**UNITED SPIRITS**
A DIAGEO Group Company

United Spirits Limited
Registered Office:
UB Tower
#24 Vittal Mallya Road
Bengaluru 560 001

Tel +91 80 3985 6500
+91 80 2221 0705
Fax +91 80 3985 6862
www.unitedspirits.in

June 30, 2017

Ref: BM 30062017

BSE Limited,
(Regular Office & Corporate Relations Dept.)
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai 400 001.
Scrip Code: 532432

National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai - 400 051.
Scrip Code: MCDOWELL-N

Dear Sir/Madam,

**Sub: Intimation of un-audited results for the quarter and three months ended June 30, 2017 and issue of non convertible debentures.**

The Board of Directors of the Company at their meeting held today, considered and taken on record the un-audited financial results of the Company for the quarter and three months ended June 30, 2017 ("UFR"). The Limited Review Report ("LRR") thereon received from the Statutory Auditors of the Company was placed at the said Board Meeting. UFR along with the LRR and a Press Release in respect of this UFR are being uploaded on to your websites along with this letter.

The Board of Directors also approved issue of upto 7,500 non-convertible debentures of Rs. 10,00,000 each amounting to Rs.750 crores (Rupees seven hundred and fifty crores only) on private placement subject to approval of the shareholders.

Thanking you,

Yours Faithfully,
For United Spirits Limited

V Ramachandran
Company Secretary

Attachments: as above

# UNITED SPIRITS LIMITED

## A DIAGEO Group Company

'UB Tower', # 24, Vittal Mallya Road, Bangalore - 560 001

Tel +91 80 3985 6500, 2221 0705 | CIN: L01551KA1999PLC024991 | www.diageoindia.com

**Statement of Standalone Unaudited results for the quarter ended June 30, 2017** (Rs. in Millions)

| | | 3 months ended June 30, 2017 | 3 months ended March 31, 2017 | 3 months ended June 30, 2016 | Previous year ended March 31, 2017 |
|---|---|---|---|---|---|
| | | Unaudited | Refer Note 14 | Unaudited | Audited |
| 1 | **Income** | | | | |
| | (a) Revenue from operations | 58,168 | 64,852 | 58,531 | 253,988 |
| | (b) Other income | 309 | 185 | 241 | 1,111 |
| | **Total income** | **58,477** | **65,037** | **58,772** | **255,099** |
| 2 | **Expenses:** | | | | |
| | (a) Cost of materials consumed | 8,009 | 10,180 | 11,039 | 46,342 |
| | (b) Purchase of stock-in-trade | 282 | 496 | 403 | 2,058 |
| | (c) Changes in inventories of finished goods, work-in-progress and stock-in-trade | 1,328 | 630 | 115 | 444 |
| | (d) Excise duty | 40,350 | 44,602 | 38,126 | 168,512 |
| | (e) Employee benefits expense | 1,658 | 1,210 | 1,802 | 6,674 |
| | (f) Finance costs | 703 | 853 | 1,030 | 3,690 |
| | (g) Depreciation and amortisation expense | 321 | 418 | 261 | 1,323 |
| | (h) Others: | | | | |
| | (i) Advertisement and sales promotion | 1,627 | 1,645 | 1,673 | 6,667 |
| | (ii) Other expenses | 3,340 | 3,480 | 3,239 | 13,581 |
| | **Total expenses** | **57,618** | **63,514** | **57,688** | **249,291** |
| 3 | **Profit / (loss) before exceptional items and taxation (1-2)** | **859** | **1,523** | **1,084** | **5,808** |
| 4 | Exceptional items (net) (Refer Note 12) | (8) | (2,908) | (393) | (3,262) |
| 5 | **Profit / (loss)before taxation (3 + 4)** | **851** | **(1,385)** | **691** | **2,546** |
| 6 | Income tax expense | | | | |
| | (a) Current tax charge /(credit) | 327 | (1,018) | 256 | 549 |
| | (b) Tax relating to earlier years | - | - | - | - |
| | (c) Deferred tax charge / (credit) | (105) | 648 | (3) | 271 |
| | (d) MAT credit utilised/ (availed) | - | 27 | - | 27 |
| | **Total tax expense** | **222** | **(343)** | **253** | **847** |
| 7 | **Profit / (loss) for the period (5-6)** | **629** | **(1,042)** | **438** | **1,699** |
| 8 | Other Comprehensive Income | | | | |
| | A. Items that will not be reclassified to profit or loss | | | | |
| | (i) Changes in fair value of FVOCI equity instruments | - | 9 | 2 | 18 |
| | (ii) Remeasurements of post-employment benefit obligations | (12) | 829 | (27) | 735 |
| | (iii) Tax relating to items that will not be reclassified to profit or loss | 4 | (254) | 9 | (254) |
| | **Total other comprehensive income, net of income tax** | **(8)** | **584** | **(16)** | **499** |
| 9 | **Total Comprehensive Income (7+8)** | **621** | **(458)** | **422** | **2,198** |
| 10 | **Earnings per share of Rs.10/- each:** | | | | |
| | a) Basic | 4.33 | (7.17) | 3.01 | 11.69 |
| | b) Diluted | 4.33 | (7.17) | 3.01 | 11.69 |

UNITED SPIRITS LIMITED Bangalore

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**United Spirits Limited**

**Statement of Standalone Unaudited Financial Results for the quarter ended June 30, 2017**

**Notes:**

1. United Spirits Limited (hereinafter referred to as "the Company" or "USL") is engaged in the business of manufacture, purchase and sale of beverage alcohol (spirits and wines), including through tie-up manufacturing/ brand franchise. The Company classifies the business principally based on the Company's brand in two segments namely "Prestige and Above" brands and "Popular" brands. Since both these segments meet the aggregation criteria as per the requirements of Ind AS 108 on 'Operating segments', the management considers these business activities as a single reportable segment. Accordingly, segment information has not been furnished.

