

REPORT

JUNCTION

a better world
for a better tomorrow



GODFREY PHILLIPS
—INDIA LIMITED—

GODFREY PHILLIPS INDIA LIMITED

Four Square, 49, Community Centre, Friends Colony, New Delhi -110 065. Tel: +91-11-26836468, 26832155. Fax: +91-11-26840775, 26835803.

For private circulation only.



GODFREY PHILLIPS
—INDIA LIMITED—

Annual Report 2006-2007



a better world

Everyone in this world has different thoughts, approaches and convictions. Respect for ourselves as well as others is essential for harmony in society.

Godfrey Phillips India's guiding philosophy imbibes this thought of 'Making our world a better place for a better tomorrow'. As a 'Socially Responsible Corporate Citizen', Godfrey Phillips India has made earnest efforts to fulfill the expectations of various stakeholders, employees, government and the society at large to make this world even better for the future.



Caring and
being sensitive towards
each other ensures
a world conscious of
the effect of its actions
on others.

WHITE - A responsible smoking programme

Godfrey Phillips India believes in creating and fostering harmony by respecting the choices individuals make i.e. to smoke or not to smoke. This is the essence of WHITE - 'We Honour the Importance of Tobacco Etiquette'. Godfrey Phillips India believes in responsible tobacco consumption. The key focus is on cultivating smoking etiquette among smokers - to respect non-smokers' space. Initiated internally, this is something every member of the Godfrey Phillips India family adheres to. As a WHITE ambassador the individual actively propagates responsible smoking behaviour because as a 'Socially Responsible Corporate Citizen' Godfrey Phillips India believes in setting examples by practicing the change that one wants others to emulate.

GODFREY PHILLIPS
white
we honour the importance of tobacco etiquette



Placing others before self and making a difference in their lives is the dictum that governs acts of bravery. And its recognition.



Godfrey Phillips Bravery

There is a braveheart in every individual. Godfrey Phillips India salutes the extraordinary courage exhibited by ordinary people in selflessly protecting and saving others lives. Godfrey Phillips Bravery Award is the only award of its kind instituted by a corporate house that recognises the acts of common people; irrespective of their age, gender or faith. Over the years, the Award has grown both in terms of stature and eminence. And now with Preity Zinta as the Bravery Ambassador, the movement takes the message of bravery to the masses further increasing their involvement and widening its scope with two initiatives - Blood Donation and Women Empowerment.

The Blood Donation drive on 28th July 2006 in New Delhi where Preity Zinta, Bravery Ambassador herself donated blood was the beginning. Since then there have been 21 drives covering 8 states resulting in a collection of over 2,300 units of blood. Recently on World Blood Donor Day, 14th June 2007, Godfrey Phillips India conducted blood donation camps in Mumbai and Delhi. In Mumbai, Preity Zinta again donated blood to inspire and motivate others to do the same. The second initiative - Empowering Women, is aimed at making women economically self-sufficient and independent. This drive will help promote gender equality and redress power imbalances. Already a few NGOs of repute have joined hands with Godfrey Phillips India in this endeavour.





The vision to empower at grassroots levels and encourage better business practices.

Helping raise better tobacco and higher yields

The Leaf Division at Godfrey Phillips India is committed to make tobacco cultivation remunerative for farmers by improving its quality and productivity. This is achieved by training the farmers and imparting technical know-how such as Good Agricultural Practices (GAP) from seed to marketing to optimise tobacco yield per hectare. The efforts bore fruit in 2006-2007 when Tobacco Institute of India felicitated many of the farmers adopted by Godfrey Phillips India.

Committed to work towards a better planet

Guldhar plant is totally committed to Environment Management and is ISO 14001:2004 (Environment Management System) certified. It has taken up water management initiative such as 100% recycling of water and rainwater harvesting. The plant has also undertaken the renewable energy initiative by installing solar power system and developed steam heated hot water generator system to replace the electrical system. Also, the plant has various automation and interlocking systems to save power.





Good business leaders

articulate, own and
drive the vision - we
create them.



Creating future leaders

Godfrey Phillips India values its people and has always believed that the growth of the Company is directly proportional to the growth of the people. The emphasis on this aspect is reflected in extensive training for employees, more focused research and development, higher efficiencies in the manufacturing processes that lead to better products and sustained growth.



Management Hierarchy Restructuring meets the challenges of manpower engagement and managing the employee aspirations of Career Enhancement & Development.

Potential Assessment System enables the company to identify budding potential managers within and across cross-functional lines and help create a resource inventory useful for upcoming needs of skills requirements.



Attrition Analysis & Action Planning focuses on attrition influencing factors and retention influencing factors of frontline managers and follows a customised approach towards intervention.

