



UNITED BREWERIES LIMITED ANNUAL REPORT 2002-2003



Our Innovative Spirit Shines Through



KINGFISHER
PREMIUM
LAGER BEER



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LAGER BEER

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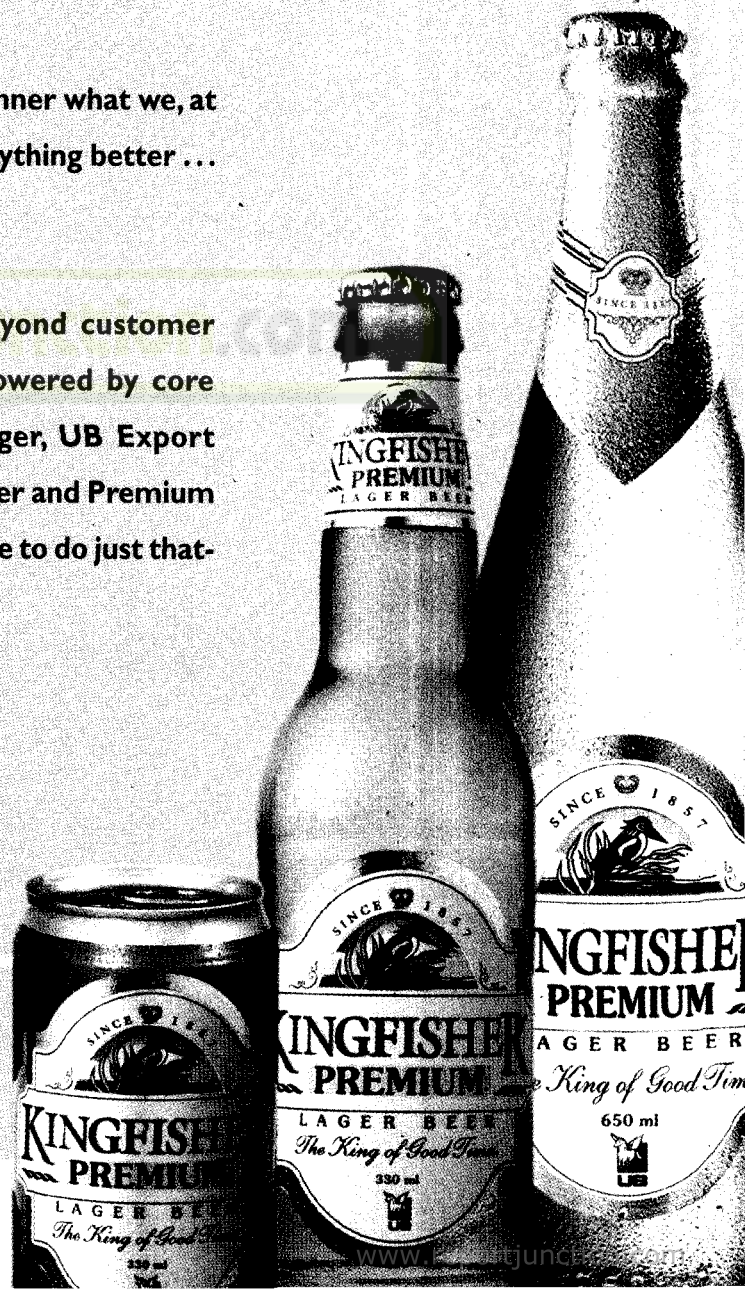
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Innovation – captured in a bottle.

Innovation defines in the simplest manner what we, at UB do. In essence it means doing everything better ... more effectively.

We are driven by the will to go beyond customer expectation through innovation. Powered by core brands like Kingfisher Premium Lager, UB Export Lager, Kingfisher Strong, London Pilsner and Premium Ice beer, we have done and will continue to do just that-exceed expectations, innovatively.





Dear Shareholders,

We meet today in a somewhat more sanguine environment than in the recent past. The economic fundamentals of the country appear to be on a sustainably improved footing after several indifferent years. A generally good monsoon with only a few notable exceptions, such as in Karnataka, is adding to the general sense of well being brought about by low inflation and improved productivity.

