P I C T U R E



Report Victoricon Com



Dear Shareholder,

Every year I look forward to sharing with you the results for the year and the outlook for the following years of your Company. This year saw a record sales turnover of Rs. 1177 crore – a 9.1% increase over last year. Domestic volumes grew by 8.3% against the industry growth of 4.7%. As a result, we have further consolidated our position as a strong number two in the Indian market despite stiff competition from a dominant ITC.

Our exports yielded encouraging results with a 42% value growth over last year. And with entry into new markets we are moving forward to realize our dream – 'To be a leading tobacco player in India and beyond'.

As part of our overall strategy for growth and in order to bring greater focus, the Company has been restructured into two divisions: Domestic and International. Experienced CEOs have been positioned to provide the necessary resources to achieve this growth. Mr. Surinder Seru, previously Executive Vice President (Commercial and Exports) became CEO (Domestic), while

Mr. Amrish Anand, previously Executive Vice President (Sales and Marketing), heads the new International Division as CEO (International). And Mr. Ram Poddar takes on the mantle of Chief Mentor for all Group Companies.

But that is not all. With the initiation of the internationally acclaimed 'Six Sigma Process' in our Company and the successful completion of Four Black Belt projects, we have covered miles in our journey towards excellence. To further our quality focus and deliver superior results to our stake holders, every manager was trained to use the new competency-based Performance Management System to review their performance for the year 2003-04 (a first for our Company). After all, a good Company is known by the people it keeps.

Furthermore, we are investing Rs. 114 crore in the next fiscal to meet the global standards of the international market. These investments will be channeled into our plants in Mumbai and Ghaziabad to increase quality and productivity, moving our Company towards one goal. To achieve global competitiveness.

K.K. Modi President





Asia, Japan, China, Korea and

Learning and adopting productivity . and quality procedures such as Kaizen Teian, Haichi-Ban, TOM and 5S.

Itseners, believe in trust and honesty. ancestors, Introverts, respectful Relate to Group, family and

Group-Based Culture type

South-east Asia.

Dominated by schedules and

statistics, less emotional with limited

Force 10, the first international launch in The Republic of Guinea, Africa.

use unrestricted body language. Extroverts, do not keep to timetables,

South America, The Middle East,

Africa and India.

North America, Europe, Australia and New Zealand.

in Godhey Phillips India). Altadis, USA (exclusive distribution Philip Morris, USA (36% stakeholder

rights for cigars in India).

poqy language.

Data-Based Culture type

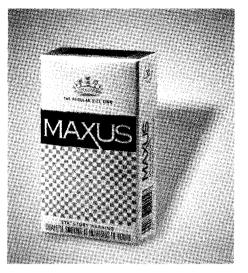
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As technology is advancing, the world is fast becoming a smaller place. Newer communities are developing, cultures are blending and distances are becoming a thing of the past.

Globalization is the buzzword.

The key to going global is to understand different cultures and know how to relate, work and negotiate with their people as well as empathize with their mindsets. In other words, becoming a successful international player means shifting one's outlook from ethnocentric to global. Fortunately, it's been a relatively easy task for us.





Thanks to our associations with major international companies which allow us the experience of working with many different cultures and gives us a better understanding of the world.

This insight into varied cultures is the foundation of our new International Division which plans to focus beyond India. Aiming to make our international business as large as our domestic business and us, in turn, an Indian Multinational. Going global, in the true sense of the word.

A fine example of our ability to do so is the launch of 'Force 10'.— a king-size cigarette, in The Republic of Guinea, Africa. By gaining knowledge of the market and being sensitive to the cultural values of the people of the country, we were able to successfully launch our first international brand. An in-house market research department helped us assess the needs of the people of The Republic of Guinea, study its culture and conditions and create a winning brand which the people there could relate to.





O U R

MOVES

When you are the second largest player in the Indian cigarette industry with an annual turnover of Rs. 1177 crore, you're constantly aware of one thing.

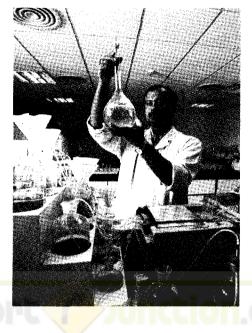
Time is money.

And with the ever-changing mindset and everevolving needs of the consumer, it is imperative to feel the pulse of the market and time one's moves correctly.

In other words, constant product innovation is the only way to keep pace. Which is why, you'll find that whether it comes to creating new brands or even improving upon our existing ones, we are always constantly striving to be better. So that we can be, to put it accurately, ahead of the times.

It is this philosophy that enabled us to create 'Tipper'. The first of its kind in the world and a breakthrough for the cigarette industry as a whole, this cigarette took several years of research and trials to create. Its unique high density tobacco tip delivers tar/nicotine levels lower than other non-filter cigarettes and ensures no tobacco particles enter the mouth. 'Tipper' also offers a non-soggy tip as well as a biodegradable constitution. It is no wonder that we were awarded the Golden Peacock Award for excellence in Product Innovation in 2003.

Our other brand launches included 'Piper', a filterless cigarette with a plastic pipe. 'Maxus', an innovative concept in cigarettes that offers king size quality in regular size cigarettes. Referred to as 'the regular size king', it is made using a substantial quantity of imported tobaccos normally used in premium king size cigarettes, thus giving it a refreshing taste, aroma and smooth after-taste.

