



UNITED BREWERIES LIMITED

A major part of the UB Group.
For the UB Group, brewing was where it all began, and the history of the Group is synonymous with the history of beer in India. It all started with five small breweries in South India, the oldest of which, Castle Breweries, dates back to 1857. Then in 1915, Thomas Leishman, a Scotsman, combined these breweries to form United Breweries Limited. This company was bought over by Vittal Mallya in 1947 and has never looked back since. Today, 14 breweries operating to capacity, supply the ever increasing demand of United Breweries' range of beers, making the company the sub-continent's largest beer manufacturer.

notice of annual general meeting

NOTICE IS HEREBY GIVEN of the Eighty-Second Annual General Meeting of the Members of **UNITED BREWERIES LIMITED** to be held at Chowdiah Memorial Hall, Gayathri Devi Park Extension, Bangalore - 560 003, on Tuesday, September 29, 1998, at 11.00 a.m. for the following purposes:

1. To receive and consider the Accounts for the year ended March 31, 1998, and the Report of the Auditors and Directors thereon.
2. To declare a dividend.
3. To elect a Director in the place of Mr. Mani Narayanaswami, who retires by rotation and, being eligible, offers himself for re-election.
4. To elect a Director in the place of Mr. Morris Mathias, who retires by rotation and, being eligible, offers himself for re-election.
5. To appoint Auditors and fix their remuneration.

By Order of the Board
P. SUBRAMANI
Corporate Vice President - Legal
and Company Secretary

Registered Office:

No. 1/1, Vittal Mallya Road,
Bangalore - 560 001.

August 20, 1998

NOTES :

1. A Member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of himself and such Proxy need not be a Member of the Company. The proxies in order to be effective, must be received by the Company not less than 48 hours before the Meeting.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from Tuesday, September 1, 1998 to Thursday, September 17, 1998 (both days inclusive).
3. Members are requested to intimate to the Company's Registrars and Transfer Agents viz., SHARE AIDS PRIVATE LIMITED, NO. 4, I MAIN ROAD, C.I.T. COLONY, MYLAPORE, CHENNAI - 600 004, details about their Bank Account Number, Name of Bank, Branch Name and Address, to enable the Company to draw the Dividend Warrant payable accordingly.
4. Members are requested to notify immediately any change in their addresses to the Company's Registrars and Transfer Agents, viz., SHARE AIDS PRIVATE LIMITED, NO. 4, I MAIN ROAD, C.I.T. COLONY, MYLAPORE, CHENNAI - 600 004.
5. Members holding more than one Share Certificate in the same name or same order of names under different ledger folios, are requested to apply for consolidation of such folios to the Company's Registrars and Transfer Agents, at the address stated in Note No. 3 above, together with Share Certificates to enable the Company to consolidate all the holdings into one account. The Share Certificates will be returned to the Members after making the necessary endorsement in due course.
6. Pursuant to Section 205A of the Companies Act, 1956 all unclaimed Dividends for three years or more have been transferred to the General Revenue Account of the Central Government. Shareholders who have not encashed the Dividend Warrants for the said period are requested to claim the amount from the Registrar of Companies, Karnataka, Bangalore.
7. Members are requested to bring their copy of the **Annual Report** to the Meeting.
8. Members should also bring the **Attendance Slip** sent herewith, duly filled-in.
9. Members are also requested to avoid being accompanied by non-members and children.

By Order of the Board
P. SUBRAMANI
Corporate Vice President - Legal
and Company Secretary

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UNITED BREWERIES LIMITED

DIRECTORS

Vijay Mallya, Chairman
Morris Mathias
Shrikant Gordhandas Ruparel
Mani Narayanaswami
N Srinivasan
T S Narayana Rao