The feel-good factor which is slowly spreading across the country is helping to improve consumption and demand for a wide variety of consumer products including those of your company. It is notable that after an extended period of time, growth is being recorded across various different sectors of the economy. The prime mover is the rapidly expanding Service Sector which is adding jobs, critically, among the educated youth of the country, thereby setting in motion the beginnings of a revolution which will alter expectations and customs indelibly.

This quiet revolution spearheaded by the emerging class of youthful entrepreneurs, who, while working in the large and small towns of India, cater to a world market, has ushered in a change in the traditional outlook on consumption of alcoholic products in India. Until last year, young educated Indians looked forward to going overseas to take up career enhancement opportunities, primarily, in recent years, through the software sector. The boom in off shoring by many of the leading companies in the world to outsourcing centers in India has created a new generation of Indian who is plugged into a much wider universe to which he caters while remaining resident in India.



These factors have helped create a general buoyancy in the demand for beer which recorded overall growth of about 12%. Your company, as the unrivalled leader of the industry in India, has ensured rising market shares with a growth of over 17%, bringing total sales for the year to 30.5 million cases. Several factors have helped United Breweries enhance its leadership and to further extend its position from competition. Not least has been the various innovations led by the low priced pint offering that has been introduced by your Company in several key markets. This innovation reduces the put down price that the consumer has to pay for a single unit. The popularity of this innovation in an environment where beer has traditionally been sold in the large 650ml bottle encourages the company to extend the concept to additional markets in the coming years.

The Kingfisher family of brands has, of course, retained its customary leadership position in taste and customer franchise across the nation with sales of nearly 26 million cases. Almost 1 of 3 beers consumed in the country during last year was a Kingfisher. Your Company has long prided itself on the awareness of the brand created in the minds of consumers through a multiplicity of traditional and ingenious marketing methods. Association with sport and popular culture ensure that your company's products remain relevant to the wider consuming public. At the same time, association of brands like Kingfisher, with aspirational icons, through the medium of fashion and fun has ensured that the brand is associated with newly emerging values of Indian society.

Your company was the first to recognize that imminent growth in the industry would attract a number of foreign players into the industry.

CHAIRMAN'S STATEMENT

I am pleased to report that the agreements which were reached with Scottish & Newcastle plc. (S&N) of Edinburgh, United Kingdom, last year, have since fructified in a gainful multifaceted arrangement. UB directly benefits from the introduction of Rs 250 crores by way of Redeemable Optionally Convertible Preference Shares and External Commercial Borrowing. As these funds are intended to repay existing high cost debts, your company will see a substantial reduction in the interest burden in future years. Pending the completion of regulatory formalities for induction of the capital, a bridge loan has been availed of at competitive rates of interest. Simultaneously, the Joint Venture company with S&N, namely McDowell Alcobev Limited, has now been fully funded and this company, with a number of brands and breweries in strategic locations, is set to become a major player in India's brewing industry thereby further enhancing the Group's undisputed leadership position in the brewing industry.

As you may be aware, a significant development has been the recent acquisition of a majority stake and management control of Shaw Wallace Breweries Ltd. by South African Breweries (SAB). The inevitable consolidation of the industry is well on its way and in most markets today the "South African Breweries - Shaw Wallace combine" stand a clear second to the "United Breweries - Scottish & Newcastle combine". Given the large financial investments that have been made recently into the industry, particularly by multinational players such as S&N and SAB, I anticipate that both the major players, motivated by a common need to garnering appropriate returns on capital investment, will work towards improved profitability of the industry by reducing wasteful expenditure on discounting.

Though all the fundamental drivers for sustainable growth over an extended period are in place, I must caution you of the uncertainties caused by the continuing slow pace of deregulation in the industry. It is indeed

strange that while the Beverage Alcohol Industry is a major contributor to the exchequer of almost every State in the Union, Governments have not yet woken up to the need for a regulatory environment that is transparent and which will nurture the industry itself. This is the only key to continuous enhancement of tax revenues. As in the past, I am deeply engaged in furthering the cause for regulation and rational regulation with the concerned authorities. It is only upon the much needed changes being effected that the true potential of the industry, and indeed of your company, can be fully achieved. I remain, however, cautiously optimistic that I will succeed in my efforts based on positive responses in a few States.

