



GODFREY PHILLIPS
—INDIA LIMITED—



**SUSTAINED
EFFORTS TOWARDS
A BRAVE NEW
WORLD**

**ANNUAL REPORT
2011 - 2012**



EVERY STEP COUNTS WHEN THE GOAL IS HIGH

In 1990, we planted the seed of bravery with a single award. Today, the seed has blossomed into an inspiration for many.

Godfrey Phillips Bravery has awarded over 1200 people while Amodini, our initiative to empower women has provided employment to as many as 20,000 women.

As we get ready to move into another year, we reaffirm our commitment to our stakeholders, employees, and customers that in our journey of a thousand miles we'll make every step count.



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

COMPANY SECRETARY

Mr. Sanjay Gupta

REGISTERED OFFICE

Chakala, Andheri (East), Mumbai – 400 099

CORPORATE OFFICE

49, Community Centre, Friends Colony, New Delhi – 110 025

OTHER OFFICES

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

LEAF DIVISION

Guntur (Andhra Pradesh)

STATUTORY AUDITORS

A.F. Ferguson & Co. – Chartered Accountants

COST AUDITORS

Chandra Wadhwa & Co. – Cost Accountants

INTERNAL AUDITORS

Lodha & Co. – Chartered Accountants

REGISTRARS AND TRANSFER AGENT

Sharepro Services (India) Pvt. Ltd. 13 AB, Samhita Warehousing Complex,
Second Floor, Sakinaka Telephone Exchange Lane, Off Andheri (East), Mumbai – 400 072

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



R. A. SHAH

Chairman's Message

Dear Shareholder,

Today our socio-economic environment is full of many challenges and pressures. While the global economy is yet not on the path of high growth, India's economic environment is no better than last year. GDP growth rate has fallen to 6.5% from 8.5% last year. Industrial growth is not attractive and containing inflation is a challenge. Burgeoning current account and fiscal deficit, exchange rate volatility, rising commodity prices and higher interest rates pose yet another set of economic woes. Yet we cannot do nothing about it and let these forces subdue our vision and hopes. As a country, we have the best of the systems and intellectual capital, sufficient resilience to come back strongly on path of growth. What is needed is a set of policy initiatives and tax reforms to boost the investment sentiment which will facilitate capital inflows.

Irrespective of the nature and magnitude of challenge, your Company is fully committed to continue offering the best of the products to its existing and new consumers. Every member of your Company is spirited to achieve this. Our quest for innovation is stronger than before, and so is the set of our skills and capabilities.

Recent regulations brought in around the world point to an effort by various countries to discourage and reduce the consumption of tobacco. Increase in tax rates on cigarettes is being used around the world to reduce smoking incidence and intensity. Indian cigarettes industry has also faced increase in excise duties along with creation of a new segment which may impact the industry in long run. Increase in VAT rates and ban on chewing tobacco in some states is likely to impact consumption behavior. Your Company is taking good measures to achieve its growth objectives under the new regime.

Your Company is dedicated towards having a strong position in tobacco segment through proactive approach, innovation, collaboration and best-in-class systems and people. Our organizational and business capabilities will continue to get further accentuated, helping us to deliver more and better than others. Senior leadership team of your Company is highly oriented towards well-being of your Company, as well as of the society and the world we live in. I take this opportunity to thank them for their active engagement, continued commitment and enthusiastic co-operation. Your Company is well recognized by the country as a responsible corporate citizen, and I thank you for your support towards all such initiatives your Company takes up.

Warm regards,

R. A. Shah



K. K. MODI

President's Message

Dear Shareholder,

It is a privilege for me to once again share with you the performance of your Company this year. During the year, we achieved a growth of 9.5% over the last year, our gross revenue reaching Rs. 3349 crore with profit before tax at an all-time high of Rs. 257 crore. It is worth mentioning that every member of your Company made all efforts with rigor and zeal to achieve this growth despite a very tough economic environment within India and abroad. The Board of Directors have recommended a dividend of Rs. 40 per share for the financial year 2011-12.

Year 2011-12 was a very distinct year for your Company. The main theme for the year revolved around 3 aspects namely Chewing, Capability and Capacity.

Pan Vilas was one of the biggest stories of 2011-12. This brand has grown from being a small brand in the big pan masala market to a formidable 120 crore plus brand during the year. Our campaigns and the new packaging have been appreciated well in the market and we are enjoying a decent market share in the premium pan masala category in many key states. We are now taking rapid strides in strengthening distribution of Pan Vilas and to develop other products in the chewing tobacco category.