COMPANY SECRETARY

P Subramani

AUDITORS

Fraser & Ross
Chartered Accountants
Bangalore

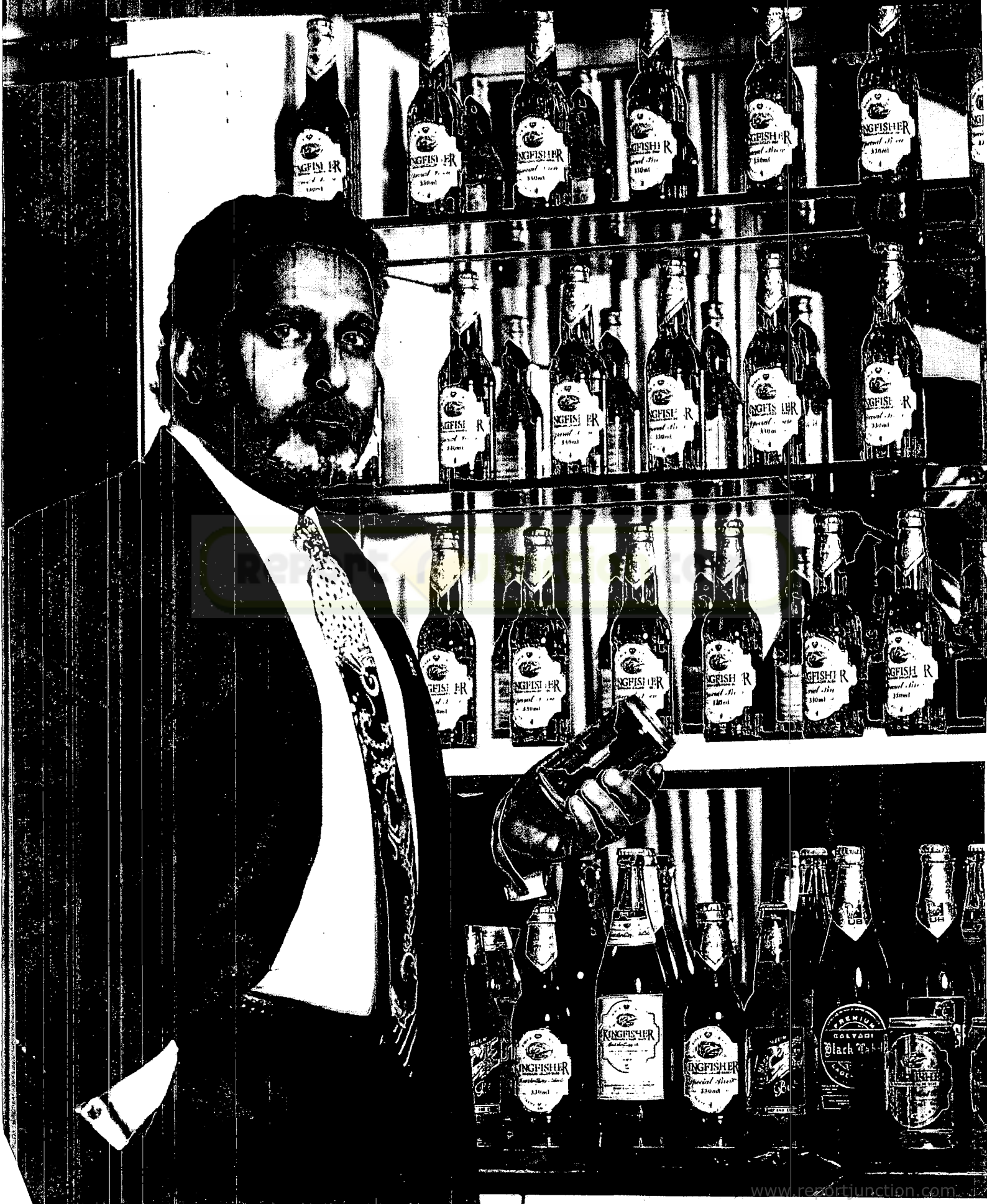
LEGAL ADVISORS

Crawford Bayley & Co.
Solicitors, Advocates & Notaries
Mumbai

REGISTERED OFFICE

1/1 Vittal Mallya Road
Bangalore - 560 001.

