

THE FUTURE BELONGS TO THOSE WHO GIVE SHAPE TO IT.



Visionaries foresee the future and are better prepared to usher in tomorrow.

It is the same with organizations that pursue excellence. They analyse developing trends, anticipate and engineer transformation and capitalize on forthcoming opportunities. In the process, they don't just make the most of the future, but give shape to it.

We are proud to say that this year Godfrey Phillips India has invested in the future of people, profit and the planet with new projects and social initiatives.

In the near future, the efforts will bear fruit, benefiting the company, the shareholders, and above all, the common man.



DOMESTIC BUSINESS

While this year Godfrey Phillips India fortified its traditional strengths, the company also forayed into new markets and categories with brand launches. The initiatives were well received giving credence to the belief that the best way to manage the future is to create it.

PAN VILAS

After three years of extensive research on product development and consumer understanding, Godfrey Phillips India successfully test launched Pan Vilas in four key markets.

Godfrey Phillips India was able to develop a Magnesium Carbonate-free pan masala which is compliant to the stringent requirements of PFA rules. The state-of-the-art plant specially set up at Baramati employs some of the world's most advanced food processing technologies including an imported supari multi-cleaning and processing unit, a cutting-edge supari uniform-roasting unit and high-tech packaging machines. Further, the sales and marketing strategies, based on in-depth consumer, competitor and trade understanding, raised the bar in the way the category is traditionally marketed.

The success in meeting the strict test launch metrics and the overwhelming response to Pan Vilas from both consumers and trade has given Godfrey Phillips India the confidence for a national rollout in 2010-11.



TWENTY FOUR SEVEN

Godfrey Phillips India diversified into retail segment with the launch of Twenty Four Seven Stores. Open round-the-clock selectively, these convenience stores serve as a one-stop destination that offers a variety of products and services, including groceries, ready-to-eat world cuisine, wide assortment of beverages, pharmaceuticals, cosmetics and personal care, music and movies, magazines, domestic and international courier services, Kodak instant photo development, credit card and utility bills payment, prepaid mobile phone recharge facility, movie tickets etc. Twenty Four Seven Stores, currently located in the central areas of Delhi, have already found wide acceptance.



TEA CITY

The tea business saw several new initiatives and remarkable growth this year too.

Tea City continued its progression in portfolio development, brand launches, packaging makeovers and format introductions in 2009-10 too. Domestic business sustained the trend with a volume growth of 7.8% at 6,271 tons (as compared to 5,815 tons) and value growth of 30% at Rs. 95 crore (as compared to Rs 73.07 crore), ahead of overall industry performance. Retail audit (AC Nielsen) figures place Tea City in the top 10 national packaged brands and it has been rated in the top 5 contributing players in modern trade.

This year witnessed the launch of Super Cup Duet as an extension of Super Cup, in a new avatar of premix of granular and Darjeeling tea leaves. The pack graphics highlight this product property. Clutter breaking festive packs in Samovar for Eid and Super Cup for Pongal were introduced. All these developments and continued initiatives have led to a positive growth of all portfolio segments.





MARLBORO



Godfrey Phillips India has an arrangement with Philip Morris International to manufacture and distribute their brands, including the iconic Marlboro brand of cigarettes. Available at selected cities in India in approximately 65,000 retail outlets, the brand has 7 variants including the recently launched Marlboro Gold Advance. The Marlboro portfolio has seen a growth rate of over 30% since the strategic alliance.

RED & WHITE



Red & White's growth saga continued with improved performance year on year – both in existing and new geographies. The brand strengthened its image equity with consistent and innovative initiatives in packaging (Limited Edition Packs), merchandising and visibility. With steady performance, focused consumer initiatives and relentless product improvements, the brand's endeavour is to keep on enhancing its value proposition to consumers.

CAVANDERS



This year marked a major milestone in the longstanding history of Cavanders – one of the oldest and the most trusted brand from the Godfrey Phillips India stable - with the launch of Cavanders Gold and Cavanders Special. Cavanders Gold was launched in the existing markets whereas Cavanders Special was introduced in the new market of Tamil Nadu. Keeping view of the changing needs of the consumers, the new variants have been specially crafted to perfection to offer a unique value proposition to the consumers.

