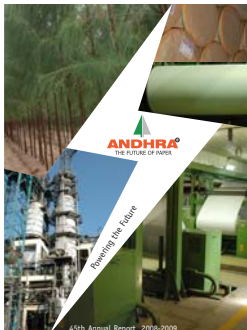


Powering the Future

45th Annual Report 2008-2009

**The Andhra Pradesh Paper Mills Limited**

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<div> <div>Powering the Future</div> <p>APPM is one of the most cost effective producer of quality paper. The Company not only reduced the use of fossil fuel, but has also started generating and selling power to the state grid from June 2009.</p> <p>The cover captures the main activities of the operations with an underlying concern for power.</p>  <p>45th Annual Report 2008-2009 The Andhra Pradesh Paper Mills Limited</p> </div>			
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APPM faced challenging times during the year. The pressures in the economy were felt by us just as much as all the majors in the paper industry.

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This is not the first time that we have been tested by market dynamics, and on every occasion, we have emerged stronger. We have always used the challenges to convert them into opportunities.

As in the past, we revisited our internals and gained by improving our operating processes to enhance efficiencies and reduce costs, widened our market presence, strengthened the organization and powered our way to the future.

APPM of today is much better than what it was yesterday and with its improved product mix and quality is cost efficient and more profitable. We have worked hard for our tomorrow.

## MESSAGE FROM THE CHAIRMAN

# Powering the Future



The paper industry often mirrors the economy with consumption dependent on the needs and sentiment in user industries. In 2008-09, the global recessionary trends impacted all our consumers and the effects were felt by all the majors in the paper industry.

The industry saw decline in demand growth, increase in inventories, softening of prices and pressure on margins. As cash flows dried up, interest rates climbed higher and when money market tightened, the volumes contracted. This led to further decrease in consumption and decline in prices. The cascading effect accentuated the pressures for the paper industry.

Given this backdrop, I am glad to say that we at APPM did well. We managed the uncertainties and faced the situation effectively because we were organised better. Our Mill

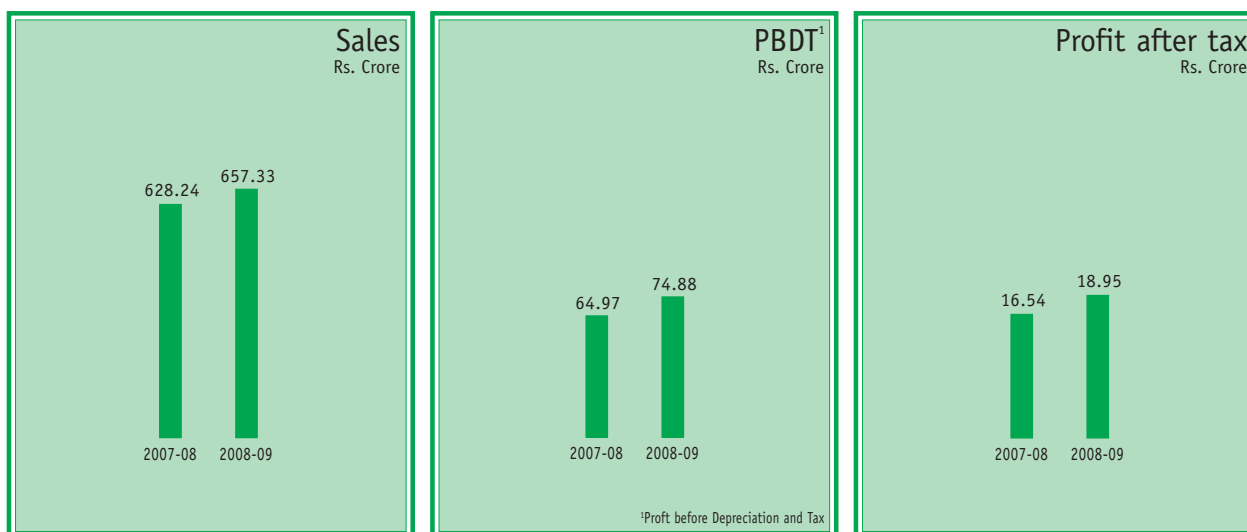
Development Plan helped us to weather the storm enabling us to lower consumption of raw material, save power costs and reduce usage of chemicals. We also stayed with our core values and offered improved product quality. As seen from our performance results. We succeeded in not only increasing our revenues but also our operating and net profit.