CHAIRMAN'S STATEMENT



Dear Shareholders,

Since I addressed you last year, our Country has witnessed yet another general election and the swearing-in of the Country's 4th Prime Minister within a span of two years - unprecedented in independent India's political history. Though the economic agenda of most political parties support the cause of liberalisation and a free market driven economy, frequent changes in Government have de-railed the economic progress that we had witnessed till a few years ago. While the domestic economy reacted with a significant slow down in growth, direct foreign investment was not as forthcoming as one would have hoped. Demand in the consumer goods sector tapered off following a decline in household spending while the much-needed infrastructural projects failed to materialise as expected. Liquidity too, virtually dried up following increased levels of domestic borrowing by Government. The Indian Rupee continued its southward journey creating record lows at frequent intervals as compared to the United States Dollar. One would have hoped that the saving grace in such a situation would come by way of increased exports, but this too has not happened for various reasons not the least of them being the Asian economic crisis. India needs clear and consistent economic direction accompanied by the political will to drive forward the much-needed reforms. Unless this is regained, I fear that the economic outlook for the near future will only continue to be grim.

I would have preferred not to portray such a dismal economic landscape as I have done, but it is only appropriate that I describe the environment in which we must operate our business. Fortunately,

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and in my experience, the Alcoholic Beverages Industry is able to soften the impact of harsh economic conditions upon itself and, to this end, I am pleased to

report that the Beer market, as a whole, recorded double digit growth during the past fiscal year.

Through these turbulent times, your management successfully met a myriad challenges to achieve continued brand and overall market leadership.

At the time of my reporting, none of the major Indian States have ventured into a Prohibition regime again. The two recent experiments of "going dry" in the States of Andhra Pradesh and Haryana were terminated due to the severe fiscal impact caused by the loss of revenues. We are, therefore, able to sell in almost all major markets though we have no choice but to contend with ever increasing taxation in various States. We are continuing our efforts to persuade the various Governments to adopt a progressive taxation policy on Alcoholic Beverages which will encourage consumption in the organised sector and away from the informal (country spirit) sector thereby increasing State revenue and encouraging responsible drinking. We, as industry leaders, have already adopted a voluntary code of conduct and are promoting the cause of responsible drinking through the mass media.

In my previous reports, I have consistently maintained that we will not only strive for market leadership in every segment of the Beer industry but also improve our penetration in the market by extending our brand franchise. Your management focussed on building brand equity on one hand and exploiting this brand equity on the other hand through the launch of new flavour profiles and pack variants. Kalyani Black Label Strong Beer was launched in a new pack with an alcoholic content of 7.8% and achieved a growth rate of 21% during the year under review. Following the installation of a new high speed Canning line at Bombay Breweries, the distribution of Kingfisher Lager in Cans was extended with instant success. The availability of our internationally acclaimed Kingfisher Lager in Cans has also helped create new customers and we are delighted that our flagship product is now served aboard International Airlines apart from our national carrier, Air India.

Consistent with our well demonstrated ability to exploit emerging market opportunities and build new brands, we launched UB Premium Ice Beer with an overwhelming response. For the very first

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time in India, the traditional "Ice" brewing process of yesteryear was successfully implemented at our Bangalore Brewery resulting in the birth of a new brand with outstanding potential. UB Premium Ice with a clean crisp taste and an alcohol content of 6% is packed in frosted bottles sporting holograms on its exciting new livery which is yet another marketing first in India. This new brand is proving to be a serious threat to multi-national competitors who have launched their products in India in the recent past.

In order to exploit the growing market opportunities for bottled waters in India and in order to take advantage of the brand equity enjoyed by Kingfisher, a separate division was constituted to handle Kingfisher Mineral Water which, during the current fiscal year, is expected to become a national brand with franchise manufacturing operations in over 10 States. Your management remains convinced that this operation will contribute significantly to UB's earnings in the future.