This year has been special also from the point of view of building organization capabilities. Strong endeavours are underway to develop a strong innovation pipeline, which can develop new and innovative products in line with changing regulatory and business environment. It has constantly been our attempt to introduce to our valued customers new and innovative products like slims, kings and innovative filters. Managing multiple products within our distribution channel has been another area of capability development underway in your Company. We are in the process of strengthening our network especially in the rural areas which are gaining traction with increased economic development of our country.

New capacities have been developed in 2011-12. Our new world-class plant at Navi Mumbai will give us a strong footing in manufacturing cigarettes with quality levels even better than many of the global players. New production facility for chewing products is under development at Ghaziabad in North India which will go online soon.

Going forward we will be looking at new ways of delighting the customer and creating value for all our partners. Our corporate social responsibility program is also running successfully with various programs under Godfrey Phillips Bravery and Amodini initiatives. We are proud to have a team of dedicated people who are committed to working towards the progress of the Company.

As I close my message, I would like to thank all the shareholders for reposing trust in management and our Board of Directors for their constant support and guidance. I assure you of our unflinching commitment in moving towards higher performance levels in the years to come.

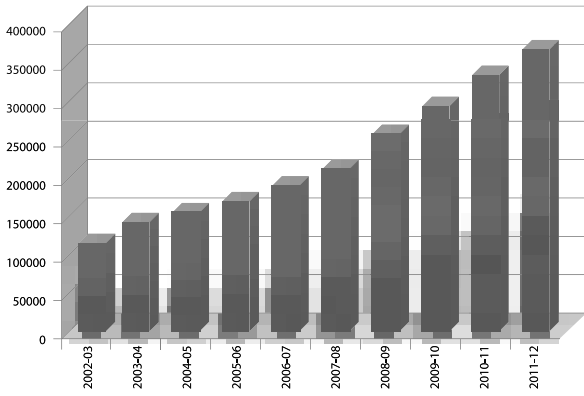
Kind regards,

K.K. Modi

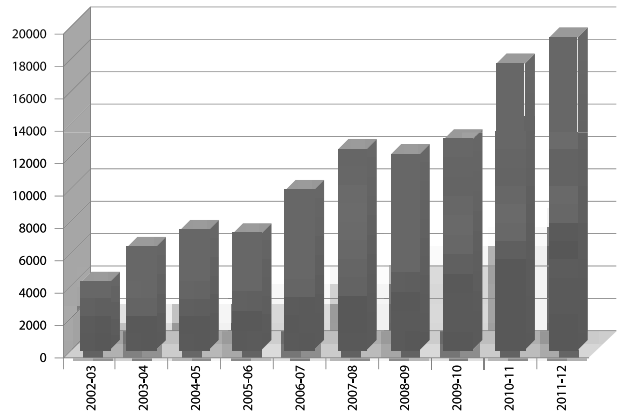
FINANCIAL HIGHLIGHTS

TRENDS

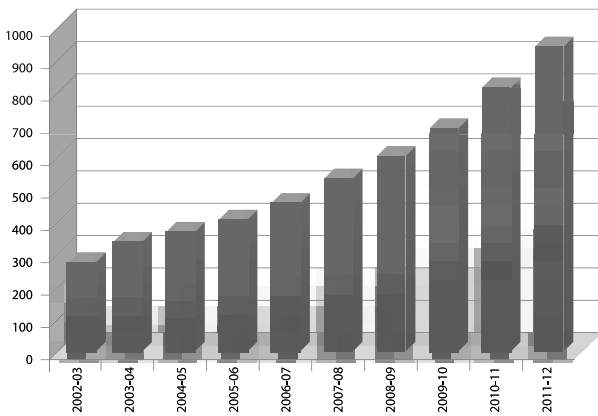
Gross Revenue (Rs. in Lacs)



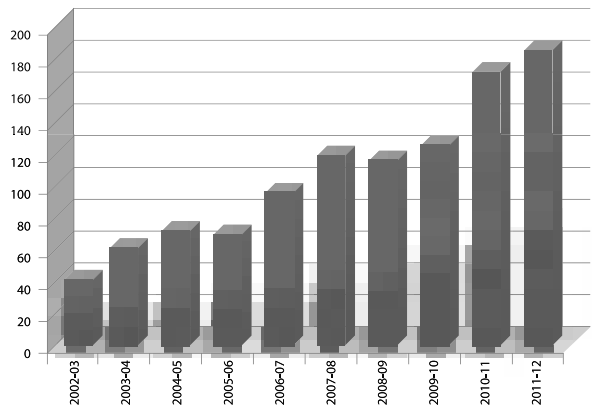
PAT (Rs. in Lacs)