2. This statement has been prepared in accordance with the Companies (Indian Accounting Standards) Rules, 2015 (Ind AS) prescribed under Section 133 of the Companies Act, 2013 and other recognised accounting practices and policies to the extent applicable.

3. As disclosed in the financial statements for the year ended March 31, 2017, pursuant to the findings of the Board's initial inquiry into past improper transactions ("Initial Inquiry"), which was completed in April 2015, the Company had executed settlement agreements with ten parties identified in the Initial Inquiry and settlements with four parties were pending. During the quarter ended June 30, 2017, the Company has reached settlements with two of such remaining parties. Discussions with one of the remaining parties have turned adverse and the matter remains likely to manifest itself into a dispute. The last remaining party identified in the Initial Inquiry ceased to be in business and therefore it is not possible to reach any settlement with this party. All amounts relating to the said two parties that remain unsettled have been fully provided for. Therefore, there is no further material exposure to the Company.

4. As disclosed in the financial statements for the year ended March 31, 2017, upon completion of the Initial Inquiry which identified references to certain additional parties and certain additional matters, the MD & CEO, pursuant to the direction of the Board of Directors, had carried out an additional inquiry into past improper transactions ("Additional Inquiry") which was completed in July 2016 and which prima facie identified transactions indicating actual and potential diversion of funds from the Company and its Indian and overseas subsidiaries to, in most cases, Indian and overseas entities that appear to be affiliated or associated with the Company's former non-executive chairman, Dr. Vijay Mallya, and other potentially improper transactions. All amounts identified in the Additional Inquiry have been previously provided for or expensed in the financial statements of the Company or its subsidiaries for prior periods and hence there is no impact on the financial results for the quarter. Pursuant to a detailed review of each case of such fund diversion, and after obtaining expert legal advice, the Company has, where appropriate, filed civil suits for recovery of funds from certain parties, including the Company's former non-executive chairman, Dr. Vijay Mallya, before the appropriate courts. Further, at this stage, it is not possible for the management to estimate the financial impact on the Company, if any, arising out of potential non-compliance with applicable laws in relation to such fund diversions.

5. As disclosed in the financial statements for the years ended March 31, 2015, March 31, 2016 and March 31, 2017, the Company had pre-existing loans/ deposits/ advances/accrued interest that were due to the Company and its wholly-owned subsidiaries from United Breweries (Holdings) Limited ("UBHL") and its subsidiaries aggregating Rs.13,374 million and that were consolidated into, and recorded as, an unsecured loan by way of an agreement entered into between the Company and UBHL on July 3, 2013 ("Loan



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Agreement"). The Company has already made provision in prior financial years for the entire principal amount due, of Rs. 13,374 million, and for the accrued interest of Rs. 846 million up to March 31, 2014. The Company has also not recognised interest income on said loan aggregating to Rs. 4,066 million for the period from April 1, 2014 to June 30, 2017 (including Rs. 318 million for the quarter ended June 30, 2017). The Company has set-off payable to UBHL under the trademark agreement amounting to Rs.120 million for the quarter ended June 30, 2017 (cumulatively Rs. 659 million) against the interest receivable from UBHL and consequently corresponding provision for interest receivable has been reversed to 'Other Income" in the related periods.

The Company is seeking redressal of these disputes and claims through arbitration under the terms of the Loan Agreement and the arbitration proceedings have commenced. On February 7, 2017, the Hon'ble High Court of Karnataka ordered, *inter alia*, that UBHL be wound up, and that the Official Liquidator be appointed as the liquidator of UBHL. The Company has subsequently secured leave from the Hon'ble High Court of Karnataka to continue the arbitration proceedings which are presently ongoing.

6. The managerial remuneration for the financial year ended March 31, 2015 aggregating Rs. 63 million and Rs. 153 million to the Managing Director & Chief Executive Officer (MD & CEO") and the former Executive Director and Chief Financial Officer ("ED & CFO"), respectively, was approved by the shareholders at the annual general meeting of the Company held on September 30, 2014. The aforesaid remuneration includes amounts paid in excess of the limits prescribed under the provisions of Schedule V to the Companies Act, 2013 ("Act") by Rs. 51 million to the MD & CEO and Rs. 134 million to the former ED & CFO. Accordingly, the Company applied for the requisite approval from the Central Government for such excess remuneration. The Central Government, by letters dated April 28, 2016 did not approve the Company's applications. On May 24, 2016 the Company resubmitted the applications, along with detailed explanations, to the Central Government to reconsider approving the waiver of excess remuneration paid. In light of the findings from the Additional Inquiry, the Company withdrew its application for approval of excess remuneration paid to the former ED & CFO by its letter dated July 12, 2016 and filed proceedings to recover the sums from the former ED & CFO. The Company is awaiting response from the Central Government to its resubmitted application in respect of the MD & CEO.

