in USA and Europe will have an impact on our exports of luxury products such as branded leather footwear and apparel. On the other hand, however, the depreciation of the rupee and the recently announced incentives for exporters announced by Government should help mitigate the situation.

Mangalore Chemicals & Fertilizers Limited [MCF], the only fertilizer company in the State of Karnataka, registered increase of 19% and 39% respectively in sales and profit during the year.

In its endeavour to promote the balanced use of fertilizers, MCF made special efforts to promote speciality fertilizers, micro nutrients and other non-traditional products. These non-traditional activities contributed about 30% to its PBT. In view of the success achieved in bringing awareness amongst the farming community for use of micro nutrients and soil conditioners, the Company set up its manufacturing facility at Hassan with a fully equipped R&D Centre.

MCF also started an Integrated Farm Management initiative to provide comprehensive Agri solutions to the farmers. Under this initiative, the Company covered 977 Hectares of

land in 65 villages and assisted farmers in adopting scientific farming methods leading to increase in yields up to 15% and improvement in crop quality.

The outlook for the financial year 2008-2009 looks promising. MCF has already registered sales and profit growth of 79% and 43% respectively in the first half of the current year.

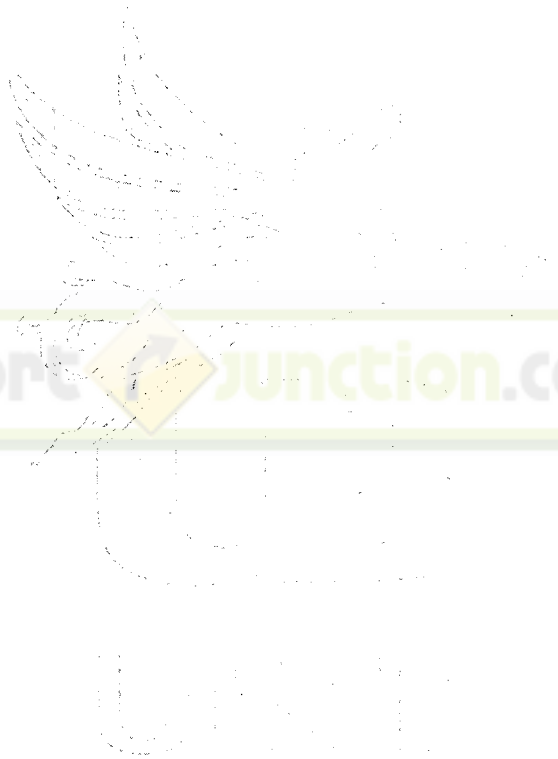
The skyline defining development, **UB City**, located in the very heart of Bangalore is the new jewel of the city. A 1.1 million sq feet mixed use development with commercial, luxury retail and serviced apartments, it has bagged the prestigious City Scape India Real Estate 2007 – Best Developer – Mixed Use Award recently.

All office space in UB City has been leased out to prestigious Indian and Multinational clients. The Luxury retail space, The Collection, has many of the world's leading Super Luxury brands such as Louis Vuitton, Canali, Zegna and Daum, under one roof – a first in the country.

Recent changes to zoning laws has made available additional floor space index which will enable the construction of an additional 5 lac sq feet at the site. It is planned to start construction of high-end residential apartments under the same joint development program. Given its premier location, the general downturn in real estate sector is not expected to dampen enthusiasm within UB City.

In conclusion, I wish to record my thanks to all my colleagues on the Board and the management team for their support and contribution during the year. Shareholders, suppliers, customers, the financial community and employees have all contributed to UB's leadership position and I would like to thank each one of them.

Dr. Vijay Mallya
Chairman



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UNITED BREWERIES [HOLDINGS] LIMITED

Directors	Dr Vijay Mallya – Chairman Mr. Sidhartha V Mallya Mr. N Srinivasan Mr. S G Ruparel Mr. A Harish Bhat Mr. P G Mankad Mr. B S Patil Mr. P A Murali [upto 24.07.2008] Mr. R N Pillai, Managing Director
Executive Vice Chairman The UB Group	Mr. S R Gupte
President & Chief Financial Officer, The UB Group	Mr. A K Ravi Nedungadi
Company Secretary and Compliance Officer	Mr. Kaushik Majumder
Auditors	M/s Vishnu Ram & Co., Chartered Accountants Bangalore – 560 003
Registered Office	UB TOWER, Level 12, UB CITY, No.24, Vittal Mallya Road, Bangalore 560 001
Registrars and Transfer Agents	M/s Alpha Systems Private Limited No.30, Ramana Residency, 4 th Cross, Malleswaram, Bangalore 560 003



Report of the Directors

Your Directors have pleasure in presenting the Annual Report of your Company and the Audited Accounts for the year ended March 31, 2008.