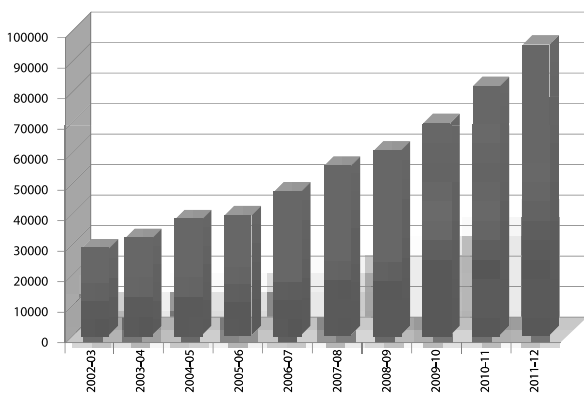
Book Value per Equity Share (in Rs.)



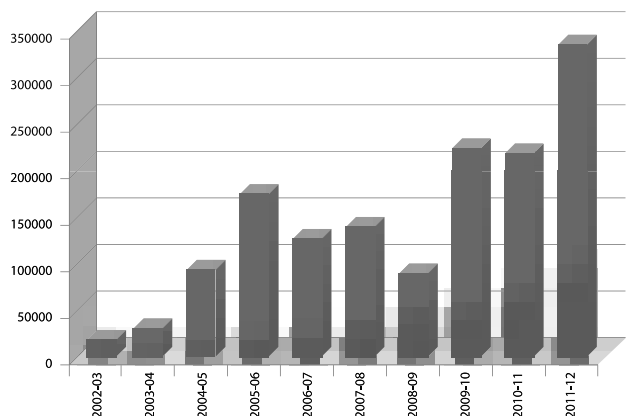
EPS (in Rs.)



Shareholders' Fund (Rs. in Lacs)

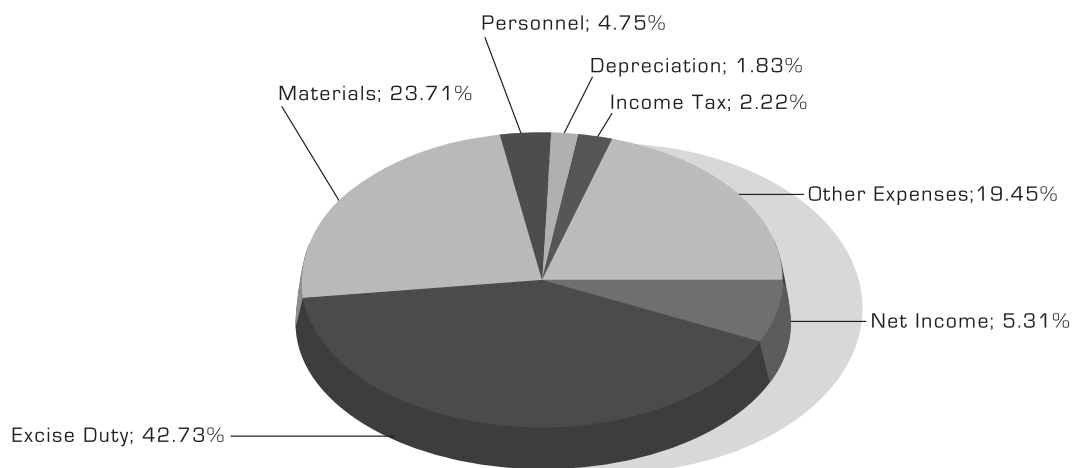


Market Capitalisation (Rs. in Lacs)