7. The Company had received letters and notices from various regulatory and other government authorities as follows:

a) as disclosed in the financial statements for the year ended March 31, 2017, from the Securities Exchange Board of India ("SEBI"), in relation to the Initial Inquiry, Additional Inquiry, and matters arising out of the Agreement entered into by the Company with Dr. Vijay Mallya to which the Company has responded and no further communications have been received thereafter;

b) as disclosed in the financial statements for the year ended March 31, 2017, from the Ministry of Corporate Affairs ("MCA") in relation to its inspection conducted under section 206(5) of the Companies Act, 2013 during the year ended March 31, 2016 and subsequent show cause notices alleging violation of certain provisions of the Companies Act, 1956 and Companies Act, 2013 to which the Company has responded and no further communications have been received thereafter;

c) as disclosed in the financial statements for the year ended March 31, 2017, from the Enforcement Directorate ("ED") in connection with agreements entered into with Dr. Vijay Mallya and investigations under the Foreign Exchange Management Act, 1999 and Prevention of Money Laundering Act, 2002 to which the Company has responded and no further communications have been received thereafter; and

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d) as disclosed in the financial statements for the year ended March 31, 2017, from the Company's authorised dealers in relation to certain queries from Reserve Bank of India ("RBI") with regard to;
i) remittances made in prior years to subsidiaries of the Company; ii) past acquisition of the Whyte and Mackay group; iii) clarifications on Annual Performance Report ("APR") submitted for prior years; and iv) compliances relating to the Company's overseas Branch office, all of which the Company has responded to. During the quarter ended June 30, 2017, the Company has received further queries from authorised dealers in connection with items iii) and iv) to which the Company is in the process of responding.

8. As disclosed in the financial statements for the years ended March 31, 2015, March 31, 2016 and March 31, 2017, during the year ended March 31, 2014, the Company decided to prepay a term loan taken from a bank in earlier years under a consortium arrangement, secured by assets of the Company and pledge of shares of the Company held by the USL Benefit Trust (of which the Company is the sole beneficiary) with the security trustee. The Company deposited a sum of Rs.6,280 million, including prepayment penalty of Rs. 40 million, with the bank and instructed the bank to debit the amount from its cash credit account towards settlement of the loan and release the assets and shares pledged by the Company. The bank, however, disputed the prepayment. The Company has disputed the stand taken by the bank and its writ petition is pending before the Hon'ble High Court of Karnataka. On completion of the loan tenure on March 31, 2015, the bank demanded an amount of Rs. 474 million towards principal and interest on the said loan, which the Company contested in the Hon'ble High Court of Karnataka. As per the order of the Hon'ble High Court of Karnataka directing the parties to consider a negotiated settlement, the Company engaged with the bank to commence discussions towards settlement. In August 2015, the bank obtained an *ex parte* injunction in proceedings between the bank and KFA, before the Debt Recovery Tribunal, Bangalore ("DRT"), restraining the USL Benefit Trust from disposing of the pledged shares until further orders. The Company and USL Benefit Trust, upon receiving notice of the said order, filed their objections against such *ex parte* order passed in proceedings in which neither the Company nor the USL Benefit Trust were enjoined as parties. In December 2015, the Hon'ble High Court of Karnataka issued a stay order restraining the bank from dealing with the above mentioned pledged shares until further orders. Thereafter in February 2016, the Company received a notice from the bank seeking to recall the loan and demanding a sum of Rs. 459 million, and the Company also received a subsequent notice in March 2016 issued under section 13(2) of SARFAESI Act in relation to the same loan. Pursuant to an application filed by the Company before the Hon'ble High Court of Karnataka, in the writ proceedings, the Hon'ble High Court directed that if the Company deposited the sum of Rs. 459 million with the bank, the bank should hold the same in a suspense account and should not deal with any of the secured assets including shares pledged with the bank till disposal of the original writ petition filed by the Company before the Hon'ble High Court of Karnataka. During the quarter ended June 30, 2016, the Company accordingly deposited the said sum and replied to the bank's various notices in light of the above. The aforesaid amount has been accounted as other non-current financial asset. On January 19, 2017, the DRT dismissed the application filed by the bank seeking the attachment of USL Benefit Trust shares. The Company on March 13, 2017 issued a legal notice to the bank asking them to provide the 'no-objection' for the release of the pledged shares, withdrawing the notices under SARFESI and also to pay compensation on account of loss of interest, value of differential share price, loss of reinvestment opportunity, reputational damage etc to which the bank has responded denying the claim. During the quarter ended June 30, 2017, the Company issued a rejoinder denying the incorrect averments of the bank and issued notice to each member of the board of directors of the bank informing them of the issue and the '*mala-fide*' actions of the Bank, to which the bank has responded.