We are much stronger because of our technology, systems and processes, people commitment and quality of products. Indeed, APPM was tested during the year but the team gained confidence in its efforts to ensure continued success. I am convinced that the experience will create a positive leverage when the economy turns for the better.

Looking ahead, the strategic goal at APPM is to enhance the value of the Company through profitable growth generated by targeted capital expenditure, investment in state of art technologies, continuous performance improvement and excellent management of human resources.

The Company has identified four ways of improving its profits:

- Expand products in existing segments;
- Develop new products and markets, including direct sales to consumers;
- Pursue selected growth opportunities in value added activities; and
- Improve overall manufacturing productivity and efficiency.



Our long term objective is to be one of the most admired and profitable integrated paper companies in the country. We shall accomplish this by consistently improving our market share and offering a wide range of products supported by reliable customer service. I am sure that our talented and trained people and their performance driven culture will secure APPM's profitable growth.

In a few months, we shall commission Paper Machine No.6 at Unit:APPM adding approximately 38.5% to our paper making capacity. At the same time, I am conscious that the global economy is as yet under pressure and it would possibly take a few more months for stability and growth. We are fortunate to have a team of winners that know how to generate demand by finding strategic/ game-changing opportunities to take market share away from competitors.

Our long term belief in the future and confidence in APPM's products and processes remain high. We shall continue to offer what the customers want and emerge as the first choice in our addressable markets. We shall reduce the risks in our operations and shall strive to differentiate ourselves from our competition. We will convert uncertainties into opportunities primarily by reducing cost of production to one of the lowest in the country; enter into niche markets and produce and market larger volumes of paper thereby increasing our absolute profit levels. I am confident that these initiatives will help improve earnings per share and increase total shareholder wealth.

APPM has led the way within the Indian paper industry with its various initiatives and championing environmental issues. It is essential that our industrial and commercial development must be consistent with the protection of the environment. For us, sustainability is about meeting today's needs with natural resources that are renewable, reusable and recyclable.

For several years, we have worked to minimise environmental impact by measures such as farm forestry, efficient use of energy and water, waste recycling, monitoring of spillages and gas emissions. Our investments have been as much to improve productivity of wood, energy and water as it has been to increase quantity and enhance quality of paper produced.

We were one of the pioneers within the Indian paper industry when we distributed seedlings to farmers and counseled them to plant trees in dry and wastelands. We were also the leaders in introducing elemental chlorine free writing and printing paper in the country.

I am proud of my team and am confident that we shall continue to take meaningful strides and power ahead by adding to societal values as much as we shall strive to be an admired integrated paper company that works for all its stakeholders.

*With warm regards*

  
L. N. Bangur

FROM THE DESK OF THE MANAGING DIRECTOR

## Review of Operations



Looking back at the financial year under review, it was a tough and challenging period but also one that had several positives. Despite the difficult external environment, we did well in areas where we have better control.

We stabilized our MDP and started seeing operational gains. We also brought down our overheads as well as our variable costs, enhanced our value proposition for our products and services and simplified our supply chain.

In the first half of the year, we gained from a buoyant market and firm selling prices. In the same period, as part of the MDP, we managed to reduce variable costs and improved operating performance. We experienced lower off-take as well as subdued selling prices during the latter half of the

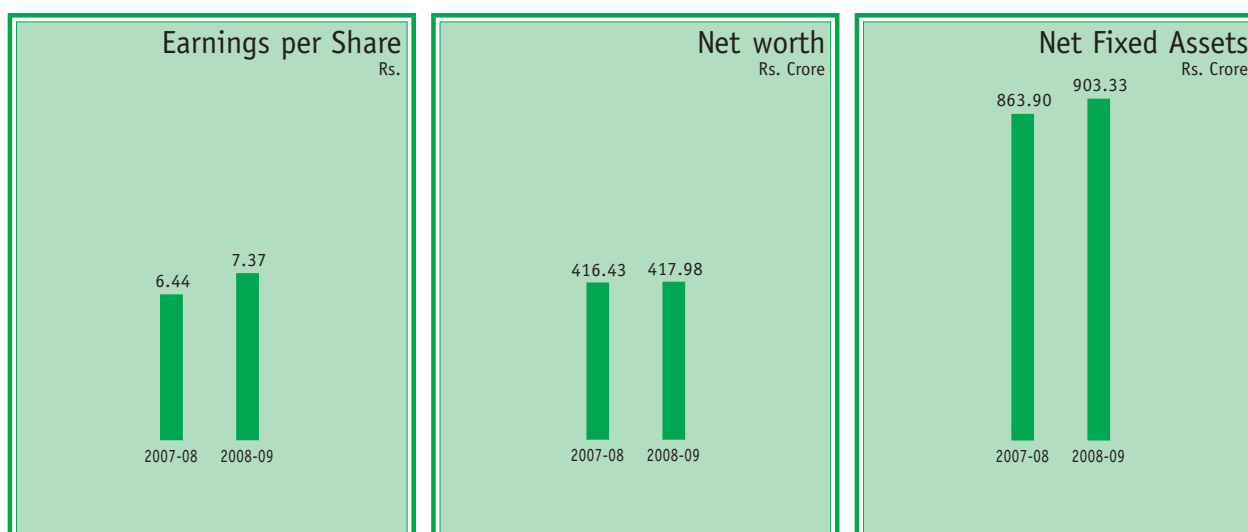
year. The combined effect of weak demand and subdued prices were offset by the significant improvements in operating performance which essentially led to a higher operating profit.

