

ANNUAL REPORT 2005 - 2006



*Moving forward in
new directions*



UNITED SPIRITS LIMITED

(Formerly known as McDowell & Company Limited)

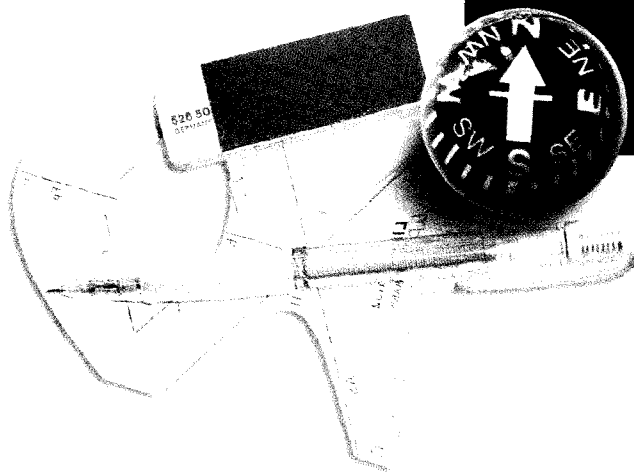
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Charting a course for a vibrant future

Having conquered the Indian spirits market, both in terms of volume and retail value, we are making headway into new territory. We acquired Bouvet Ladubay SAS, a long established Winery set up in the Loire Valley of France.

We are now looking earnestly for opportunities to broaden our base and become more international. Soon we will venture into the USD 7.6 billion Chinese market with our brands.

On the domestic front, we have notched up leadership positions in almost every product segment. Net sales increased by 19% to Rs. 1,380 crore in FY06 compared to Rs. 1,155 crore in the previous year. And as always, we will continue to introduce innovations, both in products and packaging to keep pace with changing demands. With these initiatives, your Company is poised to blaze new trails in the coming years.



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Dr. Vijay Mallya
Chairman



S.R. Gupte
Vice Chairman



V. K. Rekhi
Managing Director



M. R. Doraiswamy Iyengar



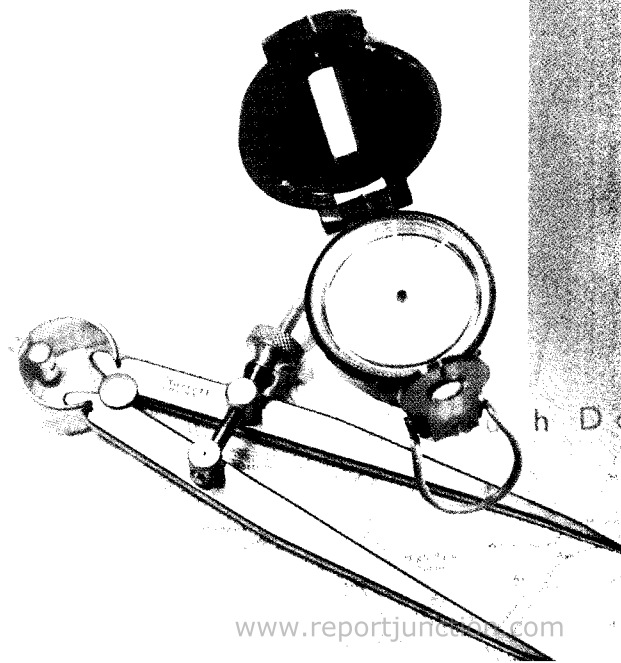
P. K. Kakodkar



B. M. Labroo



Sreedhara Menon



USL's brands tickle global taste buds



After winning worldwide acclaim at the Concours Mondial de Bruxelles and IWSC UK, in 2005, USL's brands have now stormed the ITQI Taste Awards 2006, Monde Selection 2006 and the Reader's Digest Awards. No less than 13 brands have been conferred awards for good taste and quality at these international competitions.

Flavour	Brand	Monde Selection 2006	ITQI Superior Taste Awards 2006	Reader's Digest	International Wine & Spirits Competition 2005	Concours Mondial De Bruxelles 2005
Scotch	Black Dog 12 Year Old De Luxe Scotch Whisky	Gold			Silver	Silver
Scotch	Black Dog Centenary Deluxe Scotch Whisky		Two Star (Remarkable)			
Single Malt	McDowell's Oak Matured Single Malt Whisky				Silver	
Whisky	Signature Rare Aged Whisky	Grand Gold			Silver & Best in Class	Bronze
Whisky	McDowell's No.1 Reserve Whisky	Silver		Gold	Bronze	
Whisky	Bagpiper Whisky			Gold		
Whisky	Gilbey's Green Label Whisky		Two Star (Remarkable)			
Rum	McDowell's No.1 Celebration Matured XXX Rum	Bronze	Two Star (Remarkable)		Silver	
Rum	McDowell's No.1 Celebration Rum Dry & White	Gold				
Brandy	McDowell's No.1 Brandy	Silver	One Star (Good Tasting)		Bronze	
Vodka	Premium Romanov Vodka	Silver	Two Star (Remarkable)			
Vodka	White Mischief Vodka	Silver	Two Star (Remarkable)			
Gin	McDowell's Premium Blue Riband Gin					Bronze