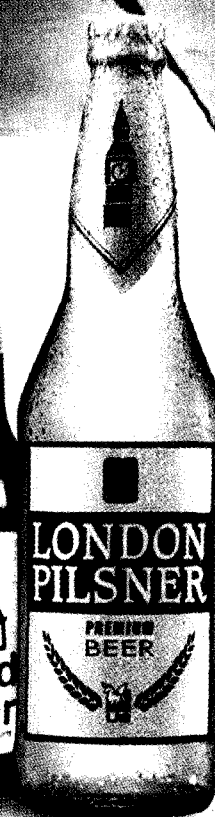
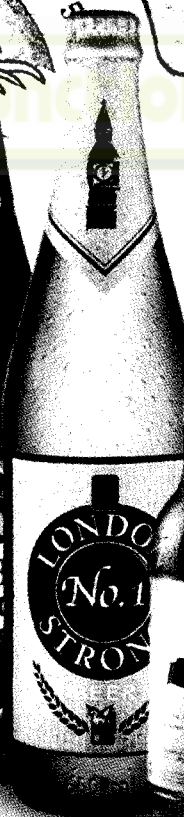
Though uncertainties caused by regulatory pronouncements can impede the sustenance of this industry, your company has persistently demonstrated its ability to cope with the environment and deliver a superior product to the consumers and to meet changing needs and aspirations. I am confident that the relentless efforts of UB in providing the consumer with the best beer in the country will be vindicated through higher growths and profits.

Pursuant to UB's commitment to extending corporate governance and transparency, we have provided a variety of non mandatory details in the Management Discussion Section of the Annual Report.

The achievements of the year would not have been possible without the enthusiastic cooperation of my colleagues on the Board, the Management Team, Suppliers, Customers, the Financial Community and Employees. I thank each one of them as also you the Shareholders for your consistent support to the company.