Our operating profit (EBIDTA) for the year under review was higher at Rs.125.37 crore compared to Rs.80.33 crore in 2007-08, an increase of 56%. The Profit after Tax climbed by 14.5% at Rs.18.95 crore as against Rs.16.54 crore in 2007-08. The Earning per Share was Rs.7.37 in the year under review as compared to Rs.6.44 in 2007-08.

The gratifying part of the accomplishment was that the improvements made in the plant processes and operations are sustainable in the future and would keep the cost of operations lower for every ton of paper produced. We as a team are proud that we have made improvement in yields from the main raw material - casuarina and subabul wood while enhancing the brightness of pulp. Similarly, we have reduced the use of chemicals and increased the recovery efficiency thereby lowering the need for fossil fuel.

At APPM, we increased our production capacity and lowered our cost of production. Our growth plans are integrated with process and cost efficiencies to ensure long term competitiveness and the ability to generate stable cash flow.

We shall commission Paper Machine No.6 in the last quarter of the financial year 2009-10. When it goes on stream in



early 2010, we would increase our overall pulp output thus, reducing our marginal costs and adding to profitability per tonne of product.

The Company strives to be a sustainable and environment friendly integrated paper company, renowned for its operational excellence and superior products. We have the competence and know-how and a strong brand equity that helps gain market share. In our product lines, we shall strive to be the customers' first choice.

The in-house strengths include capabilities that ensure continuous product development and competence to better production processes. We have done considerable work to conserve natural resources, optimise use of raw materials, recycle wherever possible and reduce the emissions and pollutants. We shall continue to demonstrate further efficiencies on all such identified parameters.

While our production processes and marketing abilities will outpace the anticipated challenges, our most important target for the next few years is improvement in profitability.

In the coming years, we shall remain committed to our target of achieving higher volume sales, enhanced market share, lower variable costs, improved profitability and a strong balance sheet. We shall strengthen our ability to achieve higher volume by generating higher cash and deleveraging our business. We will ensure that our margins improve faster than increase in revenues as well as cost increases. Our focus will be to ensure that return on capital would be higher than cost of funds.

I am privileged to work with this vibrant team which has the ability to cope with the present and future challenges and has aligned itself with the right mix of strategy, tactics and execution to effectively position APPM for the up-tick in the economy. I am grateful to all the 2,550 colleagues who have made the Company much stronger and resilient.

*With warm regards*

**M.K. Tara**

## Powering the Farmers

**APPM** encourages farmers to manage plantations responsibly. We have a team that counsels and guides the farmers to adopt environmentally appropriate plantation management practices for achieving higher productivity as well as maintaining the ecological equilibrium. We subscribe to the belief that protection of the environment is integral to the business. We want to ensure a healthy environment for the coming generations. In fact, APPM is the only integrated paper manufacturer in India that plants twice as many trees as it harvests. We believe that whatever we leave behind for environment amelioration is as important as what we consume.

Such socially beneficial farm forestry programs provide long term benefits to both the grower as well as the society at large and provides them with a strong incentive for sustainable fiber resource management.

Farmer economics is important to APPM. The Company pays best value for the wood it buys and always encourages growers to adopt economically viable plantation management systems which ensure high levels of profitability.

One of the key initiatives of the farm forestry team at APPM is to convince farmers for greening more and more dry waste/marginal lands. The Company maintains nurseries and distributes saplings at nominal cost to growers. Our research on clonal development has resulted in introduction of high

yielding, disease resistant clones suitable for a wide range of agro-climatic conditions in inland and coastal areas.