FINANCIAL RESULTS

[Figures in million]

	2007 – 2008	2006 – 2007
The working of your Company for the year under review resulted in		
• Profit before Depreciation and Taxation	825.217	301.315
Less:		
• Depreciation	39.004	25.796
• Taxation	138.329	23.246
Profit after tax	647.884	252.273
Profit available for appropriation	647.884	252.273
Your Directors have made the following appropriations:		
Proposed Dividend	66.819	59.442
Corporate Tax on Proposed Dividend	11.356	10.102
Balance Carried to the Balance Sheet	569.709	182.729

DIVIDEND

Your Directors have pleasure in recommending a Dividend for the year ended March 31, 2008 at 10 % for the financial year 2007-08. The dividend, if declared as above, would involve an outflow of Rs.66.819 million towards dividend and Rs.11.356 million towards dividend tax, resulting in a total outflow of Rs. 78.175 million.

CAPITAL

a] Qualified Institutional Placement

In the year under review, your Company allotted on Private Placement basis 5,405,405 Equity Shares of Rs.10 each for cash at a Price of Rs.1,110/- per Equity Share aggregating to Rs. 600 Crores to Qualified Institutional Buyers as defined under Clause 2.2.2B[v] of Chapter XIII –A of the Securities and Exchange Board of India [Disclosure and Investor Protection] Guidelines, 2000.

b] Preferential Issue of Equity Warrants to Promoter

In the year under review, your Company has allotted 6,387,117 Equity Warrants on preferential basis to FirStart Inc, an overseas Promoter Company on December 13, 2007 in terms of Chapter XIII of SEBI [DIP] Guidelines, 2000 for Preferential Issues. Each warrant is convertible

into one equity share of the face value of Rs.10/- each of the Company, at a price of Rs.1,110/- per share, at the option of the Warrant holder at anytime within 18 months from the date of allotment of the Warrants. The Promoter Company exercised its option to convert 1,971,218 Warrants into Equity out of its total entitlement of 6,387,117 warrants. The new shares on conversion of Warrants were allotted to the Promoter Company on January 28, 2008. These converted shares are under lock-in for a period of three years from the date of allotment.

c] Subscribed and Paid up Capital

Consequent to the allotment of the new equity shares to Qualified Institutional Buyers (QIB) and conversion of warrants into equity allotted to the Promoter Group, the Issued, Subscribed and Paid up Capital stands increased from Rs.594,418,980 to Rs.668,185,210. The Authorised Capital remained at Rs.1,000,000,000.

The details pertaining to the utilization of QIB and Issue of Warrants proceeds is specified in the notes to the accounts section of the Annual Report.

OPERATIONS

Your Directors are pleased to report profit during the year under review which includes profit on sale of certain investments / land

Report of the Directors (Contd.)



of Rs.396.652 million besides Trademark licence fees, Dividend, Guarantee Commission and interest on deposits, Rental of Property of UB CITY and Export Sales. The office space allotted to the Company under the Joint Development Agreement have mostly been leased out to group companies, leading companies / firms. The retail space owned by the Company have also been let out to leading international brands. Final negotiations are continuing with high-end retail stores for letting out the balance retail space available in UB CITY. It is expected that some of the best international brands will soon have a presence in UB CITY.

PROPERTY DEVELOPMENT

UB CITY has changed the skyline of Bangalore in less than 3 years. Standing tall on Vittal Mallya Road and Kasturba Road, the 4 towers of UB CITY – Canberra, Comet, Concorde & UB Tower demonstrate how chrome and glass seamlessly blend with the greenery in the neighbouring Cubbon Park.

In terms of the Joint Development Agreement entered into by the Company with Prestige Estates Projects Private Limited [Developers], undivided portion of the Company's land to the extent of 137,844.13 sq.ft situated at Vittal Mallya Road, Bangalore, has been transferred to the Developers and their Nominees in exchange for 556,503 Sq.ft of constructed office space, at an agreed value which has been capitalized.

EXPORT DIVISION

UB Global (a Division of the Company) received the APEDA Silver Trophy for the 9th consecutive year for best export performance.

UB Global also received the Gold Best Merchant Exporter Award at the Export Excellence Award 2008 organised by the Federation of Karnataka Chambers of Commerce and Industry.

Footwear Division:

With over ten years experience in export of leather footwear, UB Global has developed a diverse portfolio of leathers comprising nubucks, suedes, wrinkles, washes and other special finishes to meet the ever-changing trends in world fashion.

Besides existing customers like GEOX and Esprit, UB Global has bagged orders from prestigious clients such as Bugatti and Pavers England.

Apparel Division:

The Textile Apparel Export division, the newest constituent of UB Global's diverse business portfolio, caters to leading European

brands such as Asda, Colins, Gaastra, George, Lafuna and Next across the breadth of Casual wear.

Spirits:

UB Global has made inroads into brand new markets, notably Peru, Guyana and Haiti in the Americas, Zimbabwe, Burkina Faso, Ghana, Tonga and Morocco in Africa, Lebanon and Indonesia.

Spirits sales soared to hit the highest ever level. The achievement in Spirits is strongly embellished by the Highest ever Sales of Beers, as well. Kingfisher continued to explore newer markets in South East and Far East Asia, with shipments to Vietnam and Tonga.