FINANCIAL HIGHLIGHTS

REVENUE DISTRIBUTION



10 YEAR HIGHLIGHTS

Rs. in lacs

PARTICULARS	2011-2012	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
CAPITAL EMPLOYED										
Net Fixed Assets	67443	47387	31896	25980	15337	12655	12984	12920	8732	7413
Investments	35833	32314	19485	20986	32957	24627	21100	19916	14473	15636
Working Capital	21016	21797	26823	20172	12205	10962	9809	4513	6575	5429
Deferred Tax Assets (Net)	752	79	-	236	-	-	-	1576	1239	797
Total	125044	101577	78204	67374	60499	48244	43893	38925	31019	29275
FINANCED BY										
Shareholders Funds	92091	79025	66652	57845	49996	41815	36046	32701	28950	25966
Borrowings	32953	22552	11455	9529	10338	6073	7439	6224	2069	3309
Deferred Tax Liabilities (Net)	-	-	97	-	165	356	408	-	-	-
Total	125044	101577	78204	67374	60499	48244	43893	38925	31019	29275
OPERATING PERFORMANCE										
Gross Revenue	341858	310838	267292	232445	187634	163277	145712	132538	120219	109639
Excise Duty	146058	146768	121386	115636	94040	82423	76176	61021	55769	52085
Depreciation	6263	4000	3391	2803	1977	1907	1837	1655	995	913
Profit Before Taxation	25723	24147	16740	16591	16974	13523	9969	9995	7649	5690
Profit After Taxation	18136	16603	11839	10890	11222	8810	6013	6360	5218	3791
Dividend	4159	3640	2600	2600	2600	2600	2340	2288	1976	1768
Corporate Dividend Tax	675	590	432	442	442	442	328	321	258	227
Retained Earnings	13302	12373	8807	7848	8180	5768	3345	3751	2984	1796
INVESTORS' DATA										
Earning Per Equity Share (Rs.)	174.41	159.67	113.84	104.73	107.92	84.73	57.82	61.16	50.18	36.45
Dividend Per Equity Share (Rs.)	40.00	35.00	25.00	25.00	25.00	25.00	22.50	22.00	19.00	17.00
Book Value Per Equity Share (Rs.) @	885.59	757.67	638.69	553.99	478.52	399.84	344.37	312.20	276.12	247.43
Number of Shareholders	11125	11242	11364	12350	12824	12740	11261	11719	12539	13068

@ Excluding Revaluation Reserve



GODFREY PHILLIPS
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DIRECTORS' REPORT

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Your Directors deem it a privilege to present the Annual Report and Accounts for the year ending March 31, 2012.

GENERAL ECONOMIC ENVIRONMENT

As the FY 2011-12 started for all of us, global economy was recovering from political unrest in different parts of the world, and economic slowdown in the U.S. and Europe. The global economic environment has been tenuous through the year, particularly turning adverse post-September 2011, against the Euro-zone crisis, downgrades of sovereign credit rating of euro-zone and other advanced countries (including the U.S.), followed by political unrests, currency wars and the more recent oil crisis.

One clear and comforting sign was a relatively better performance by Indian Economy. Government of India also indicated that despite some weakness in the economy, the outlook was rather positive for the coming years, with economic activity having 'bottomed out' and 'a gradual upswing being imminent'. However, it was clear that managing growth and having price stability were going to be prime challenges for the Government. While agriculture and services sector provided support to overall growth, weakening industrial activity had pulled down economic performance resulting in India's real GDP growth decelerating sharply from 8.5% in 2010-11 to 6.5% in 2011-12. The real GDP declined to 5.3% in Q4 of FY 2011-12 as compared with 9.2% in the corresponding period last year. The Q4 GDP data validates that the growth trajectory is weaker than expected.

Exports from India have faced challenges on logistics and movements due to geopolitical disturbances. Infrastructure and public services need more impetus. Rising fuel costs have burdened the common man and industry. Yet, it is hoped Indian economy will rebound once more and achieve good, sustained and inclusive growth.

TOBACCO INDUSTRY

During 2011-12, Indian cigarette market has shown a growth of around 5% in volume and 11% in value over the previous year. Growth is largely seen in premium & economy segments. However, due to glut in the international market, Indian leaf tobacco exports were lower as compared to last year and the situation continues to be the same. Also, the industry continues to face the menace from non-duty paid cigarettes available across markets in India.

Regulatory Environment

Global regime continued to get stricter on tobacco during the year. UN bodies like WHO have been making strong efforts to ban or restrict use of specific ingredients, flavor and additives in manufacture of tobacco products, as well as to reduce acreage under tobacco cultivation. Different countries have looked at increased taxation, restriction on display, anti-smoking proposals etc. to discourage smoking. Australia and New Zealand are focusing on plain packaging in order to make the packs less enticing for people. U.K. has banned display of tobacco products at retail outlets.

India is also witnessing various anti-tobacco initiatives by various authorities and agencies with the new graphic health warnings coming into effect from 1st December, 2011. We respect such initiatives and shall abide by them as a responsible corporate citizen.