Active Listening Program enhances the overall communication skills of the sales team on a continuous basis to enable them to sharpen business skills of building better inter-personal relationships and influencing skills.

Compensation Restructuring provides options to employees to mould the salary components as per their needs and flexibility to plan their social status and tax management.

Six Sigma initiative

In the second wave of Six Sigma initiative, Godfrey Phillips India identified 29 projects across the organisation. The major contributors were Operations Sales, Commercial, Leaf & Marketing. The company additionally trained and certified 5 Black Belts and 13 Green Belts in Wave II selected across the functions. 17 projects have been successfully closed and the rest are due for closure shortly and the estimated savings for 7 projects is approx Rs. 2.76 crores.

Highlights:

- The Indian National Suggestion Schemes' Association (INSSAN) presented awards to Andheri factory, Mumbai team for its best suggestion/ideas during the various convention held on different topics and places for the record 9th consecutive year in a row.



INSSAN Award.

- Guldhar factory organised a training session of its workmen at G.D. in Bologna, Italy, to give them exposure on state-of-art technologies and machines. G.D is the world leader in designing and manufacturing of the fastest and most efficient cigarette making and packing lines and the only manufacturer capable of supplying complete high-speed lines, from the maker to the packer.



Workmen at G.D. in Bologna, Italy.

- The Guldhar factory won The 'Greentech Environment Excellence Awards' and 'Greentech Safety Awards', in the year 2006. These awards are the most coveted awards in corporate world for outstanding achievements in the field of environment management.



Greentech Environment Excellence Award.

- Tipper received the Golden Peacock Award for excellence in Product Innovation.



Golden Peacock Award to Tipper.

Elevating the brand experience through innovation.



Stellar - India's first slim cigarette

Stellar Slims is a reinforcement of the innovative spirit of Godfrey Phillips India. It is the first 'Slim Cigarette' to be launched in India. It has been specially engineered to deliver lower nicotine, without any compromise on the taste and flavour, delivering total satisfaction. It is available in a slim shaped 10's pack and an elegant 20's pack.

The brand has been appreciated by the consumers and the trade on account of its product quality and the excellent packaging.

Stellar is a brand aimed at the cognitive consumer who wants to be progressive and responsible in his habits and lifestyle.

I.gen - India's first Euro norm cigarette

This year, the commercial capital of India saw renewed excitement in the Premium Kingsize segment. I.gen - India's 1st Euro Norm 10-1-10 cigarette was introduced in Mumbai on 26th January 2007, with the promise of an advanced cigarette quality and unique style.

This progressive brand also introduced India's 1st king-size 5's pack, a convenient and stylish pack format for the young adult of today. Since then the brand has created a unique identity for itself in Delhi and Mumbai, receiving praises for its distinctive black pack and cigarette.



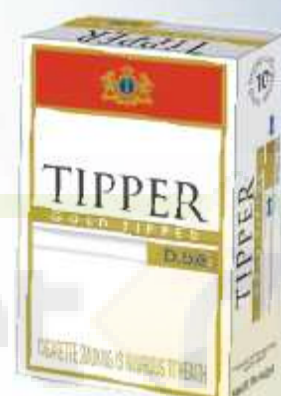
STATUTORY WARNING: CIGARETTE SMOKING IS INJURIOUS TO HEALTH



Enhancing the stature of iconic brands

Four Square has shown strong and consistent growth in the RSFT segment over the past five years. Specially created for foreign tourists and true connoisseurs, Jaisalmer the luxury cigarette brand has captured the imagination of visitors to India. Red & White continues building upon its iconic stature and strong emotional bond with loyal consumers. Cavanders, the oldest and most trusted brand has crossed the landmark of 350 million with Gold Leaf leading this segment on growth.

Also, Tipper has outperformed in the micro segment and once again lifted the Golden Peacock Award for excellence in Product Innovation. To top it all, North Pole became the number one menthol brand in the country.



Understanding the needs of the consumer and providing for it - leading the cigar market

Cigar volume grew by 48% in the last year, improving our market share to 65%. This has made Godfrey Phillips India, the country's first and only tobacco company to organise the fragmented cigar market in India and secure its position as the market leader in cigar distribution.

A feather in our cap has been a successful conclusion of an exclusive distribution agreement with Oettinger Davidoff International of Switzerland. We have launched the premium range of Davidoff - The Good Life cigars, Millennium Blend, Robusto Tubes and many more from this world famous series of cigars in India.