During the year 2008-09, 95.20 million quality seedlings were developed as against 94 million seedlings during the 2007 planting year. We brought an area of 14,000 hectares under plantation as against 13,500 hectares in 2007. Distribution of 95.20 million saplings to farmers included 1.68 million high yielding clonal saplings developed at state-of-the-art nurseries of APPM.

Amongst the several benefits to all the stakeholders is the fact that farmers growing pulpwood with normal seedlings on their waste/marginal land find their returns almost equal to the farmers growing other crops on their irrigated land. More significantly, farmers have reported that their return on investment per acre through plantation of clonal saplings developed by APPM, has increased by more than double in comparison to normal seedling pulpwood plantation.

Research and Development initiatives with low cost planting techniques, quality planting material and high yielding, short rotation clonal planting stock have enhanced raw material availability spread over approximately 86,400 hectares. To-date, our initiatives have directly benefited approximately 36,800 families and created employment resource pool of approximately 43 million man-days.



Farmer economics is important to APPM. The Company pays best value for the wood it buys and always encourages growers to adopt economically viable plantation management systems which ensure high levels of profitability.

The ongoing farm forestry activities focuses on agrarian communities having small and marginal land holdings because these holdings can be better utilized for plantations with minimal investments by adopting low cost planting techniques. Wasteland development was also geared up with the introduction of site specific superior clones. The introduction of a Casuarina hybrid has resulted in higher yields thus ensuring availability of sustained raw material for APPM and higher returns to farmers.

During the year, APPM improved its raw material mix with higher consumption of Casuarinas and Subabul varieties. This provided several down stream gains, such as:

- 🌱 Ensured procurement logistics due to plentiful supplies;
- 🌱 A 10.5% savings in raw material cost due to a change in raw material mix and lower transportation cost due to proximity to sources;
- 🌱 Reduced cost of processing for pulping operation due to lower consumption of chemicals; and
- 🌱 Improved brightness of pulp.

Research and Development (R&D) during the year also focused on minimisation of plantation establishment expenses with development of low cost quality saplings, innovative silvicultural techniques and development of site-specific disease resistant high yielding clones by macro propagation techniques. The gains to the farmers have been higher yields with minimal investment; increased productivity per unit of area within a short rotation cycle and demonstration of first hand information to farmers of the benefits of clonal plantations under field conditions.

With an eye on the future, the present R&D activities attempt to develop superior genotypes of Casuarina and Eucalyptus through establishment of clonal seed orchard, hybridization, screening for desirable quality and yield, testing of selected genotype and their multiplication through micro propagation and macro propagation. The gains to the farmer will be higher productivity and the Company would benefit by access to resources having quality strains.

Today, our pulp is based on a strong and flexible fibre that combines properties such as high brightness and purity as well as tear and tensile strength. The Company as always is grateful to the farmers for raising the bar.

## Working for clean environment

Our business starts with wood. By using water and energy, we convert the same to pulp and subsequently into one of the best uncoated writing and printing papers in the country. We are conscious that we are dealing with some of the most precious resources of nature and so we put all our efforts to manage them responsibly. Most of the resources we utilise in our processes are renewable and as a Company we always strive to put back more than what we take.

At APPM, we believe that at all times we must meet the social, ecological, and economic needs of the present generation without in anyway compromising the growth potential of future generations. Apart from our social and ecological responsibility, we have a commercial interest in ensuring that nature is preserved, renewed and protected. We therefore make sure that all our investments, manufacturing designs and processes are efficiently used to help reduce our environmental footprint. Careful planning, training of people, selection of appropriate raw materials and internal processes have improved our environmental performance, significantly decreased our emission load and enhanced our operational reliability.

Our responsibility towards the environment starts with our farm forestry efforts and we stimulate the same by maintaining nurseries and distributing saplings to farmers and encouraging them to plant two trees for every one that is harvested.

Having brought the pulpwood to our production facility, we utilize every portion of the same even lignin; the waste product of the wood is used to generate energy. Approximately, half the wood is converted into pulp and the balance into energy.

We generate 91% of our energy needs from our manufacturing process itself having upgraded our boilers with cogeneration systems. Our state-of-art recovery boiler and electrostatic precipitator have lowered particulate emissions and reduced sulphur compound emissions significantly.

Our initiatives have improved combustion efficiencies and temperature control as well as reduced the greenhouse gases. Indeed, we have progressed to produce surplus power every day since June 2009 and we sell the surplus to the state electricity grid.