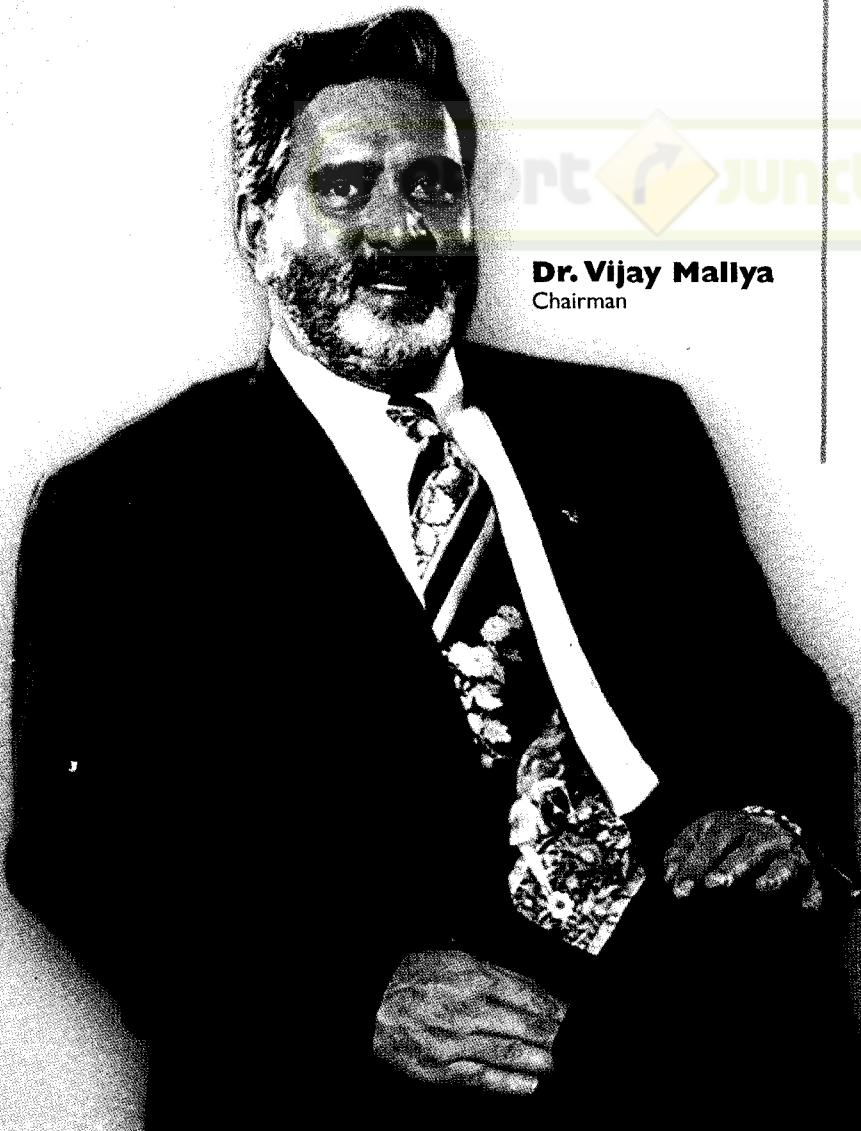


VIJAY MALLAYA
CHAIRMAN



LAGER
The King

MANAGEMENT TEAM



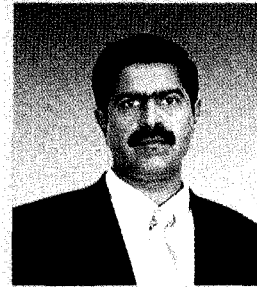
Dr. Vijay Mallya
Chairman



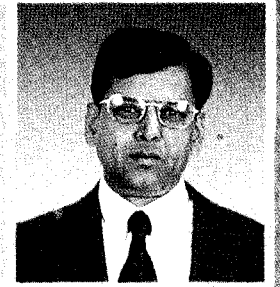
K. Ganguly
Managing Director



Ravi Nedungadi
Chief Financial Officer
UB Group



P. A. Murali
Executive Vice President
- Finance & Accounts



N. K. Mittal
Executive Vice President
- Manufacturing



Shekhar Ramamurthy
Executive Vice President
Sales & Marketing



Joe Noronha
Senior Vice President
- HRD



Govind Iyengar
Company Secretary



INNOVATIVE MARKETING STRATEGY

The innovative Pint strategy has powered UB's growth during the year. Consumers are delighted to have a pint of beer at an unprecedented price of Rs 14/- in Pondicherry, Rs 15/- in Goa, Rs 18/- in Calcutta and Bangalore – the same great taste at a new low price. UB has innovatively adopted the soft drink model, operating on a low put down price, returnable glass bottles and promotion by popular stars to ensure the success of this approach. Popularizing smaller pint pack as an alternative to the traditional 650 ml offering has enabled a more affordable product. Innovative supply chain management and packaging has further helped to keep the price at unprecedented low levels and helped to create a 2 million case value pint market.

The year witnessed formation of an innovative business arrangement with Scottish & Newcastle plc (S&N), a 16 billion European Brewer based in Edinburgh, United Kingdom. The first step involved the de-leveraging of UB's brewing businesses from its other activities. Following the global search for a suitable strategic partner, UB came to an innovative and mutually beneficial understanding with S&N. S&N will invest Rs 200 million into UB by way of a 5 year Redeemable Convertible Preference Share structure. An additional Rs 500 million is being introduced through an External Commercial Borrowing. UB has the option to seek conversion of the ROCPS at any time over the next 5 years into equity shares on a valuation to be conducted at the point of conversion. Simultaneously, the deal envisages creation of a new joint venture company between UB, S&N and Management. This joint venture (McDowell Alcobev Ltd.) will acquire certain brands and breweries and brands in strategic markets in India. S&N has since injected Rs 170 million into this joint venture company. The alliance will facilitate introduction of S&N's global brands in India as well as extension of Kingfisher in global markets.

INNOVATIVE BUSINESS STRATEGY





Concern for the environment within UB had led to many innovative measures. The Company has invested heavily in upgradation of effluent treatment and energy conservation which reflect the company's commitment and environmental concern.

