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The fire within



GODFREY PHILLIPS

Annual Report 2004-05

The flame of the passion to outshine, outperform and outdo is what makes Godfrey Phillips - a high energy, fast moving and decisive organization. Over a period of time the burning desire to excel has got only stronger and has helped us execute, deliver and set aggressive goals for ourselves to meet every business challenge. After all, it is the fire in the belly which sets winners a cut above the rest!



STATUTORY WARNING: CIGARETTE SMOKING IS INJURIOUS TO HEALTH



President's Message

Dear Shareholder,

I am happy to report that 2004-05 was a great year for your Company. Your Company posted a robust sales growth of 10%, up from Rs. 1,177 crores in 2003-04 to Rs. 1,295 crores in 2004-05. This resulted in an impressive pre-tax profit of Rs. 99.9 crores. The Board of Directors of the Company are happy to recommend a higher dividend of Rs. 22 per equity share of Rs. 10 each for the year 2004-05.

Our success philosophy is to "Explore, Innovate and Evolve". Continuous improvement in our processes, products, services and management practices has enabled us to build consumer confidence and garner market growth. Our efforts in providing a holistic brand experience has helped reinforce consumer loyalty. It is this trust reposed in your Company by consumers that has today made us one of the most reputed professionally managed companies in the industry.

In order to strengthen our competitive capabilities in a globalised market, your Company undertook the implementation of Six Sigma processes to re-engineer business operations. Add to this our state-of-the-art R&D facility in Mumbai and a world-class primary plant in Guldhar: all testimony to our ongoing efforts to delight our consumers with innovative products and services at a competitive price. With initiatives like these, your Company is ready to take on the rapidly burgeoning market and an ever-evolving consumer. We are sure our passion for winning will continue to yield good returns to the shareholders for years to come.

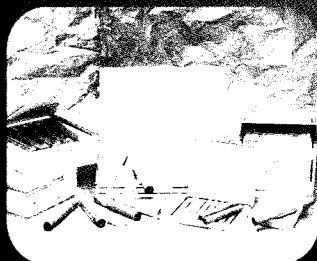
K. K. Modi

Performance and goals

In the pursuit of excellence Godfrey Phillips has recognised that in today's age of improved communication and transportation and falling trade barriers, the world is rapidly becoming a smaller place. Its association with major international companies has helped in providing the right understanding of the working of different cultures across India and the globe. Armed with this knowledge of 'glocalisation', Godfrey Phillips has set itself on the path to outreach, outperform and set new benchmarks for the tobacco industry.

Highlights

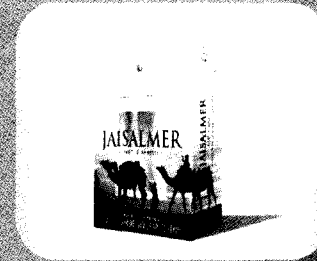
- Godfrey Phillips, is the market leader in North and West India, with a 36% market share that has grown 10% in sales and 30% in profits over the previous year.
- Four Square became the 16th most powerful brand in the country, whereas Red & White and Cavanders also feature in the top 50 FMCG list (Economic Times, April 21, 2004).
- A 35% increase in total tobacco exports registered over last year.
- The cigar business has grown three-fold capturing almost 50% of the overall market share. Our premium hand-rolled cigar portfolio has captured 20% of the market in its very first year.
- A renewed focus on our tea business yielded notable results with an impressive volume growth of 30% over last year.



The passion to outreach and outperform

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Identifying potential and opportunities



Highlights

- Four Square with a new visage was an instant hit with its customers. The new graphics developed overseas provided the consumer with a stylish and classy cigarette pack.
- We launched Cavanders Premium, offering a unique and innovative cigarette design for the first time in the non-filter category to provide the smoker greater satisfaction and style.
- Jaisalmer entered new markets in the country with a new limited edition pack design especially developed overseas. It also made a successful foray into the Duty Free channels at international airports and became the largest selling domestic brand by appealing to foreign travellers who wanted to carry back a token of their journey to India.
- We gave our popular Rs. 200 crore cigarette brand Red & White an image makeover with a sleek new pack and a tear tape.
- We were the first to mass market cigars in India, imported from USA, such as Phillies, Hav-a-Tampa and Don Diego.
- We repositioned two key tea brands Super Cup and Rangoli to create a vibrant and progressive portfolio of growth drivers.

In today's competitive global environment the only way to stay ahead is to be the first with the best. After

all, the consumer isn't what he used to be. His needs and aspirations are changing. He is continuously

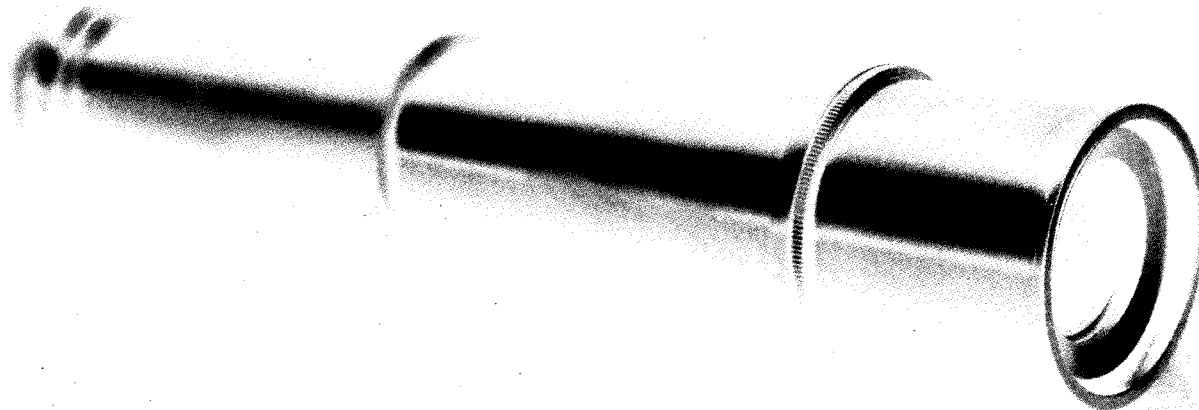
evolving. He demands products that complement his lifestyle. Naturally, such an environment demands