DIRECTORS' REPORT



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Taxation

The trend to increase Value Added Tax (VAT) rates at State level continued during the FY 2011-12 with more and more States resorting to tax tobacco products to bridge the revenue shortfall. And as an impact of that, VAT rates in India on cigarettes now vary from 12.5% to 50%. We are hopeful that unified VAT or GST regime in course of time will help the industry, trade and consumers by bringing rationality and clarity.

SEGMENTWISE PERFORMANCE IN 2011-2012

Cigarettes

The Industry is under pressure on account of rising excise duty coupled with increase in VAT rates by various State Governments. Despite this, your Company has registered a marginal increase of 0.7% in the domestic sales volume with the value being higher at Rs. 2776 crore as compared to Rs. 2627 crore in the previous year reflecting an increase of 5.7%. Various steps are underway to strengthen parent brands namely Four Square, Red & White and Cavanders. The current distribution system is also being leveraged to handle multiple product categories now being offered by the Company.

Tea

Although the domestic tea business showed a marginal decline with the sales value during the year placed at Rs. 95 crore as against Rs. 97 crore during the preceding year, yet the margins were slightly better as compared to last year. Your Company is making all out efforts to achieve improved performance in this segment of the business and has taken various new initiatives to broad-base the distribution which include introduction of Super Cup tea bags to make inroads into the HORECA segment and coverage of HTS (Hot Tea Shops) channel in Chennai. Your Company has gained formal entry into Railways also which is the biggest institutional business of the country. Tea blending and packing units at Kolkata and Bazpur have been automated and modernised to help in maintaining current loyal customer base and attract new international customers. Super Cup franchise is being relaunched with rejuvenated packaging and a premium product option.

Exports

The following table shows the status of exports for different products during the year under report:

Commodity / Product	2011 - 12 Value (Rs. in crore)	2010 - 11 Value (Rs. in crore)
Cigarette	107.63	120.68
Unmanufactured tobacco	131.28	104.42
Cut tobacco	61.27	42.86
Tea	18.36	16.11

While cigarette exports in terms of value were lower by 11%, the cut tobacco exports increased by 43% over the previous year. Unmanufactured tobacco exports also grew by 26% during the year. Various initiatives to improve the unmanufactured tobacco exports are resulting into substantial new export orders and spurt in new businesses in South East Asia and other key global markets. With a view to give further impetus to the export performance of the Company, your Company is also looking forward to setting up offices in key overseas locations in next two years.



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During the year, the Company has developed new markets and added many international buyers to our existing portfolio for tea. Tea exports grew to 1508 tons over last year's 1222 tons, in terms of volume. Export of private labels for Packet Tea and Tea Bags in Kazakhstan was initiated under the brand name "Bimker". Your Company got renewal of ISO 22000 Space & HACCP Certification to value add and meet minimal International Tea Export standards apart from receiving "Good Manufacturing Practices" certification from the Iran Health Ministry.

Chewing Products

Your Company had a challenging year for its Chewing Business. The industry needed to shift from plastic packaging to paper based packaging format and where the competition was scrambling for options, your Company introduced the first successful commercial paper package that held ground even during the monsoons. The impetus helped the Company's pan masala brand "Pan Vilas" close the year at a turnover of Rs. 121 crore against Rs. 24 crore in the last fiscal. Your Company captured roughly 12% share of the market and became leaders in the small pack segment in some markets/states. During the year, the Company also opened the West Bengal and the Punjab markets and currently it is operating in 10 states in India. Your Company also ventured in the difficult zarda segment with the brand "Swarn Vilas". The Company plans to continue the momentum and grow further by venturing into new markets and categories and by leveraging and further building upon technology and back-end infrastructure to support the engines of growth.

Retail

Company's foray into retail business through Twenty Four Seven convenience stores is making steady progress. The Company is currently operating through 11 own stores spread across Delhi and expects to more than double this number during the current year.

TREASURY OPERATIONS

Your Company continues to enjoy the highest rating of 'CRISIL A1+' for Short-Term Debt Programme, 'CRISIL AA+/Stable' for Long Term Loan, 'CRISIL AA+/Stable' for Cash Credit Limit and 'CRISIL A1+' for Non-fund based limits. With these ratings in place, your Company is able to raise funds at most competitive and attractive terms.