FOUR SQUARE



This year, the brand lay emphasis on connecting with consumers through innovative ideas and focused on strengthening its brand image. Leveraging the advancements in technology, Four Square introduced a Limited Edition Series with an innovative pack design that had, for the first time in India, a complete tactile look and feel. In the eastern front, Four Square Fine Blend gained strong momentum post launch last year and is well on its way to becoming a dominant player in the market. Overall, the franchise delivered a steady performance and with new initiatives planned for near future, Four Square is steadfast in its effort to bring delight to the consumers.

INTERNATIONAL BUSINESS

Godfrey Phillips India performed well in the international market, with a turnover of Rs. 109 crore in 2009-10, clocking a healthy growth of 53% over the previous year with a 77% volume growth and 84% value growth in cigarette exports. Our international division also opened six new markets in East Europe, Australia, South America, Southeast Asia and Central America adding to their significant areas of operations.

IT IS EMPOWERED EMPLOYEES WHO LEAD AN ORGANIZATION'S TRANSFORMATION.

OUR WORKFORCE

Godfrey Phillips India continued its commitment towards employee development and various organization-wide projects were undertaken towards this objective. With the belief that emotional intelligence (EQ) leads to superior performance, numerous workshops were conducted through the year on EQ for all managers.

The company conducted various interventions on Multiple Product Handling to equip sales force to deal with new business scenario of various new product categories. An employee engagement survey was also held to identify areas for intervention and plan for the employee requirements. Further, a job evaluation exercise and a process for identification and development of leadership pipeline were initiated to select, develop and nurture future leaders of the company.

To encourage close collaboration of employees and inspire them to work in unison as a motivated team, the company launched an enterprise portal that gives employees access to all information about the company. Similarly, a portal was also created for customers and business partners for smoother interaction with the company.



EVERY SMALL IMPROVEMENT **TODAY** SOWS THE SEED OF HUGE TRANSFORMATION **TOMORROW.**

LEAF DIVISION

Godfrey Phillips India believes in constantly improving its work environment and productivity. Everything from the small steps the company takes to the big advances it has made stems from this belief.

Godfrey Phillips India Leaf Division is dedicated towards imparting the latest technical know-how to the farmer and improving the quality and productivity of tobacco cultivation to make it a remunerative proposition for him. With this objective, the company undertook development activities in various regions. The Leaf Division conducted a grass root level intervention with farmers and transferred improved set of practices from lab to land, and provided seedlings, extended technical guidance, fertilizers and materials for curing sheds at subsidized prices. As part of the continuous efforts to increase business, the Leaf Division also identified farmers for growing cigar wrapper. Many of the adopted farmers have been winning prizes from the Tobacco Institute of India, and this year too, five farmers associated with Godfrey Phillips India were felicitated. The Leaf Division also worked on awareness programs on child labour as their social responsibility.

MANUFACTURING UNITS

The sustained and committed efforts towards environment management by the manufacturing units bore fruit with the Guldhar factory (subsidiary of Godfrey Phillips India) winning the coveted Green Tech Gold Award for "Outstanding Achievement in Environment Management". It also received the Eco Friendly Award from Ghaziabad Management Association for implementing 'Best Environment Management Practices'.

The Andheri factory won the Greentech Safety - Silver Award in recognition of excellence and outstanding achievements in safety management. It was also conferred the 'Excellence Award' for the 13th year in a row by the Indian National Suggestion Scheme Association (INSSAN).



The Andheri factory was also upgraded and recertified with ISO 9001:2008 and OHSAS 18001:2007. The company's new manufacturing unit in Rabale was registered with IGBC for green factory building and it is the first registration after Standard for Green Factory Building was launched in June 2009.

The units also undertook various initiatives to increase efficiency, quality and productivity. A new line for Super Slim cigarettes was installed at Guldhar Factory (subsidiary of Godfrey Phillips India) primarily to cater to the increased demand for Super Slim cigarettes in the export market. The pilot plant for expanded tobacco was commissioned, which helps in improving the quality of cigarette blends and cost efficiencies. A high speed packing lines imported from Italy was installed at both factories, running at 600 packets per minute.