9. Consequent to a voluntary disclosure made by the Company to a customer regarding prices historically charged by the Company to said customer being inconsistent with trading terms that apply between the



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Company and the said customer, the Company received a claim during the quarter ended September 30, 2016 and thereafter a debit note for the period up to December 31, 2016, in the quarter ended March 31, 2017 and a revised debit note for up to April 30, 2017, in the quarter ended June 30, 2017. After considering an accrual of Rs. 250 million which was made on this account in the financial year ended March 31, 2016, an additional liability had been recorded for the balance amount of Rs. 3,030 million (including potential liability of Rs. 130 million for the period January to March 2017) during the quarter and year ended March 31, 2017 of which Rs. 460 million related to claims for sales made during the year ended March 31, 2017 which had been recorded as reduction from Revenue from Operations and Rs. 2,570 million pertaining to sales made in earlier years which had been disclosed as an exceptional item in the financial results. In respect of some of the specific products the prices demanded by the Customer resulted in the Company incurring a foreseeable loss and accordingly a provision for the onerous element in such contracts amounting to Rs. 75 million had been made and included in exceptional item for the quarter and year ended March 31, 2017. The aggregate amount included in exceptional items was therefore Rs. 2,645 million for the quarter and year ended March 31, 2017. For the quarter ended June 30, 2017, the estimated potential liability of Rs.47 million on account of price differences has been utilised from onerous provision and the remaining excess onerous provision no longer required of Rs.28 million has been reversed as exceptional item (Refer Note 12). The customer and the Company have agreed on the revised price and trading terms for future supplies during the quarter ended June 30, 2017.

10. The Bihar State Government by its notification dated April 5, 2016 imposed a ban on trade and consumption of Indian Made Foreign Liquor and foreign liquor in the state of Bihar with immediate effect. Writ petitions were filed with the Hon'ble High Court of Patna challenging the said notification and seeking payment for supplies made by the Company and its tie-up manufacturing units to Bihar State Beverages Corporation Limited ("BSBCL"). By an order dated September 30, 2016, the Hon'ble High Court of Patna set aside the notification dated April 5, 2016 and Section 19(4) of the Bihar Excise Act, 1915, as ultra vires the Constitution of India. Subsequently, the Bihar Government re-imposed prohibition by notifying a new legislation i.e. The Bihar Prohibition and Excise Act, 2016, on October 02, 2016. The Bihar Government also preferred a special leave petition ("SLP") before the Hon'ble Supreme Court against the judgment of the Hon'ble High Court of Patna pursuant to which the Hon'ble Supreme Court has stayed the order of the Hon'ble High Court of Patna. During the quarter ended December 31, 2016, the Company filed an application seeking compensation from the Government of Bihar towards losses suffered as a result of arbitrary imposition of prohibition.

    On January 24, 2017, the Government of Bihar issued a Notification prohibiting the manufacture of alcoholic beverages in the State (w.e.f April 1, 2017) the consequences of which criminalises the continued storage of all stock of raw material and finished goods in the State of Bihar (including the stock lying at BSBCL). Pursuant to an application by Confederation of Indian Alcoholic Beverage Companies (CIABC) in the Supreme Court, the Bihar Government extended this timeline to April 30, 2017 and the Hon'ble Supreme Court has extended this to July 31, 2017, to allow additional time for companies to transfer said materials out of the state of Bihar.

    The Company has initiated the process of transferring such stocks of raw materials and finished goods outside the state of Bihar. The 'billed stocks' supplied by the Company pursuant to valid orders for sales which are currently in the possession of BSBCL, are also in the process of being transferred out of the state of Bihar. The Company will take appropriate steps in due course to persuade the Bihar Government to refund the statutory duties i.e. VAT and Excise duty paid in respect of the said stocks aggregating to Rs. 553 million which is considered good and receivable and is classified as other non- current financial assets.



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The Company had made a provision of Rs. 90 million and Rs. 267 million towards inventory reprocessing charges for the quarter and year ended March 31, 2017, respectively. Further, a provision of Rs. 110 million had been made towards employee retrenchment during the quarter and year ended March 31, 2017. The total provision in respect of the above items aggregating to Rs. 200 million and Rs. 377 million for the quarter and year ended March 31, 2017 respectively had been disclosed as an exceptional item in the financial results. For the quarter ended June 30, 2017, an additional provision of Rs.36 million has been made towards inventory reprocessing charges which has been disclosed as an exceptional item (Refer Note 12).

11. On January 15, 2016, the Company entered into an agreement for the sale of its entire holding in United Spirits Nepal Private Limited of 67,716 equity shares (constituting 82.46% of the paid up equity share capital of United Spirits Nepal Private Limited). The sale is subject to various regulatory approvals (both in India and Nepal) and other conditions precedent which are normal for such transactions, and which the Company is in the process of seeking. Pending such approvals, no effect has been given in respect of this transaction in this statement of standalone un-audited financial results for the quarter ended June 30, 2017.

12. Details of exceptional items:

Amount in Rs. millions

| Particulars | Quarter ended June 30, 2017 |
|---|---|
| Provision towards matters arising consequent to prohibition in the state of Bihar (Refer Note 10) | (36) |
| Reversal of excess onerous provision in respect of committed supplies to a customer no longer required (Refer Note 9) | 28 |
| **Total income/ (expense)** | **(8)** |

13. Previous period's figures have been regrouped/ reclassified to conform to the current period's presentation for the purpose of comparability.

14. The figures for the quarter ended March 31, 2017 are the balancing figures between audited figures in respect of the full previous financial year and the published year-to-date figures up to the third quarter of the relevant financial year, as adjusted for certain regroupings/reclassification.

15. This Statement of standalone un-audited financial results has been reviewed by the audit committee of the Board and approved by the Board of Directors at its meeting held on July 23, 2017.