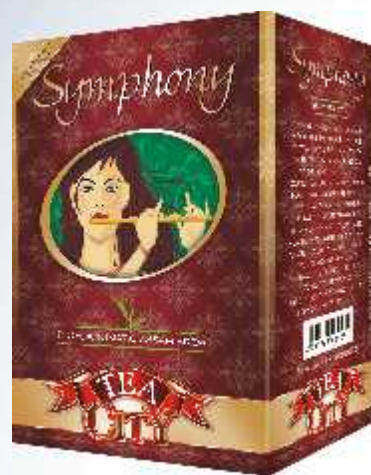
With Phillies, Hav-A-Tampa, Don Diego and other luxury cigar brands also receiving enthusiastic response from cigar aficionados due to the easy availability that Godfrey Phillips has ensured with a vast network of retailers and distributors, we have taken a step further. Encouraged by the keen response, we opened an exclusive cigar boutique at Hotel Park Plaza in Gurgaon, where one can find the choicest of super luxury hand-rolled and machine-made cigars and cigar accessories. The success of this boutique has given us the confidence to plan more such luxury retail outlets.

Thus, progressing towards realising the vision - "To make Godfrey Phillips India the destination for cigars in India".



STATUTORY WARNING: CIGARETTE SMOKING IS INJURIOUS TO HEALTH

STATUTORY WARNING: CIGARETTE SMOKING IS INJURIOUS TO HEALTH



Attractive consumer offers

Valuing and respecting our consumer's inputs, our guiding philosophy for improvement and creativity

Heightening the flavour of Tea City

Tea City continued its promising growth with a high 17%, way ahead of the industry growth of 12%. This has been achieved by a highly successful launch of it's brands, leading to significant contributions from newly entered states of Andhra Pradesh, Rajasthan and Madhya Pradesh.

The year also saw a high decibel launch of the premium offering - Symphony in New Delhi. Apart from prominent brand visibility, customised Symphony experiences were shared with tea connoisseurs to promote the brand. A stylish, contemporary and premium look further helped in the creation of an extremely desirable image for Symphony amongst consumers in the upper segment.

All of this augurs well for the future of Tea City and it can only move from strength to strength with every passing year.



chairman's message

Dear Shareholder,

Your company has once again registered a double-digit growth in sales and healthy growth in profits. This is the result of our continuing thrust and focus on productivity and efficiency.

Invidious discrimination against the cigarette industry continues unabated. The stranglehold of regulatory control on the cigarette industry is being increasingly intensified. This year too, cigarettes have been singled out and an additional 6% excise duty levied for the second year in a row. In addition, 12.5% VAT is levied by the States on invoice price. The combined effect of both is equivalent to around 30% increase in tax incidence on cigarettes. Such a sharp increase in taxes and resultant increase in cigarette prices, will surely shift the demand to cheaper and revenue inefficient tobacco products such as, beedi and chewing tobacco, compelling farmers to cater to this demand. This is likely to undermine the livelihood of 38 million people of which over 75% are farmers and other rural folk.

While India grows 10% of the world's tobacco, its share of the US\$ 6.3 billion global tobacco leaves exports is a mere 3.5%. This is mainly due to the fact that exportable variety of tobacco - Flue Cured Virginia (which is used in cigarettes), accounts for only 35% of the total Indian production of tobacco. A strong and stable domestic base market is essential to make this possible, as it will encourage farmers to grow better quality and higher revenue yielding varieties, and also protect them against fluctuations in International demand.

R.A. Shah
Chairman



president's message

Dear Shareholder,

It gives me pleasure to report that your Company has registered a 11.5% growth from Rs. 1,431 crore last year to Rs. 1,596 crore this year. Net Profits grew from Rs. 59.76 crore to Rs. 88.9 crore. This success is the result of our commitment to consumer oriented initiatives, enhanced operational efficiencies, and adoption of internationally acclaimed business processes. What makes this success even bigger is that it has been achieved despite the severe regulatory environment and discriminatory taxation.

Living out of our Company's vision, to be a leading tobacco player in India and beyond, we have enhanced our tobacco portfolio; for cigar aficionado we launched Davidoff 'Good Life' range of Cigars; for discerning smokers, we launched India's first slim cigarette - Stellar and soon your company will foray into other tobacco products.

To take on the challenges of the future, the Company has taken many initiatives including restructuring besides continuous improvement in all its business processes and operating areas.

However, success imposes an even greater responsibility upon the Company as a responsible corporate citizen.

To ensure that the products are consumed in a most responsible manner, we have internally implemented WHITE - 'We Honour the Importance of Tobacco Etiquette', a first-of-its-kind initiative in India.