TO INITIATE SOCIAL TRANSFORMATION IS TO GIVE SHAPE TO A BETTER WORLD.

As a responsible and concerned corporate citizen, Godfrey Phillips India undertook initiatives that brought in constructive changes in society. The activities the company has undertaken have benefited underprivileged women, and championed acts of bravery.

RECOGNIZING THE BRAVE

Godfrey Phillips Bravery Awards, a resolve that began in 1990, is today, in its 19th year, a nationwide movement. It salutes and celebrates individual acts of bravery and brings to light



today's unsung heroes, inspiring many more. This year Godfrey Phillips Bravery Awards broadened the definition of bravery to include those who work against social evils, champion the cause of women and transform society, and a new category - Amodini - was created for women.

The national award function was a prestigious event attended by several famous personalities, and widely covered by the media. The television commercial created for Godfrey Phillips Bravery Awards won the Bronze Award at Abby (Goafest), India's most prestigious advertising festival.

AMODINI

The first step towards women's emancipation is to impart them with the skills they need to pursue a vocation and gain financial independence. Realizing this, Godfrey Phillips Bravery, in close collaboration with some renowned NGOs, initiated several major projects for underprivileged women, under the aegis of Amodini, a women's empowerment initiative.

The various projects strive to provide primary and secondary education to underprivileged women, conduct vocational training for women, aid in higher skill and product development that help them create premium products out of traditional goods. With the initiative by Amodini called **Gift for Good**, products made by economically challenged women were promoted to organizations and individuals as social gifts. The programme was quite well received for its unique and focused communication.

Over 1,000 women would have benefited from Amodini initiatives this year.



CHAIRMAN'S MESSAGE

Dear Shareholder,

The Indian economy has been on a consistent growth path after the brief hiatus of observation and caution, following the global financial slowdown. Our policymakers are optimistic in their projections for a fast paced double-digit growth in the next four years. The government is in the process of undertaking necessary reform measures to supplement its already robust fundamentals, with a view to encompassing holistic development in the growth forecast.

However, India's declining exports are expected to take longer to grow. This is due to the fact that the global financial crisis has been controlled by stimulus and is not a natural recovery. Greater export and international trade growth would require fundamental policy changes such as reduction in tax burden, improving export infrastructure, rationalisation of port service charges, etc.

The growth of the Cigarette Industry has continuously been restricted by escalating taxation and constraining regulations. On top of that, the Goods and Services Tax, expected to be implemented in 2011, would be an unfair 'tax on tax', as it is proposed to be levied ad-valorem, instead of on product cost net of excise duty. The increase in excise on cigarettes by 18% in the Union Budget, coupled with rise in VAT to 20% in some States, has resulted in shifting consumer segments and affected costs.

However, your Company has successfully responded by reiterating collective representation, product customization, diversification and geographical expansion.

The accolades for safety, environment consciousness and quality won by our colleagues have been the silver lining and encouraged us to review our internal benchmarks. We intend to renew our commitment to sustainable development and enhance existing backward linkages. An industry whose growth is being continuously restricted needs to walk the proverbial extra mile to maintain neutrality and desired positioning.

We are all resolute and committed to reiterating our standpoint and eventually achieving the required goals of higher growth for your Company.

Warm regards,

R A Shah
Chairman



PRESIDENT'S MESSAGE

Dear Shareholder,

It gives me immense pleasure to share another year of good performance by your Company.

Despite the influence of various environmental factors, your Company has maintained its growth momentum. The unstinted efforts of our colleagues have helped us achieve sales growth at 15% over last year, to reach Rs 2,608 crore. Profit before tax is at an impressive Rs 167 crore. The Board of Directors are delighted to recommend a dividend of Rs 25 per equity share for the year 2009-10.

We continue to channelize our efforts and resources towards consolidating our presence in existing markets and expanding in new markets in the eastern and southern regions, i.e. West Bengal and Tamil Nadu, and are confident of achieving the desired growth targets. We constantly endeavour to benefit from inherent capabilities to introduce innovative products suited to customer preferences and our products in new markets have been widely appreciated by our consumers and trade partners.