UNITED SPIRITS LIMITED Bangalore

By authority of the Board

**Anand Kripalu**
**Managing Director and CEO**

Bengaluru
July 23, 2017

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# Price Waterhouse & Co Chartered Accountants LLP

**Independent Auditors' Report on Review of Interim Results for the quarter ended June 30, 2017**

The Board of Directors
United Spirits Limited
'UB Tower', # 24, Vittal Mallya Road
Bangalore – 560 001

Introduction

1. We have reviewed the unaudited financial results of United Spirits Limited (the "Company") for the quarter ended June 30, 2017 which are included in the accompanying 'Statement of Standalone Unaudited results for the quarter ended June 30, 2017' and the notes thereon (the "Statement"). The Statement has been prepared by the Company pursuant to Regulation 33 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "Listing Regulations, 2015"), which has been initialled by us for identification purposes. The Statement is the responsibility of the Company's management and has been approved by the Board of Directors. Our responsibility is to issue a report on the Statement based on our review.

Scope of Review

2. We conducted our review in accordance with the Standard on Review Engagement (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Institute of Chartered Accountants of India. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the Statement is free of material misstatement.

3. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

4. Based on our review conducted as above, nothing has come to our attention that causes us to believe that the Statement has not been prepared in all material respects in accordance with the applicable Accounting Standards prescribed under Section 133 of the Companies Act, 2013 and other recognised accounting practices and policies, and has not disclosed the information required to be disclosed in terms of Regulation 33 of the Listing Regulations, 2015 including the manner in which it is to be disclosed, or that it contains any material misstatement.

Emphasis of matter

5. We draw attention to the following matters:

    a) As explained in Note 6 to the Statement, the Managerial remuneration for the year ended March 31, 2015 included amounts paid to managerial personnel in excess of the limits prescribed under the provisions of Schedule V to the Companies Act, 2013 by Rs. 51 million to the Managing Director and Chief Executive Officer (MD & CEO) and by Rs. 134 million to the former Executive Director and Chief Financial Officer (ED & CFO). With regard to excess remuneration paid to MD & CEO the Company has made the necessary application, along with the required clarifications, for Central Government approval, response to which is awaited. Further, in respect of excess remuneration paid to the former ED & CFO the Company has initiated steps, including by way of filing a suit for recovery before the jurisdictional court, to recover the excess remuneration.

b) As explained in Note 4 to the Statement, upon completion of the Initial Inquiry, which identified references to certain Additional Parties and certain Additional Matters, the MD & CEO, pursuant to the direction of the Board of Directors, had carried out an Additional Inquiry that revealed improper transactions indicating actual or potential fund diversions involving the erstwhile non-executive Chairman of the Company and entities that appear to be affiliated or associated with the said non-executive Chairman, and other potentially improper transactions. The amounts identified in the Additional Inquiry have been fully provided for or expensed by the Company or its subsidiaries in earlier periods. Management is currently unable to estimate the financial impact on the Company, if any, arising from potential non-compliances with applicable laws in respect of the above.

c) As explained in Note 8 to the Statement, the Company is in litigation with a bank ('the Bank') that continues to retain the pledge of certain assets of the Company and of the Company's shares held by USL Benefit Trust (of which the Company is sole beneficiary) despite the Company prepaying the term loan to that bank along with the prepayment penalty and further depositing an additional sum of Rs. 459 million demanded by the Bank and as directed by the Honourable High Court of Karnataka (the 'Court'). The Court has directed the Bank not to deal with the pledged assets of the Company (including the shares held by USL Benefit Trust) as mentioned above till the disposal of the original writ petition filed by the Company in the Court.

d) Note 10 to the Statement which describes the uncertainty related to the outcome of Special Leave Petition (the "SLP") filed by the Bihar State Government with the Honourable Supreme court, in relation to the ban imposed by the Bihar State Government on trade and consumption of Indian Made Foreign Liquor and Foreign Liquor in the State of Bihar with effect from April 5, 2016 which was set aside by Honourable High Court of Patna in its judgment dated September 30, 2016. Further, consequent to the notification dated January 24, 2017 issued by the Bihar State Government which criminalises the continued storage of all stock of raw materials and finished goods in the State of Bihar, the Company is in the process of transferring its stock of raw materials and finished goods lying in its premises and the 'billed stocks' currently in the possession of Bihar State Beverages Corporation Limited, outside the state of Bihar. The statutory duties (VAT and Excise duty) paid on such stocks aggregating to Rs. 553 million (including duties paid by tie-up manufacturing units) have been considered as good and receivable from the Bihar State Government.

e) Note 7 to the Statement:

i. regarding clarifications sought by Securities and Exchange Board of India on matters covered by the Company's Initial Inquiry and Additional Inquiry and certain aspects of the agreement between the Company and its erstwhile non-executive chairman to which the Company has responded;

ii. regarding various issues raised and show cause notices issued pursuant to an inspection under Section 206(5) of the Companies Act, 2013 by Ministry of Corporate Affairs/ Registrar of Companies, alleging violation of certain provisions of the Companies Act, 1956 and Companies Act, 2013, to which the Company has responded;

iii. regarding the ongoing investigation by the Enforcement Directorate under the provisions of Foreign Exchange Management Act, 1999 and Prevention of Money Laundering Act, 2002 to which the Company has responded; and

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iv. regarding clarifications sought by Authorised Dealers in relation to certain queries from Reserve Bank of India with regard to remittances made in prior years to subsidiaries of the Company, past acquisition of the Whyte and Mackay group, clarifications on Annual Performance Report ("APR") submitted for prior years and compliances relating to the Company's overseas Branch office, which the Company is in the process of responding to.

Our conclusion is not modified in respect of matters described under paragraph 5 above.