excellence and innovation. The challenge that faces us is to be able to cater to changing needs and

expectations. It's a challenge which is making us look beyond the immediate horizons.

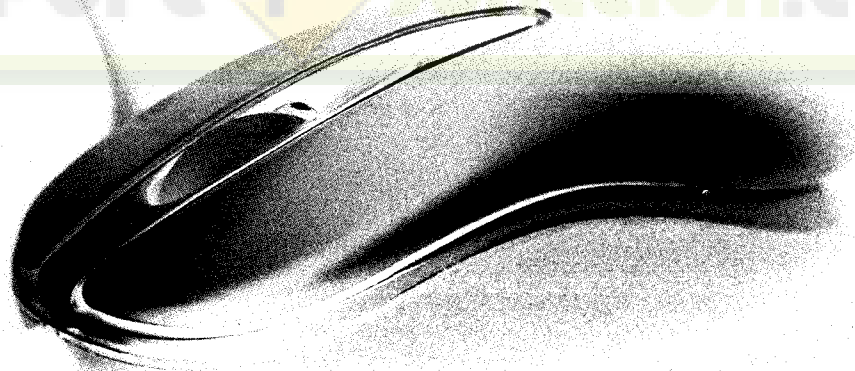
The passion to look beyond

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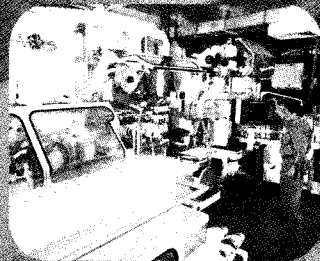
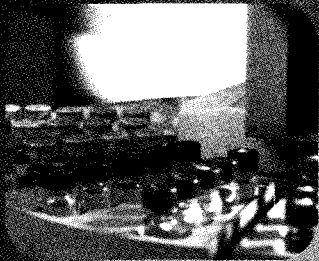


There can be no smoke without fire

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Strengthening and improving our systems and processes

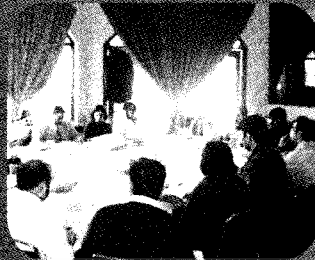


Highlights

- Our R&D has been certified with ISO 17025 by the National Accreditation Board for Testing and Calibration Laboratories (Department of Science & Technology, Govt. of India). Ours is the first laboratory in the Indian tobacco industry to be accredited with this certification.
- We are the first amongst manufacturers and exporters to have been accredited with ISO 9001:2000 by TUV Certification body.
- We set up a state-of-the-art R&D unit in Mumbai and a world class Primary Manufacturing facility at the Guldhar factory to take on the highly competitive global environment.
- Our tobacco traceability programme traces packed tobacco from 'Seed to Marketing' and ensures strict quality control. This enables us to meet even the stringent quality requirements of the discerning international customer.
- Our tobacco reaches some of the biggest names in the global industry such as Philip Morris, Altadis, JTI, Tabak Natie, Gallahers Eastern Co., European Tobacco, Swedish Match and Trailfracht etc.
- Our company received 2nd Best Manufacturer's Award and the 3rd Best Exporter (Manufacturing category) Award for 2003-04 by the Tobacco Board.

"Explore, Innovate and Evolve" - is the mantra that pushes us to do things better than we did yesterday. In order to become a leading player in the tobacco industry we have constantly been upgrading and improving our systems and processes through better R&D, upgraded manufacturing facilities and a better understanding of consumer and market needs.

Nurturing and preparing participants



Attracting, nurturing and retaining the right talent has assumed tremendous importance in the globalised domestic market. Deploying human assets in an optimal manner has become a winning strategy in our business. In our effort to create an environment that breeds excellence, we have put in place HR practices which have become a referral point for the corporate sector. These people-oriented practices have helped Godfrey Phillips become an organization capable of responding fast to changing market requirements.

Highlights

- We launched HRIS Phase II (a sophisticated HR tool) to provide online information to people across the organisation. Additionally, it supports various people-related process flows such as training, performance management, etc.
- Our Leadership Development Program is another new initiative towards building and managing exceptional talent in the organization.
- Our company launched the Six-Sigma initiative called Project LAKSHYA. This will help enhance operational efficiency, foster innovation, new product development and implement effective marketing and distribution programs.
- The Best Employer Survey which is held annually by Hewitt Associates revealed that Godfrey Phillips falls in the performance zone which represent the top 20% of the organizations in the research.