COMPOSITE SCHEME OF ARRANGEMENT

Pursuant to the Composite Scheme of Arrangement between Deccan Aviation Limited, Deccan Charters Limited and Kingfisher Airlines Limited sanctioned by the Hon'ble High Court of Karnataka at Bangalore vide Order dated June 16, 2008, the Commercial Airline Division Undertaking of Kingfisher Airlines Limited stood transferred to and vested in Deccan Aviation Limited with effect from April 1, 2008 and the Charter business of Deccan Aviation Limited stood transferred to and vested in Deccan Charters Limited, on and from the Slump Sale Appointed Date i.e., January 1, 2008.

DIRECTORS

Mr P A Murali resigned from the Board of Directors of the Company with effect from July 24, 2008. The Board places on record its appreciation for the distinguished contribution by Mr P A Murali to the deliberations of the Board during his tenure as Director.

Mr S G Ruparel, Mr A Harish Bhat and Mr P G Mankad, Directors, retire by rotation and, being eligible, offer themselves for re-appointment.

Brief resume of the Directors offering themselves for re-appointment is appended and forms an integral part of the Report on Corporate Governance.

LISTING OF SHARES OF THE COMPANY

The shares of your Company are presently listed on Bangalore Stock Exchange Limited [Regional Exchange] and The Bombay Stock Exchange Limited, Mumbai.



Report of the Directors (Contd.)

With a view to increase investor participation of the Company's shares in the Stock Exchanges, your Company applied for and listed its Equity Shares with the National Stock Exchange of India Limited [NSE]. The trading of the equity shares in NSE commenced from May 21, 2008.

The Calcutta Stock Exchange Association Limited accepted Company's request to Voluntarily Delist the shares of the Company from their Exchange.

The listing fees for the year 2008-09 have been paid to all the Stock Exchanges.

CORPORATE GOVERNANCE

A report on Corporate Governance is annexed separately as part of the report along with a certificate of compliance from the Statutory Auditor. Necessary requirements of obtaining certifications / declarations in terms of Clause 49 have been complied with.

SUBSIDIARIES

During the year under review, the Company's subsidiary, Kingfisher Airlines Limited, has made tremendous progress in its operations, fleet acquisition, all India coverage and customer satisfaction and patronage. Kingfisher Airlines which is now in the fourth year of its operations has won several awards.

As stated earlier, the Composite Scheme of Arrangement between Deccan Aviation Limited, Deccan Charters Limited and Kingfisher Airlines Limited had been approved by the Hon'ble High Court of Karnataka at Bangalore vide Order dated June 16, 2008, and in terms thereof the Commercial Airline Division Undertaking of Kingfisher Airlines Limited stood transferred to and vested in Deccan Aviation Limited with effect from April 1, 2008 and the Charter business of Deccan Aviation Limited transferred to and vested in Deccan Charters Limited, on and from the Appointed Date i.e January 1, 2008.

The following subsidiaries of the Company have changed their names:

1. Kingfisher Airlines Limited to Kingfisher Training and Aviation Services Limited on September 5, 2008.
2. Deccan Aviation Limited to Kingfisher Airlines Limited on September 5, 2008.
3. Kingfisher Aviation Training Limited to Deccan Charters Limited on 07-02-2008
4. Kingfisher Training Academy Limited to Kingfisher Aviation Training Limited on 05-03-2008, and

5. Kingfisher Radio Limited to Kingfisher Finvest India Limited on 19.06.2008.

The performance of certain significant subsidiary companies has been covered in the Chairman's statement, which forms part of the Annual Report.

The following are the subsidiaries of the Company.

Indian Subsidiary Companies

1. UB Electronic Instruments Limited
2. UB Infrastructure Projects Limited
3. UB International Trading Limited
4. Kingfisher Finvest India Limited [Formerly Kingfisher Radio Limited]
5. Kingfisher Airlines Limited
6. City Properties Maintenance Company Bangalore Limited
7. Deccan Charters Limited [Formerly Kingfisher Aviation Training Limited]
8. Kingfisher Aviation Training Limited [Formerly Kingfisher Training Academy Limited]

Foreign Subsidiary Companies

1. Rigby International Corp.
2. United Breweries of America Inc. Delaware
3. Inversiones Mirabel, S.A
4. Mendocino Brewing Co. Inc., U.S.A
5. United Breweries International [U.K.] Limited
6. UBSN Limited
7. Releta Brewing Company LLC
8. Rubic Technologies Inc.
9. UB Overseas Limited
10. UBHL [BVI] Limited

The Ministry of Corporate Affairs, Government of India, has vide its letter dated July 21, 2008 given permission to the Company to dispense with the circulation of audited accounts of the above 18 [Eighteen] Subsidiaries in view of the inclusion of their Consolidated Financial Statements in the Company's Annual Report.

Bangalore Beverages Limited has become a wholly owned subsidiary of the Company from July 2008.

The Company will make available the audited annual accounts and related information of the subsidiary companies, where applicable, upon request by any member of the Company. These documents will also be available for inspection during business hours at the Registered Office the Company.