The doubling of capacity of the effluent treatment plant in Punjab has been achieved without any incremental energy consumption using advanced Anaerobic Hybrid Digesters.

Capacity upgradation of the pasteurizer using the new pasteurizing techniques pioneered by UB could well become a model for the industry in the future.

These initiatives, while helping to keep our environment clean, will also, in the long run, help to contain costs and improve long term profitability.

INNOVATIVE ENVIRONMENT INITIATIVES

Leveraging fashion to ensure that Kingfisher is associated in the consumer's mind as a suave lifestyle brand.

The glamorous swimsuit special calendar 2003 featuring the best and brightest of Indian models shot by celebrated Atul Kasbekar in Mauritius has created ripples of publicity which continues well into the year.

In another change of paradigm, Kingfisher has invested in marketing campaigns associating itself with food. The beer and food association is carried out through press, outdoor and on-premise promotions and drives the international appeal of Kingfisher as the chosen accompaniment to great food.

Kingfisher has been at the forefront of making fashion more relevant to the public. Fashion events across the country, its own line of designer wear, crowned by the Kingfisher fashion awards – all demonstrate the brand's commitment to the leveraging fashion to ensure that Kingfisher is associated in the consumer's mind as a suave lifestyle brand.

When Kingfisher East Bengal became the first Indian Football Club to win an international tournament as it did in Jakarta recently, many were surprised... but not its sponsors who have invested in football through East Bengal team over many years.

Deepening and broadening traditional market initiatives for flagship brands, the year saw rich dividends from Kingfisher's innovative customer impact initiatives.



INNOVATIVE CUSTOMER IMPACT INITIATIVES

Kingfisher East Bengal: ASEAN Champions 2003

Kingfisher Chooches Winner

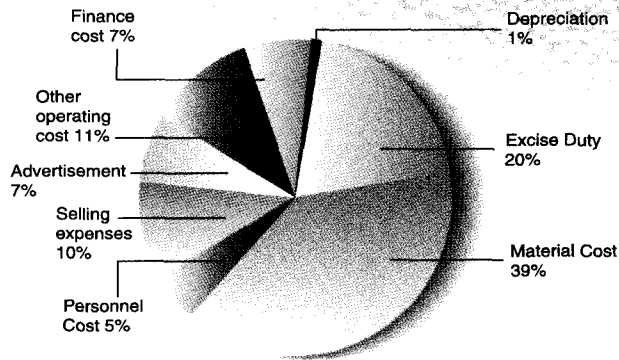
Chicken Biryani + Kingfisher = La Jawaabi!

NSCO SERVICES

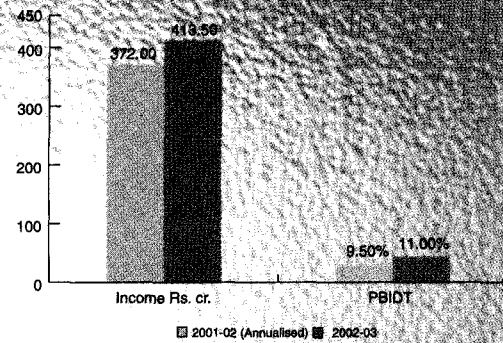
www.kingfisher.com

HIGHLIGHTS

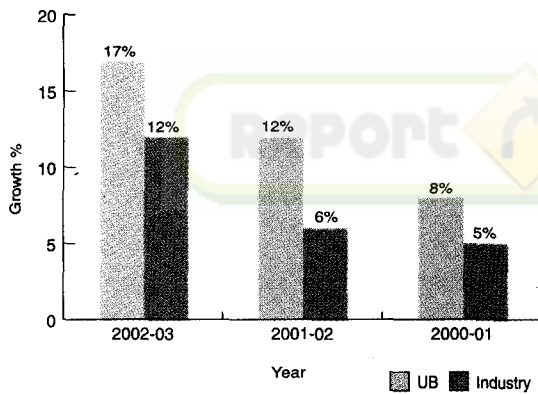
EXPENDITURE PROFILE



PBIDT VS INCOME



UB VS INDUSTRY



VOLUME PERFORMANCE