USL acquires Bouvet Ladubay SAS

USL has acquired Bouvet Ladubay SAS, a long established Winery, set up in 1851 in the Loire Valley of France. This acquisition has been made by Asian Opportunities and Investments Limited, USL's wholly owned subsidiary in Mauritius. The acquisition involved the purchase of the entire share capital of Bouvet Ladubay SAS for a consideration of Euro 14.75 Million. USL funded this acquisition from the proceeds of the GDS issue/ internal accruals. No additional borrowing has been made for this purpose.

Diet Mate - World's first 'diet' whisky

USL has launched a first-of-its-kind offering in the world - Diet Mate Whisky.

The growing concern among alcohol consumers is obesity. McDowell's No.1 seized this opportunity to address a key consumer need of fitness besides infusing excitement into the whisky category.

Romanov Diet Mate vodka

USL has introduced a unique offering in the country – Romanov Diet Mate vodka. Continuing with its tradition of innovating in the market place, Romanov Diet Mate has been crafted after significant research and development to ensure quality and consistency.



Four USL brands stake claim amongst 100 Top Global Brands

Four of USL's brands, viz., Bagpiper Whisky, McDowell's No.1 Whisky, McDowell's No.1 Brandy and McDowell's Celebration Rum have been included in Impact International's Top 100 Distilled Spirits Brands Worldwide by Retail Value.

The retail value of these four brands stands at USD 1.5 billion. These four brands represent 27.3 million cases, accounting for almost half of the UB Group sales volume of 59.4 million cases.

Sales Volume and Retail Value

Product	Million Cases	Retail Value (USD Mio)
Bagpiper Whisky	10.5	540
McDowell's No.1 Whisky	6.1	455
McDowell's No.1 Brandy	5.3	270
McDowell's No.1 Celebration Rum	5.4	245
TOTAL	27.3	1,510



New product launches

Over the years, USL has treated liquor lovers in India to fabulous new flavours and variants by regularly launching new brands. This year too saw the introduction of some potential bestsellers.

USL launches new variant of Black Dog

In order to expand its Scotch Whisky to a larger consumer segment and the middle-income group in particular, the company launched a low-priced variant of its Black Dog Scotch.

With the launch of the new Black Dog Whisky, USL expects an impressive growth in its premium whisky markets and the Scotch segment in particular.

McDowell's No.1 Celebration Rum

McDowell's No.1 Celebration Rum is now available in TetraPaks with tamper-proof six-layer protection. It is impossible to tamper with the pack, because once torn open, it cannot be sealed again.

Smart Pouch wins International Awards

McDowell's No.1 Reserve Whisky Smart Pouch bagged the Silver Award for Packaging Excellence 2005. The Smart Pouch also won a Special Citation award 'for a specific achievement in packaging' at the 18th DuPont Awards Competition for Innovation in Packaging, held in New York recently.

Antiquity Blue

Antiquity is the true blue of whiskies in India and the undisputed leader in the super-premium whisky segment with 90 per cent market share.

This new variant is pegged as the "Best Indian Whisky".



Chairman's Speech

Dear Shareholders,

It is indeed a great pleasure to greet all of you to take stock of a truly momentous year in the annals of our company. A year that witnessed the creation of a global powerhouse in the drinks industry, a year that saw the execution of a vision to create a composite entity that straddles the Indian spirits industry and looks confidently at taking the world stage.

The change of name from McDowell to United Spirits consequent to the court approval for mergers, is symbolic of the wider canvas that we will now address while retaining the positive traditions of the 100 plus years of success behind us.

Operationally, the financial year 2005-06 has seen sales volumes nudging 60 million cases, with strong double-digit growths at the top-end range of our product offerings. This is reflective of both strong upgrading by consumers, as a consequence of higher disposable incomes, as also a conscious effort on the part of management to focus on profitable sales.

I believe that the strong economic performance of the country, and the cultural changes that are making Indians a nation of consumers will result in this trajectory being maintained for several years. Our Company with its commitment to outstanding value is well positioned to

take advantage of this movement. Of course, we will continue to service consumers in all price categories. The volumes generated enable us to take advantage of procurement synergies.

India is a young country and the median age of our population is just over 20 years. Less than 40 per cent of our population is today of legal drinking age, but the next five years should see a dramatic increase in the addressable market size as youngsters come of age, and also join the work pool. This demographic bodes well for the future growth prospects of the industry in general, and our Company in particular.