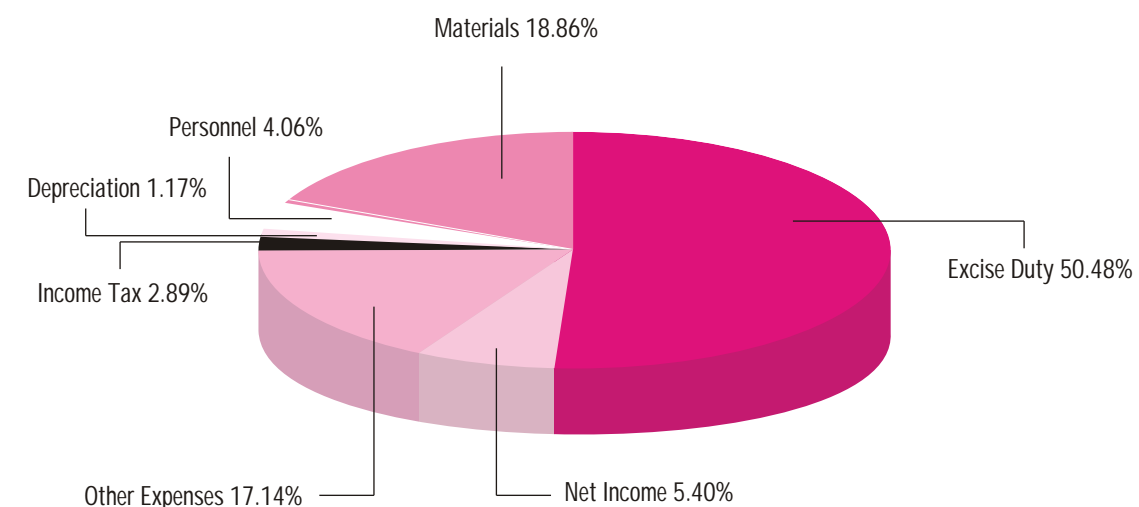
Over the years, Godfrey Phillips Bravery has also taken the form of a movement wherein initiatives like Blood Donation and Women Empowerment have been added to make a difference to society. The Blood Donation drive has been a huge success; having collected over 2,300 units of blood in a short span of 11 months. And, it's only the beginning.

As we move ahead, projects like these ensure that your Company looks beyond profits to embrace larger issues which help create a better world for a better tomorrow.

K.K. Modi
President

FINANCIAL HIGHLIGHTS

Revenue Distribution



Financial Highlights

Rs. in lacs

	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-2000	1998-99	1997-98
CAPITAL EMPLOYED										
Net Fixed Assets	12655	12984	12920	8732	7413	7037	6987	6384	5155	2695
Investments	24627	21100	19916	14473	15636	12873	8080	7722	3968	3647
Working Capital	10962	9809	4513	6575	5429	8510	12041	8619	13069	10449
Deferred Tax Assets (net)	-	-	1576	1239	797	-	-	-	-	-
Total	48244	43893	38925	31019	29275	28420	27108	22725	22192	16791
FINANCED BY										
Shareholders' Funds	41815	36046	32701	28950	25966	24170	21597	18775	16239	13021
Borrowings	6073	7439	6224	2069	3309	4029	5511	3950	5953	3770
Deferred Tax Liabilities (net)	356	408	-	-	-	221	-	-	-	-
Total	48244	43893	38925	31019	29275	28420	27108	22725	22192	16791
OPERATING PERFORMANCE										
Gross Revenue	163277	145712	132538	120219	109639	96002	100439	109408	106249	102355
Excise Duty	82423	76176	61021	55769	52085	47049	44375	57193	55639	55996
Depreciation	1907	1837	1655	995	913	811	769	551	447	211
Profit Before Taxation	13523	9969	9995	7649	5690	7184	7237	6386	6808	5935
Profit After Taxation	8810	6013	6360	5218	3791	4780	4656	4210	4603	3885
Dividend	2600	2340	2288	1976	1768	1924	1664	1508	1248	1040
Corporate Dividend Tax	442	328	321	258	227	-	170	166	137	104
Retained Earnings	5768	3345	3751	2984	1796	2856	2822	2536	3218	2741
INVESTORS' DATA										
Earning Per Equity Share (Rs)	84.73	57.82	61.16	50.18	36.45	45.96	44.77	40.48	44.27	37.36
Dividend Per Equity Share (Rs)	25.00	22.50	22.00	19.00	17.00	18.50	16.00	14.50	12.00	10.00
Book Value Per Equity Share (Rs) @	399.84	344.37	312.20	276.12	247.43	230.15	205.42	178.27	153.89	122.94
Number of Shareholders	12740	11261	11719	12539	13068	13198	13797	14004	15557	16994

@ Excluding Revaluation Reserve