Guided by the policy of safe, liquid and tax efficient returns, the Company has been deploying its long term surplus funds primarily in debt oriented schemes of reputed mutual funds mainly consisting of Fixed Maturity Plans (FMPs). Out of the total investment of Rs. 358 crore as at March 31, 2012, investments of Rs. 303 crore stood in debt segment of various mutual funds with major chunk being into highly safe FMPs which are yielding decent tax efficient returns. The Company also continued to park its temporary surpluses in liquid schemes of various mutual funds.

FIXED DEPOSITS

At the end of the financial year, the balance on account of Fixed Deposits accepted from the Public and Members stood at Rs. Nil. Presently the Company is not accepting fresh deposits as it no longer deems it economical to raise money through this mode of finance.

DIRECTORS' REPORT



GODFREY PHILLIPS
—INDIA LIMITED—

FINANCIAL PERFORMANCE

FINANCIAL RESULTS	2011-12 Rs. in lacs	2010-11 Rs. in lacs
Gross Profit	31986.62	28147.66
Less : Depreciation	6263.13	4000.29
Profit before taxation	25723.49	24147.37
Less : Provision for taxation		
- current tax	8260.64	7720.00
- deferred tax	(673.42)	(175.98)
- fringe benefit tax	-	-
Profit after tax for the year	18136.27	16603.35
Profit brought forward	57988.33	47614.98
Available for appropriation	76124.60	64218.33
Appropriations		
Proposed Dividend	4159.51	3639.57
Corporate Dividend Tax	674.78	590.43
Transfer to General Reserve	2200.00	2000.00
Surplus carried to Balance Sheet	69090.31	57988.33
	76124.60	64218.33

The overall sales turnover was higher at Rs. 3349 crore as against Rs. 3057 crore in the previous year, registering an impressive growth of around 9.5%. After providing for tax, the net profit of the Company stood at Rs. 181.36 crore as against Rs. 166.03 crore in the previous year.

The Union Budget 2012 has increased the excise duty on cigarette by around 22%, which has been followed up by some State Governments hiking VAT rates significantly. The continuous increase in taxation on cigarette over the last several years has been adversely affecting the margins and therefore, impacting profitability.

DIVIDEND

Keeping in view the Company's overall performance for the year under report the Board of Directors of the Company is pleased to recommend a dividend of Rs. 40 per share.

INTERNAL CONTROL SYSTEMS

Your Company has an adequate system of internal control commensurate with the size of the Company and the nature of its business, which ensures that transactions are recorded, authorised and reported correctly apart from safeguarding its assets against loss from wastage, unauthorised use and disposition.

The internal control system is supplemented by well documented policies, guidelines and procedures, an extensive programme of internal audit by a firm of chartered accountants and management reviews.



HUMAN RESOURCE DEVELOPMENT

Your Company believes that its employees are its partner in progress and ensures that they are treated well. To pursue this belief, your Company conducted an Employee Engagement Survey to seek opinions of its managerial level employees about their work-life issues and concerns at work. Further, a root cause analysis was done and issues/concerns are being addressed. Your Company also believes that long term growth and productivity is possible by investing in robust and right kind of long lasting people systems. To develop the internal functional capabilities, your Company has initiated the process of upgrading its existing Human Resource Information System (HRIS) which acts as an enabling gateway for servicing employee needs. In continuation of efforts by your Company to equip the sales force in persistently handling multiple products and to manage change with their stakeholders, various interventions were conducted on Multiple Product Handling and its related Change Management. Your Company is proactively investing in developing future talent pipeline. The ongoing initiative of Targeted People Development has put in place a detailed process of development planning and grooming for potential employees.

CORPORATE DEVELOPMENT

Your Company has continued to add to its advantage the strong corporate governance mechanism and processes for making new product offers, launching new products, developing business strategy and implementation thereof through effective engagement of Corporate Development division. The division provided regular support and inputs to all the business teams on industry dynamics, regulatory aspects and other components of business environment to help them to draw plans with 3-5 years' perspective. Detailed planning, appropriate methodology, support in execution and monitoring has helped each of the existing and new businesses add further to our market reach and in achieving better results. Automated Management Dashboards and Business Intelligence Tools have continued to provide seamless view to senior leadership on all critical performance parameters for timely action. The two ongoing corporate initiatives focusing on product offer development and multi-product distribution have progressed well during the year with initial pilots and outputs giving good results. All such efforts and forthcoming drives and rigor are expected to have long term positive impact on businesses of your Company.