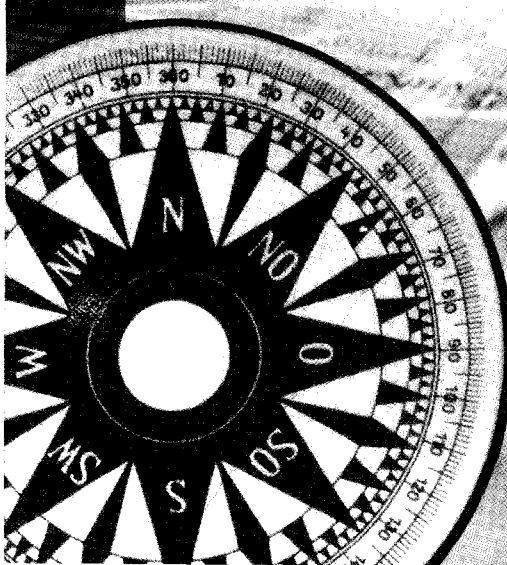
On the flip side, the potential growth is attracting all the international majors to the market, and we anticipate increased competition in the years to come.

While recognising the possible competitive scenario, I view the future with optimism rather than trepidation. Our Company has built up an enviable reputation for quality and value. Our brands have been built over many years of sustained investments such that they evoke great confidence among the public. Our unparalleled bouquet of product offerings give us a great hold over the distribution system. All the foregoing levers are being tweaked in preparation for any emerging scenario.

Simultaneously, our Company is looking at a finely calibrated globalisation of its business. This will involve not only making available to Indian consumers a choice of fine international products, but also the distribution of some of our products in select international markets. We have identified Russia and China as key thrust areas in this regard. We have set up an office in Shanghai to exploit opportunities there, and have come to a mutual access agreement with one of Russia's largest spirits companies that also produces and distributes the country's largest selling vodka.

Friends, wine is emerging as an exciting new category, though the market size is still small. Growth is taking place at a blistering pace. I believe that United Spirits must take a lead role in this emerging segment. To this end, we have already completed the acquisition of a well-known winery in France. Bouvet Ladubay is a company with a provenance going back 150 years and produces sparkling wines of exceptional quality.

We will explore other opportunities both domestic and international, to further strengthen our presence in all emerging segments and categories.



The significantly improved profitability of our Company in the current year is a result of skillfully extracting synergies from the newly acquired companies, and exploiting the benefits of scale in both sourcing and distribution. I believe that despite all the regulatory constraints, we will continue to show sustained increases in profitability, though at a slower pace.

I do see some gradual easing up on the regulatory front. As always, our Company has been in the forefront of efforts to evolve a sustainable framework. I do believe that years of effort are now bearing fruit as witnessed for example by the virtual elimination of the "Thekedari" or private monopoly system. Other steps to reduce cost of doing business and increase retail penetration will inevitably follow, with positive impact on industry profits. The pace of change remains uncertain.

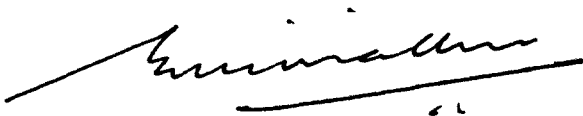
One of the outstanding successes of the year has been the seamless integration of all the merged and newly acquired entities. By following a transparent system, our management has been able to execute a "text book" integration, and I must compliment the team for this.

Another great success was the fundraising through a simultaneous offering of Global Depository Shares, which garnered USD 130 million, and Foreign Currency Convertible Bonds that raised a further USD 100 million. Not only were these issues completed in record time, but we also have the distinction of the First GDS issue in India that has been priced at a premium to market.

The funds raised have gone to pay down a significant part of the acquisition loans.

All in all, I conclude on a note of optimism, which I am sure you will share. The share price of United Spirits, which values the company at almost USD 2 billion, is reflective of market perceptions.

It remains for me to thank all who have contributed to the success of our company - the management and staff, our customers and suppliers, bankers and above all, you dear shareholders.



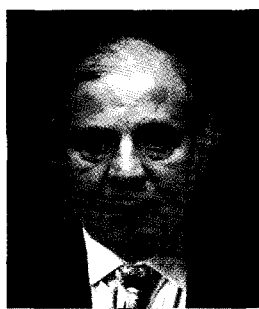
Dr. Vijay Mallya
Chairman



The Team



V. K. Rekhi
President - USL



S. D. Lalla
Joint President - USL



Ravi Nedungadi
President & CFO, The UB Group



P. A. Murali
CFO - USL



V. S. Venkataraman
Company Secretary



Navratan Dugar



Alok Gupta



Ashok Capoor



Ashwin Malik



P. A. B. Sargunar



N. R. Rajsekher



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Vivek Prakash



Abhay Kewadkar



Gerald G. D'Souza



I. P. Suresh Menon



Dr. B. K. Maitin



T. K. Subramanian