For Price Waterhouse & Co Chartered Accountants LLP
Firm Registration Number: 304026E/E-300009

Pradip Kanakia
Partner
Membership Number: 039985

Bengaluru
July 23, 2017

DIAGEO
INDIA

# UNITED SPIRITS LIMITED

# PRESS RELEASE

Unaudited financial results for the quarter ended 30 June 2017

(Standalone only)

DIAGEO
INDIA

## PAT increased 44% despite short term regulatory challenges

- **Reported net sales declined 13% impacted by the highway ban and the one off impact of operating model changes. Underlying net sales declined 7% excluding the one off impact.**
- **Prestige & Above segment reported net sales declined 8%.**
- **Popular segment reported net sales declined 20% impacted by the one off impact of operating model changes. Underlying net sales declined 8% excluding the one off impact. Priority states declined net sales by 7% in the segment.**
- **Gross margin of 46%, up 265bps driven by price increases, productivity initiatives and operating model changes. Underlying gross margin improvement of 116bps.**
- **EBITDA Rs. 157 Crores, declined 26%, EBITDA margin of 8.8%, down 162bps both primarily driven by decline in net sales as we continued to invest in the business. Underlying EBITDA declined 20% and EBITDA margin of 10.0%, down 153bps excluding the one off impact.**
- **Interest cost Rs. 70 Crores, lower by 32% driven by favourable rates and mix of debt.**
- **Profit after tax Rs. 63 Crores, up 44%.**

## Anand Kripalu, CEO, commenting on the quarter ended 30 June 2017 said:

"Performance in the first quarter, as expected, was impacted by the highway ban which has led to lower consumption due to a reduction in the number of retail outlets. We have also witnessed destocking by customers during the first quarter.

The highway ban has significantly impacted the on premise channel and has led to a net sales decline of 8% in the Prestige and Above segment. Depsite these challenges, Signature continued to show positive momentum supported by the succesful renovation and grew net sales 14%. The re-launch of Antiquity has started towards the end of the first quarter in select states with early signs of positive consumer and trade response. Popular segment net sales declined 8% excluding the operating model changes.

Our continued focus on productivity initiatives and select price increases has led to an underlying gross margin improvement of 116bps. EBITDA margin declined 153bps negatively impacted by the decline in net sales as we continued to invest in the business.

Lower interest cost and exceptional items have resulted in an overall PAT increase of 44%.

Looking forward we expect the impact of the highway ban to continue in the second and third quarter in F18, however, to a lesser extent. With the recent Supreme Court ruling allowing states to de-notify particular stretches of highways within city limits, we are starting to see early signs of outlets opening again which is encouraging.

The implementation of GST effective 1 July has resulted in additional taxes on input materials and services which will result in stranded taxes and impact margins. We are working with state governments to seek clarity on some state specific taxes and also approaching them for appropriate price increases. Additionally, we continue to work to minimise the impact through internal measures. We expect to have better clarity on the financial implications of GST in the next few months as we navigate through the above measures.

Despite the regulatory challenges, the long term consumer opportunity remains strong for spirits. We continue to focus on our strategic priorities to capture this opportunity in this attractive market, and achieve our medium term ambition to grow top line by double digit and improve margins to mid-high teens."

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# KEY FINANCIAL INFORMATION

For the quarter ended 30 June 2017

## Summary financial information

| | | F18 Q1 | F17 Q1 | Growth % |
|---|---|---|---|---|
| **Volume** | *EUm* | **18.0** | 22.2 | (19) |
| **Net sales** | *Rs. Crores* | **1,782** | 2,041 | (13) |
| COGS | *Rs. Crores* | **(962)** | (1,156) | 17 |
| **Gross profit** | *Rs. Crores* | **820** | 885 | (7) |
| Staff cost | *Rs. Crores* | **(166)** | (180) | 8 |
| Marketing spend | *Rs. Crores* | **(163)** | (167) | 3 |
| Other Overheads | *Rs. Crores* | **(334)** | (324) | (3) |
| **EBITDA** | *Rs. Crores* | **157** | 213 | (26) |
| Other Income | *Rs. Crores* | **31** | 24 | 29 |
| Depreciation | *Rs. Crores* | **(32)** | (26) | (23) |
| **EBIT** | *Rs. Crores* | **156** | 211 | (26) |
| Interest | *Rs. Crores* | **(70)** | (103) | 32 |
| **PBT before exceptional items** | *Rs. Crores* | **86** | 108 | (21) |
| Exceptional items | *Rs. Crores* | **(1)** | (39) | 98 |
| **PBT** | *Rs. Crores* | **85** | 69 | 24 |
| Tax | *Rs. Crores* | **(22)** | (25) | (12) |
| **PAT** | *Rs. Crores* | **63** | 44 | 44 |