As a part of our ongoing commitment to increasing shareholder value through significant enhancement in brand equity, we pursued innovative marketing and promotional strategies. The launch of the first "Kingfisher Net Express Cyber Pub" in Bangalore captured the growing popularity of the Internet and reinforced Kingfisher's brand values amongst the target consumer group. Other popular promotions including the sponsorship of the "Kingsome Twosome" of Indian Cricket - Ajay Jadeja and Saurav Ganguly continued and, at the time of my reporting, I am particularly delighted to report that both these outstanding sportsmen have been conferred the Arjuna Award by the Government of India.

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future was our recent foray into the sport of Soccer. As shareholders are aware, we initially started with the sponsorship of the largest Soccer Tournament in the country - the Kalyani Black Label Cup. This

was extended in the form of the Kalyani Black Label Team which actually participated in the tournament with considerable success. The major breakthrough however, was achieved earlier this year through the formation of a new joint venture - United East Bengal Football Team Private Limited. As you are no doubt aware, the East Bengal Club is one of India's premier Soccer Clubs that has received national recognition for many decades. The Club enjoys keen and widespread support in India, Bangladesh and amongst the expatriate Bengali population. A major pioneering effort succeeded with UB actually taking a 50% equity stake in the Kingfisher East Bengal Football Team through the joint venture company that I have referred to above. This will help build the value of UB's equity through continued sponsorship of the Team in future years. It is hoped that, Indian Soccer will ultimately be fashioned along the lines prevailing in Europe and this will not only provide major impetus to the development of the sport in India, but significant appreciation in the investments that UB are making at this time.

Through being the most innovative, creative and aggressive Beverage Alcohol Marketing

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Company in India and with the support of our strong distribution system, UB continued its dominance over the Beer industry with a national market share of slightly over 40%. We recorded a growth of 12% over the previous year in aggregate terms whilst our flagship brand Kingfisher grew by a phenomenal 19% and accounted for a quarter of all Beer sold in India. As you are no doubt aware, the per capita consumption of Beer in India is amongst the lowest in the world with considerable growth potential. UB and its mega brands are uniquely poised to capture these growth opportunities as we move into the new Millennium.

In order to cope with the increasing demand for UB's brands we entered into a lease agreement with Karnataka Breweries & Distilleries Limited, Bangalore, in respect of their large state-of-the-art

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facility in our home market. We also successfully concluded contract manufacturing arrangements with Rajasthan Breweries and Rochees Breweries in the State of Rajasthan. These arrangements will help us in streamlining capacity imbalances particularly during the peak summer months.

As a part of UB's ongoing commitment to product development and quality improvement, we persisted with our Barley research programmes and eventually scored a major breakthrough which is now taking the form of a proposed joint venture with a major agri-company in South India. We also took on lease and under our direct management the Malting facilities of Maltex Malsters in Patiala. As shareholders are aware, Malt is perhaps, one of the most important ingredients in the brewing of Beer and the efforts that are currently being made in Barley and Malting are significant investments for the future.

Your management remains focused on to its singular objective of building a world class brewing

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business both at home and overseas. Kingfisher Lager Beer was launched in Nepal with resounding success. We estimate that we have already secured an approximate 10% market share despite stiff competition from International brands and we remain optimistic about our future prospects in that market. Encouraged by this success in a neighbouring country, we have now decided to go ahead and address the significant opportunities for Kingfisher in the Sri Lankan market. We hope to initially, seed the market through exports, but our near term strategy calls for the establishment of a new Brewery in that country. Your management will continue to seek emerging opportunities in overseas territories where our competitive brewing skills and brand equity can be successfully exploited. You will recall that approval was granted for investments in China and I confirm that negotiations are still in progress, albeit at a slower pace than