INFORMATION TECHNOLOGY

Your Company continues to invest in Information Technology to improve operational efficiencies and enhance productivity. As a part of process improvement and improved control, your Company is currently implementing ERP system for its production facilities and sales establishments. This will make the complete supply chain ERP enabled for the Company. Also, Product Life Cycle Management System called AGILE is being implemented for R&D. During the year, your Company also consolidated its core IT infrastructure using new generation servers leading to significant reduction in energy and space requirements.

CORPORATE SOCIAL RESPONSIBILITY

Exhibiting commitment to recognizing common citizens for their acts of courage, Godfrey Phillips Bravery today has inspired millions with the message of hope, compassion and selflessness. To mark the completion of 20 years, nationwide campaign was launched on print, electronic, outdoor and social media to honor the occasion. The Be-Brave campaign on social media touched an impressive 5.5 lacs member participation within a year.

Along with Godfrey Phillips Bravery, Amodini, the women's empowerment initiative also has grown progressively. Since inception in 2007, over 23000 women have been benefitted by Amodini. Your Company works with renowned non-profit associates to help women beneficiaries become financially independent with various training and development programs. Amodini continues its commitment to women empowerment by using hand made products by women for all occasion gifting that has been highly appreciated.

DIRECTORS' REPORT



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Your Company also exhibited its commitment towards minimizing the impact of our business on the environment. It continues to lay emphasis on policies that encourage environment management and employees are also recognized for initiatives that take this commitment forward. The Company won prestigious Greentech Gold Award for Environment Management for its consistent efforts towards it.

CONSERVATION OF ENERGY

Several energy saving measures were taken during the year, details of which are given below:

1. Replaced CMD cooling tower at Andheri factory with the new one having flat belt and energy efficient motor, resulting in saving of 92,400 units per annum.
2. Constructed insulated roof with sky-lights at Rabale factory to reduce need for lighting energy.
3. Used low density concrete blocks with fly ash for the walls at Rabale factory for achieving better insulation properties.
4. Installed latest energy efficient HVAC systems for the shop floors and offices at Rabale factory.
5. Replaced 2 nos. CRT based OPC (Operator Panel) with LCD, resulting in lower energy consumption.
6. Installed new transformer at Andheri factory power house having lower no-load losses, resulting in saving of 7,000 Units per annum.

TECHNOLOGICAL ABSORPTION, ADOPTION AND INNOVATION

1. Table-top cigarette maker introduced in R&D for cigarette development purpose.
2. Flavor injection system 'Cjector' introduced in R&D for cigarette development purpose.
3. Installed print registration unit for inner frame on cigarette packing machines to support pack communication and enhance brand recall.
4. Made hard link-up of high speed cigarette makers and packers to improve the productivity and product quality.
5. Oil / PTFE free air compressors introduced for improved product quality.

RESEARCH & DEVELOPMENT

New Product Development

1. Commissioned a plant to make reconstituted tobacco (RECON) in order to improve blend quality and optimize blend cost.
2. Carried out development work for some differentiated products in cigarette category for creating new consumer base for gaining domestic market share.
3. Developed some new tobacco blends and enhanced current blends in order to cater to varied consumer/ buyer base.
4. Developed more value added and differentiated products in Bidi and Chewing categories.
5. Initiated developmental work in Mouth Freshener category.



DIRECTORS' REPORT

Benefits derived as a result of this Development

1. Improved premium brands in which the Company currently has marginal presence in the domestic cigarette markets.
2. Enhanced existing tobacco blends in order to improve the smoke characteristics.
3. Enhanced capability to generate new ideas and create differentiated products for domestic as well as export markets.
4. Created a range of products for consumers and thus add potential to both top-line and bottom-line growth.
5. Increased number of variants of blends and cigarettes in the library for both domestic and export markets.

Future Plan of Action

1. Improve the efficiency in terms of creating differentiated and innovative products for the cigarette business, thereby maintain a healthy offer pipeline.
2. Continuous upgradation of analytical facility to meet future challenges.
3. Intensify work on development of new products using R&D pilot plants.
4. Create strong knowledge base for chewing products' ingredients.

FOREIGN EXCHANGE EARNINGS AND OUTGO

The earnings in foreign exchange during the year under report by way of exports and other income amounted to Rs. 319 crore (previous year Rs. 284 crore) as against the foreign exchange outgo on imports, dividends and other expenditure aggregating to Rs. 290 crore (previous year Rs. 132 crore).