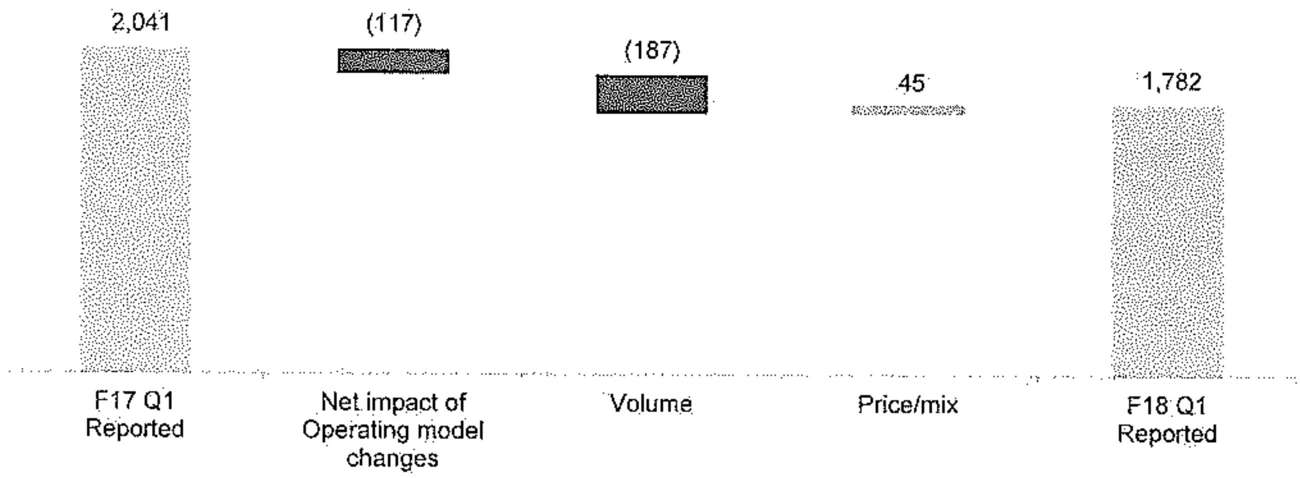
**Key performance indicators as a % of net sales:**

| | | F18 Q1 | F17 Q1 | Movement bps |
|---|---|---|---|---|
| Gross profit | % | **46.0** | 43.4 | 265 |
| Staff cost | % | **9.2** | 8.8 | (47) |
| Marketing spend | % | **9.1** | 8.2 | (93) |
| Other Overheads | % | **18.7** | 15.9 | (287) |
| EBITDA | % | **8.8** | 10.5 | (162) |
| PAT | % | **3.5** | 2.1 | 139 |
| Basic earnings per share | *rupees* | **4.4** | 3.0 | 1.4rupees |
| Earnings per share before exceptional items | *rupees* | **4.4** | 4.8 | (0.4)rupees |

The company in compliance with Schedule III of the Companies Act, 2013 has reported revenue from operations inclusive of excise duty.

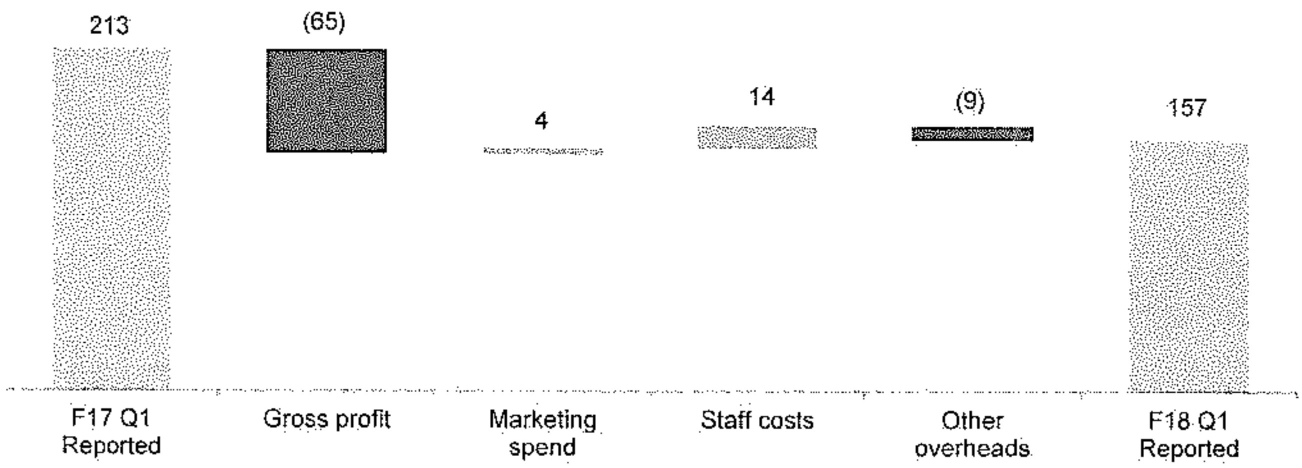
Cash flow and net debt analysis will be disclosed only in the half year and full year results.