anticipated. In the meantime, through our Associate Company, UB International Limited, we have acquired 2 Breweries in the United States of America to whom we provide technical and marketing support, as a first step, in return for the distribution of Kingfisher Lager, Taj Mahal Lager and Flying Horse Lager. Though Kingfisher continues to be brewed in the U.K., it is intended that production be shifted to the United States of America in order to improve margins and consequently, the resources available for marketing and promotion. There is widespread belief that the popularity of Indian cuisine is set to increase very significantly in the United States of America over the next few years and it is our intention to ensure that our market leadership position also benefits from this anticipated growth. As you are no doubt aware, Kingfisher Lager has consistently been ranked amongst the top 10 fastest growing Beer brands in the U.K. over the last few years. The brand is the undisputed market leader in the Indian Restaurant segment of the market and strenuous efforts have already been made to extend distribution through Super Market chains. This effort needs to be supported further and the opportunities in Europe addressed through increased focus as well as investment in marketing and promotion. As I stated in my report last year, a decision was made to take full control of UBSN Limited by acquiring the 50% stake held by our Brewing Partner, Shepherd Neame Limited. All agreements have now been reached and this acquisition is in fact already in progress at the time of this report.

The most significant overseas investment made by UB is in the equity of National Sorghum Breweries Limited, South Africa. To refresh your memory, National Sorghum Breweries is one of the largest majority black owned enterprises in South Africa with a market share of over 70% in the Sorghum Beer business in that country. The Company also owns a large,

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state-of-the-art Lager Beer Brewery which has remained dormant due to the various problems faced as a result of poor management and improvident investments made in the past. Nevertheless, I am happy to report that with the assistance of Proudfoot, South Africa, a leading firm of Management Consultants, a major business process review was commenced. Despite fierce odds, the results achieved after almost 9 months of intensive work through multiple focus groups are quite spectacular and will certainly qualify as a model case study on successful business re-engineering. The most significant achievements have been the reduction of the work force by over 1000 persons without any labour unrest or violence. The premature termination of various expensive contracts have been favourably commented upon by the Company's Auditors and have contributed to overall savings in operating expenses by Rand 100 million per annum. While manufacturing efficiencies and overheads have been addressed, our management team is currently in the process of revamping sales, marketing and distribution. Notwithstanding these continuing efforts, the Sorghum Beer operations have now been positively restored to profitability and have the capability of generating net earnings of Rand 50 million per annum. This is however, contingent upon the future of the Lager Beer facility which continues to lose money but for which we have received a purchase offer from a large International Brewer. Your management remains confident that our investment in National Sorghum Breweries will provide handsome returns in the medium to long term and also that there is significant up-side potential in the value of this investment. Our presence in South Africa also affords opportunities for the development of our Group's spirits business in that country though we will only be able to finalise our strategy when the long awaited Liquor Legislation

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and Competition Bill come into effect.

Our discussions with Lonrho, Africa are continuing and have taken many months due

to the re-organisation within the Lonrho Group itself. However, either directly or through National Sorghum Breweries Limited, we have the opportunity of acquiring the Lonrho Africa brewing businesses in Southern Africa which will increase our presence in that region.

New product offerings will continue to form a part of UB's core strategy to increase revenue and market share. During the current fiscal year we will launch at least one more Strong Beer and one new variant that will create yet another segment of opportunity for UB in the market. We are in discussion with Carlsberg with whom we have a joint venture understanding to determine if there is a way forward with our original agreement. In the meantime, we continue to be approached by many International Brewers interested in joint ventures, contract manufacture and distribution. However, our current preference is to focus on building our own brands and protecting our market share interests.

The most important challenge before the management team is to drive growth in sales and revenue on one hand while keeping costs under control and increasing operating margins on the other hand. Production levels at our own plants has grown by approximately 8% per annum with

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capacity utilisation exceeding 90%. Stringent cost control and efficiency improvement measures resulted in increases in per capita production and a reduction in cost of sales by at least 4% in the past

3 years. This challenge must not be underestimated particularly in view of the uncertain economic and monetary conditions in India with the consequential effects on the cost of inputs.

Our revenues for the fiscal year 1997-98 were Rs. 3.6 billion up 24% from Rs. 2.9 billion during the previous year. Earnings before Interest, Depreciation and Taxes were Rs. 736.5 million up 43% from Rs. 518.3 million. After providing Rs. 366.1 million towards Interest, Lease and Hire