Your Company maintains its arrangement with Philip Morris to manufacture and distribute several of their brands, including the iconic 'Marlboro' cigarette brand. It is available pan-India in about 65,000 retail outlets. The brand has 7 variants including the newly launched 'Marlboro Gold Advance'. The Marlboro portfolio has seen a steady growth of over 30% since the time the arrangement fructified.

In keeping with the spirit of expansion, your Company has successfully launched a new mouth freshener, 'Pan Vilas – Pan Masala', which is manufactured from our dedicated state-of-the-art plant at Baramati.

The superlative performance of our team is depicted by, but certainly not restricted to, the many awards received in the categories of Cigarette Manufacturing, Export of Un-manufactured Tobacco, Export of Cut Tobacco, and Export of Cigarettes. Further, their exemplary sensitivity towards food safety management, environment protection and operational innovation has brought them the Eco-Friendly Industry Award of the Year. On your behalf, I applaud their unmatched commitment and congratulate them most heartily.

These are changing times for our economy and calls for prudent measures to maintain stability. It is poised for double digit growth. We intend to contribute in good measure to this growth.

The tobacco industry is impacted by increased taxation and global regulatory influences, but has responded well with product innovation, geographical expansion, increased customization and reinforced engagement with the authorities.

Our products and market expansion strategy are driven by our competence to exploit enormous potential. Your Company's commitment to renewed growth plans would be strengthened by your unstinted support and guidance, and team Godfrey Phillips shall strive to enhance its role beyond an organization to that of a partner in progress and collective advancement.

Warm regards,

KK Modi
President



BOARD OF DIRECTORS

| | |
|--------------------|---------------------|
| • R. A. Shah | Chairman |
| • K. K. Modi | President |
| • L. K. Modi | Executive Director |
| • Samir Kumar Modi | Executive Director |
| • Lalit Bhasin | |
| • Anup N. Kothari | |
| • C. M. Maniar | |
| • O. P. Vaish | |
| • R. Ramamurthy | Whole-time Director |

COMPANY SECRETARY

Sanjay Gupta

AUDITORS

A. F. Ferguson & Co.

INTERNAL AUDITORS

Lodha & Co.

SOLICITORS

Crawford Bayley & Co.

BANKERS

- State Bank of India
- Bank of Baroda
- Bank of India
- Citibank N. A.
- State Bank of Hyderabad
- State Bank of Travancore
- The Hongkong and Shanghai Banking Corporation
- Union Bank of India

REGISTRARS AND TRANSFER AGENT

Sharepro Services (India) Pvt. Ltd
13 AB, Samhita Warehousing Complex,
Second Floor, Sakinaka Telephone Exchange Lane,
Off Andheri Kurla Road, Sakinaka,
Andheri (East), Mumbai - 400072

CORPORATE OFFICE

49, Community Centre, Friends Colony
New Delhi - 110025

OTHER OFFICES

Ahmedabad, Baramati, Chandigarh, Chennai, Ghaziabad,
Hyderabad, Kolkata, Mumbai, New Delhi

LEAF DIVISION

Guntur (Andhra Pradesh)

REGISTERED OFFICE

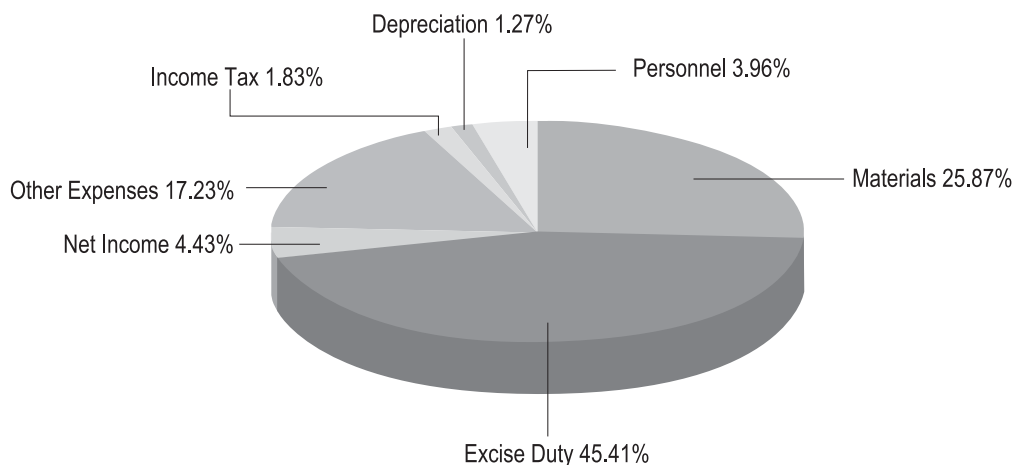
Chakala, Andheri (East), Mumbai - 400099