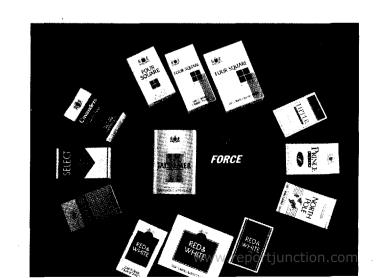




But being a Company that innovates also means being a Company that constantly critiques it's own products. It is this need to excel which pushes us to be better. Which is why we decided to relaunch our existing brand 'Jaisalmer' in 2003. Its new look and design won us the coveted PFFCA Star Award for Design and Packaging and made it more visible on the shelves as well as increased sales manifold.

We also gave our very popular Rs. 200-crore cigarette brand, 'Red & White', an image makeover by packaging it in a sleek pack with a tear tape. And of course, our continous innovation and improvement of 'Four Square' has made it the 16th most powerful brand in the country, well ahead of all its competitors (Economic Times, April 21, 2004). In fact, three of our top cigarette brands, namely, 'Four Square', 'Red & White' and 'Cavanders' feature in The Top 50 FMCG list.

Perhaps that is why you'll find we have a market-share of 31% in the markets that we operate in, with a strong backing of 800,000 retailers. All because of one word. Innovation.



Anyone can fly.

All it takes is a dream.

The ability to see beyond the obvious.

To create one's own wings.



TO QUR

DREAMS

It's easy to dream. Making it a reality is the difficult part.

Which is why, when one dreams of being a leading player in the global tobacco industry, one constantly has to benchmark oneself against global leaders.

A truly global firm can be defined as a firm that, by operating in more than one country, gains R&D skills, production, marketing and financial expertise and advantages in its costs and reputation.

So that's exactly what we did.

We set up a state-of-the-art R&D unit in Mumbai (recognized by the Department of Science & Technology, Government of India) to spearhead our goal of becoming a global leader in the tobacco industry. With in-house expertise in tobacco blending (both Virginia & American blends), product development, flavouring expertise (backed by a flavour creation laboratory); and quality assurance.

We made sure both our manufacturing facilities in Ghaziabad and Mumbai are equipped with state-of-the-art equipment and computerized Data Acquisition System, and are installed with GD packers to ensure that there is no quality compromise at any stage. A Rs. 114 crore investment this year and plans to continue modernizing the two plants in the near future will further increase productivity and quality.

We employ advanced Global Productivity and Quality procedures such as Haichi-Ban, 5S, Kaizen Teian (a continuous improvement programme) & TQM (Total Quality Management), which we've been successfully using for the last ten years.





We introduced a specialized farmer program that ensures close collaboration with farmers in tobacco producing areas. Its focus is to impart training and knowledge to them so that there is a smooth transfer of technology from the laboratory to the land and vice versa. By taking their problems back to the lab to look for ideal solutions, our aim is to help produce tobacco leaves that are comparable to the best in the world. That is why our leaf development and extension staff is manned by some of the best agronomists in the world. We also instituted a 'tobacco traceability' programme that traces packed tobacco from the seed to marketing and ensures strict quality control.

And finally, recognizing the need to produce flavourful tobacco to increase export and reduce import, we were the first Company to take up the challenging task of producing flavourful tobaccos and succeed. As a result, Godfrey Phillips tobacco reaches some of the biggest names in the industry today, namely, Phillip Morris, Altadis, JTA, Tabak Natie, Gallahers Eastern Co., European Tobacco, Swedish Match and Trailfracht.

When you put your mind to it, there's no such thing as the impossible dream.





It takes many minds to create a truly global Company. Many minds that share the same vision, see the same future and have the same goals.

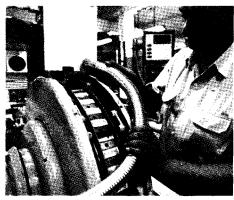
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In other words, every one of our employees had to see the 'big picture' the same way. So when we sat down to define our core values, every member of the Godfrey Phillips family was given an opportunity to participate in the process.

And from those discussions was born our vision. 'To be a leading tobacco player in India and beyond'.

This vision is echoed in the attitude of each and every employee in our Company as they push the limits, and go the extra mile to discover more and do more. And it is this positive mindset and a culture of cross-border learning, supported by special programs designed to nurture the individual potential of each employee, that have gone a long way towards our success.

As a result of our global mindset, we have emerged as a professionally managed, highly efficient corporate entity.





With an enviable organizational structure and one of the highest productivity rates of workers in the entire country, we have grown from strength to strength through the sheer determination and passion of every employee of the organization.

It is this absolute commitment of each and every one of our workers that has won us the INSAAN award (given for the best suggestions made by a factory worker in the year) for the 7th year in a row.

It's also ensured both our factories maintained their ISO 9001:2000 and ISO 14000 certificates to ensure environment-friendly manufacturing. All this was done by the workers without the help of an ISO consultant.

As a result, today we are the market leaders in North and West India and export our own brands of cigarettes and unmanufactured tobacco to various parts of the world.

In fact in 1980, after we modernized our factories and adopted a new Company motto "We Aim To Satisfy", we moved up from number five in the market place to number two in the country.

Only because of one reason. A clear vision.