## Net sales (Rs. Crores)



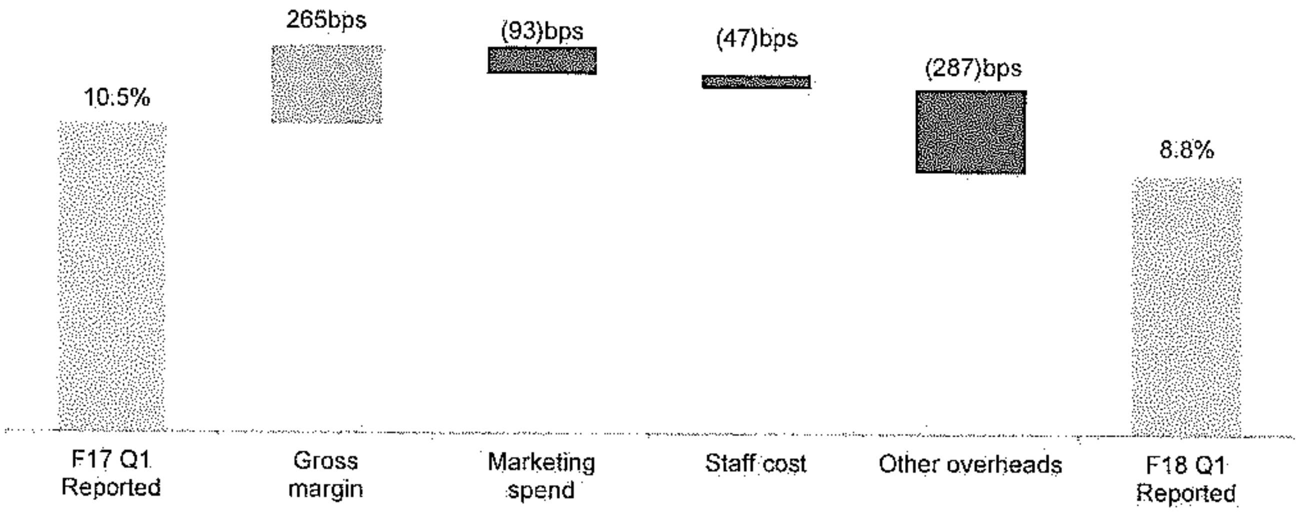

Reported net sales declined 13% as a result of the anticipated highway ban and one off impact of operating model changes. Underlying volume declined 10% excluding one off impact and has negatively impacted net sales. Positive price/mix was driven mainly by selective price increases in certain states and continued focus on premiumisation and brand renovation in the Prestige & Above segment. Excluding one off impact net sales declined 7%.

## EBITDA (Rs. Crores)




EBITDA was Rs. 157 Crores, down 26%. The decline in net sales was the primary driver of the Rs. 65 Crores reduction in gross profit. Marketing investments was focused mainly behind the Prestige and Above segment and decreased 3% reflecting lower consumer demand. Staff cost was Rs. 166 Crores including one off restructuring cost of Rs. 13 Crores in the current quarter, decreased by 8% benefitting from the savings delivered by the organisational changes. Other overheads increased by 3% negatively impacted by both one off costs and inflation. One off impact in other overheads includes a provision of Rs. 7 Crores in the current quarter and lapping costs of Rs. 6 Crores relating to organisational changes. Underlying EBITDA declined 20%.

**EBITDA margin (%, bps)**




EBITDA margin of 8.8% decreased by 162bps primarily driven by the decline in net sales. Gross margin improvement of 265bps was driven by price increases, productivity initiatives and operating model changes. Continued marketing investments behind our brands negatively impacted margin. The increase in other overheads negatively impacted margin. Underlying EBITDA margin of 10.0% declined 153bps.

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## SEGMENT AND BRAND REVIEW

For the quarter ended 30 June 2017

**Key segments:**

| | **Volume F18 Q1** *EUm* | Volume F17 Q1 *EUm* | Volume movement *%* | **Net sales F18 Q1** *Rs. Crores* | Net sales F17 Q1 *Rs. Crores* | Net sales movement *%* |
|---|---|---|---|---|---|---|
| Prestige and above | **8.4** | 9.3 | (9) | **1,095** | 1,192 | (8) |
| Popular | **9.6** | 12.9 | (26) | **649** | 815 | (20) |

- The **Prestige & Above segment** represents 47% of total volumes and 61% of total net sales, up 5ppts and 3ppts respectively compared to last year. Net sales declined 8% negatively impacted by the anticipated highway ban. **McDowell's No 1. whisky** variants (excluding Platinum) declined net sales 1% and Royal Challenge declined net sales 11%. Signature continued to show positive momentum supported by the succesful renovation and grew net sales 14%. The re-launch of Antiquity has started towards the end of the first quarter in select states with early signs of positive consumer and trade response. Our **scotch portfolio** in the premium and luxury segment declined net sales 24%.

- The **Popular segment** represents 53% of total volumes and 36% of total net sales, down 5ppts and 4ppts respectively compared to last year. Reported net sales declined 20% with 5ppts positive price/mix negatively impacted mainly by operating model changes. Underlying net sales declined 8% with 4ppts positive price/mix. Priority states declined net sales 7%, strong performance of Hayward's was offset by the decline in the rest of the brands.

**Cautionary statement concerning forward-looking statements**

This document contains 'forward-looking' statements. These statements can be identified by the fact that they do not relate only to historical or current facts. In particular, forward-looking statements include all statements that express forecasts, expectations, plans, outlook and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of changes in interest or exchange rates, the availability or cost of financing to United Spirits Limited („USL"), anticipated cost savings or synergies, expected investments, the completion of USL's strategic transactions and restructuring programmes, anticipated tax rates, expected cash payments, outcomes of litigation, anticipated deficit reductions in relation to pension schemes and general economic conditions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside USL's control. USL neither intends, nor assumes any obligation, to update or revise these forward-looking statements in the light of any developments which may differ from those anticipated.


| | | | |
|---|---|---|---|
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## LIVE Q&A CONFERENCE CALL

Anand Kripalu, Managing Director and Chief Executive Officer and Sanjeev Churiwala, Executive Director and Chief Financial Officer will be hosting a Q&A conference call on Monday 24 July 2017 at 12:00 pm (IST time). If you would like to listen to the call or ask a question, please use the dial in details below. A transcript of the Q&A session will be available for download on 26 July 2017 at www.diageoindia.com.

### Conference Access Information

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|---|---|
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