GODFREY PHILLIPS
—INDIA LIMITED—

FINANCIAL HIGHLIGHTS

Revenue Distribution



Financial Highlights

Rs. in lacs

| | 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 | 2003-04 | 2002-03 | 2001-02 | 2000-01 |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| CAPITAL EMPLOYED | | | | | | | | | | |
| Net Fixed Assets | 31896 | 25980 | 15337 | 12655 | 12984 | 12920 | 8732 | 7413 | 7037 | 6987 |
| Investments | 19485 | 20986 | 32957 | 24627 | 21100 | 19916 | 14473 | 15636 | 12873 | 8080 |
| Working Capital | 26823 | 20172 | 12205 | 10962 | 9809 | 4513 | 6575 | 5429 | 8510 | 12041 |
| Deferred Tax Assets (net) | - | 236 | - | - | - | 1576 | 1239 | 797 | - | - |
| Total | 78204 | 67374 | 60499 | 48244 | 43893 | 38925 | 31019 | 29275 | 28420 | 27108 |
| FINANCED BY | | | | | | | | | | |
| Shareholders' Funds | 66652 | 57845 | 49996 | 41815 | 36046 | 32701 | 28950 | 25966 | 24170 | 21597 |
| Borrowings | 11455 | 9529 | 10338 | 6073 | 7439 | 6224 | 2069 | 3309 | 4029 | 5511 |
| Deferred Tax Liabilities (net) | 97 | - | 165 | 356 | 408 | - | - | - | 221 | - |
| Total | 78204 | 67374 | 60499 | 48244 | 43893 | 38925 | 31019 | 29275 | 28420 | 27108 |
| OPERATING PERFORMANCE | | | | | | | | | | |
| Gross Revenue | 267292 | 232445 | 187634 | 163277 | 145712 | 132538 | 120219 | 109639 | 96002 | 100439 |
| Excise Duty | 121386 | 115636 | 94040 | 82423 | 76176 | 61021 | 55769 | 52085 | 47049 | 44375 |
| Depreciation | 3391 | 2803 | 1977 | 1907 | 1837 | 1655 | 995 | 913 | 811 | 769 |
| Profit Before Taxation | 16740 | 16591 | 16974 | 13523 | 9969 | 9995 | 7649 | 5690 | 7184 | 7237 |
| Profit After Taxation | 11839 | 10890 | 11222 | 8810 | 6013 | 6360 | 5218 | 3791 | 4780 | 4656 |
| Dividend | 2600 | 2600 | 2600 | 2600 | 2340 | 2288 | 1976 | 1768 | 1924 | 1664 |
| Corporate Dividend Tax | 432 | 442 | 442 | 442 | 328 | 321 | 258 | 227 | - | 170 |
| Retained Earnings | 8807 | 7848 | 8180 | 5768 | 3345 | 3751 | 2984 | 1796 | 2856 | 2822 |
| INVESTORS' DATA | | | | | | | | | | |
| Earning Per Equity Share (Rs) | 113.84 | 104.73 | 107.92 | 84.73 | 57.82 | 61.16 | 50.18 | 36.45 | 45.96 | 44.77 |
| Dividend Per Equity Share (Rs) | 25.00 | 25.00 | 25.00 | 25.00 | 22.50 | 22.00 | 19.00 | 17.00 | 18.50 | 16.00 |
| Book Value Per Equity Share (Rs) @ | 638.69 | 553.99 | 478.52 | 399.84 | 344.37 | 312.20 | 276.12 | 247.43 | 230.15 | 205.42 |
| Number of Shareholders | 11364 | 12350 | 12824 | 12740 | 11261 | 11719 | 12539 | 13068 | 13198 | 13797 |

@ Excluding Revaluation Reserve