DIRECTORS

Mr. C.M. Maniar, Mr. Lalit Bhasin and Mr. Anup N. Kothari, Directors, will retire by rotation at the forthcoming Annual General Meeting and being eligible, have offered themselves for re-appointment.

The terms of appointment of Mr. K.K. Modi as Managing Director and Mr. R. Ramamurthy as Whole-time Director will expire on 13th August, 2012. Your Directors have recommended their re-appointment for a further period of 3 years.

Brief resumes of the Directors offering themselves for re-appointment are furnished in the Corporate Governance Report and in the explanatory statement to the notice of the ensuing Annual General Meeting.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibilities Statement, the Directors confirm that:

- (i) in the preparation of the Annual Accounts, the applicable Accounting Standards have been followed;
- (ii) appropriate accounting policies have been selected and applied consistently and judgements and estimates which are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year under review;

DIRECTORS' REPORT



GODFREY PHILLIPS
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- (iii) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) the Annual Accounts have been prepared on a going concern basis.

The above statements were noted by the Audit Committee at its meeting held on July 31, 2012.

CORPORATE GOVERNANCE

The Company is committed to maximise the value of its stakeholders by adopting the principles of good Corporate Governance in line with the provisions of law and in particular those stipulated in the Listing Agreement with the Stock Exchanges. Its objective and that of its management and employees is to manufacture and market the Company's products in a way so as to create value that can be sustained over the long term for consumers, shareholders, employees, business partners and the national economy in general.

Certificate from the auditors of the Company regarding compliance of the conditions of Corporate Governance as stipulated in clause 49 of the Listing Agreement with the Stock Exchanges, is enclosed.

Certificate from Mr. K.K. Modi, Managing Director as the Chief Executive Officer (CEO) and Mr. Sunil Agrawal, Vice President – Finance as the Chief Financial Officer (CFO) in relation to the financial statements for the year along with declaration by the CEO regarding compliance with the code of business conduct of the Company by the directors and the members of the senior management team of the Company during the year were submitted to and taken note of by the Board.

CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Accounting Standard 21 - Consolidated Financial Statements, Group Accounts form part of this Report & Accounts. The Group Accounts have been prepared on the basis of audited financial statements received from the Subsidiary & Associate Companies, as approved by their respective Boards.

AUDITORS

A.F. Ferguson & Co., Chartered Accountants, the retiring auditors, have offered themselves for re-appointment as auditors for the Head Office as well as branch offices at Ahmedabad, Mumbai, Kolkata, Ghaziabad, Guntur, Hyderabad, Chennai, New Delhi, Chandigarh, Baramati and Rabale (Navi Mumbai).

COST AUDIT

Pursuant to the various circulars issued by the Ministry of Corporate Affairs, the Company is required to maintain cost records and get the same audited by a cost auditor in relation to some of the products manufactured by the Company. Accordingly, Chandra Wadhwa & Co., Cost Accountants, have been appointed as the cost auditors for the financial year 2012-13.

SUBSIDIARY COMPANIES

Ministry of Corporate Affairs, Government of India has, vide its General Circular No. 2 dated 8th February, 2011 granted a general exemption to companies under section 212(8) of the Companies Act, from attaching the documents referred to in section 212(1) pertaining to its subsidiaries subject to approval by the Board of Directors of the Company and furnishing certain financial information in the Annual Report.



GODFREY PHILLIPS
—INDIA LIMITED—

DIRECTORS' REPORT

Accordingly, the annual accounts of the subsidiaries will be made available upon request by any shareholder of the Company and its subsidiaries. The annual audited accounts of the subsidiaries will also be kept for inspection by any shareholder at the Company's Corporate Office as well as its Registered Office and at the offices of the respective subsidiaries during business hours. Further, as per the provisions of Section 212 of the Act, a statement of the Company's interest in its subsidiaries and a statement summarising financial performance parameters of subsidiary companies are included under notes to the consolidated financial statements and forms part of the Annual Report.

EMPLOYEES

As required by the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the annexure to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to all shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Company Secretary.

The relations with the employees of the Company continue to be cordial and the Directors wish to record their appreciation of their dedicated services at all levels of operations in the Company.

THE FUTURE

Your Company continues to be the second largest cigarette manufacturing company in India. The focus of your Company will continue to remain in tobacco segment comprising of cigarette, bidi and chewing products. Your Directors look forward to the future with cautious optimism.

Respectfully submitted on behalf of the Board

New Delhi
Dated : July 31, 2012

R.A. SHAH
CHAIRMAN