



Going green.
Going global.

The Andhra Pradesh Paper Mills Limited

47th Annual Report 2010-11

CONTENTS

Our Company	2
Paper is sustainable	4
Going global	6
Up to the Challenge	8
Farm forestry adds value	10
Our people impact profits	11
Board of Directors	14
Corporate Information	15
Notice	16
Directors' Report	20
Management Discussion & Analysis	28
Report on Corporate Governance	38
Auditors' Report	47
Balance Sheet	52
Profit and Loss Account	53
Cash Flow Statement	54
Schedules	56
Five Years at a Glance	80
Attendance Slip/Proxy	IBC

Important Communication to Members on Green Initiative

The Ministry of Corporate Affairs has taken a “Green Initiative in the Corporate Governance” by allowing paperless compliances by companies and has issued circulars stating that service of notice/documents including Annual Report can be sent by e-mail to its members. To support this green initiative of the Government, members who have not registered their e-mail addresses, so far, are requested to register their e-mail addresses, in respect of electronic holdings, with their respective Depository Participants.

Members who hold shares in physical form are requested to download the “E- Communication Registration Form” from our website: www.andhrapaper.com under “Financials” and send the duly filled-in and signed form to Secretarial Department, The Andhra Pradesh Paper Mills Limited, Rajahmundry-533105, East Godavari District, Andhra Pradesh.

Forward looking statements

In this Annual Report we have disclosed forward looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make, contain forward looking statements that set out anticipated results based on the management’s plans and assumptions. We have tried wherever possible to identify such statements by using words such as ‘anticipate’, ‘estimate’, ‘expects’, ‘projects’, ‘intends’, ‘plans’, ‘believes’, and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward looking statements, whether as a result of new information, future events or otherwise.

Over the years, APPM has enhanced its technology platform, plant engineering, business processes and product quality parameters. Manufacturing capacity stands enhanced and cost of production has been steadily brought down. We did not achieve them overnight. We have worked hard on our plan to achieve global standards both with our processes and products.

Over a period, we have become globally competitive because of a string of actions taken to raise the bar:

- We installed the best available manufacturing technology in the world;
- All plant and machinery upgraded from time to time;
- Product quality on par with the best in the industry;
- People capabilities and competencies kept in line with international standards;
- Emissions and effluents kept within regulatory norms.

Going global is a journey whose destination is clear. We are headed in the right direction, towards solid business and sustained long term growth.



Our Company

The Andhra Pradesh Paper Mills (APPM) is one of the largest integrated pulp and paper manufacturers in India and has done pioneering work in several areas in the Pulp and Paper industry in India. The Company holds ISO 14001, ISO 9001 & OHSAS 18001 certifications as well as the Forest Stewardship Council (FSC) Chain of Custody (COC) Certification.

The company owns and operates two manufacturing units located in Andhra Pradesh: one at Rajahmundry and another at Kadiam. The Rajahmundry based Unit:APPM is an integrated wood based paper mill with a rated production capacity of 1,74,000 MT per annum finished paper production and 1,82,500 BDMT per annum of bleached pulp production. The unit manufactures industrial grades, posters, uncoated and office papers using casuarina and subabul hardwoods as raw materials.

At Kadiam, Unit:CP has a capacity to produce 67,000 MT per annum finished paper varieties such as creamwove, azurelaid, colour printing, kraft liner and newsprint. The product profile is based on bleached pulp as well as recycled fiber.

APPM's identity rests on four pillars: Technology, Excellence, People and Environment.



Technology

As an integrated paper manufacturer, APPM has built a distinct competitive advantage by installing the latest in technology and upgrading its skills and capabilities. In the process, there is a visible value add to both the customer and the Company in key facets of the business. In particular, the gains have been:

- Cost leadership in production
- Focus on quality of pulp and paper production
- Long term value creation for the stakeholders

Excellence

We take pride in our work – in farm forestry, procurement, pulp making and paper production. As a responsible industry player, we assume a decisive role in delivering high-end writing and printing paper that meets customer specific needs. We work to achieve excellence in every facet of our business through our interaction with our employees, vendors, customers, local communities and other stakeholders.

People

We value all our 2,492 people. We communicate openly in the workplace to foster fairness, respect and professionalism and recognize and reward results. We actively encourage teamwork between functions and departments. We emphasize safety and health in the work environment and in the neighbourhood where we operate.

Environment

We foster environmental stewardship throughout our manufacturing facilities. Sustainability has been integrated into our operations to reduce our carbon footprint. We conserve natural resources such as trees, water and fossil fuel. We have built energy efficiency into the manufacturing process and customized our systems and operations with challenging targets to minimize our environmental impact.

Where we were

From a small entrepreneurial organization incorporated in June 1964 with infusion of funds and high caliber management of the well-known industrial house of Bangurs of Kolkata, APPM has taken serious strides to be a significant player in the integrated pulp and paper industry. In 2001, Coastal Papers Limited was taken over by the Company, which added to the range of offerings to the market.

Where we are

We have grown into a global company manufacturing high quality writing and printing paper. The production capacity of both the units put together is 2,41,000 TPA. There are nine paper machines installed at the two locations which produce papers of different M.F. & M.G. varieties in the range of 21 to 250 GSM. With the commissioning of largest continuous digester in the country, the total bleached pulp production at APPM (Unit Rajahmundry) is 1,82,500 TPA.

Our technology, processes and approach to business have become globally competitive. We owe this extraordinary transformation to our committed, talented and skilled human resources. Put together, we have managed to grow our volumes in highly competitive markets because of the quality we bring to the products. In financial terms, we have been enhancing our margins by being the lowest cost producer in the industry.

Where we're going

In a competitive market, we aspire to flawless execution and leadership in our market segments. We are ensuring that we will have larger volume of paper, including niche and premium products. We are building a future where there will be more satisfied customers, greater market share, investment in newer and niche products and renewed and robust growth. We have a professional organization to lead our stakeholders towards shared success. We will do what is right, be an admired company in which employees are proud to work, customers and vendors want to partner with and be recognized for excellence.



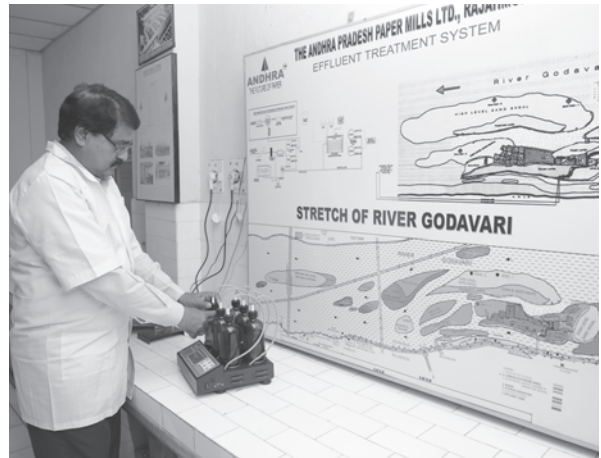
Paper is sustainable

Paper is one of the best medium of communication and is here to stay, forever. It is a sustainable product due to the care the paper industry has taken to be responsible for sourcing of raw materials, manufacture of paper and its environmental impact. In fact, seen in the right perspective, it is natural, biodegradable and recyclable, comes from an infinitely renewable resource and is produced in a sustainable manner.

APPM cares for the future, uses resources wisely and is responsible for nature and quality of processes involved in making of paper. The Company has been improving its own benchmark in use of wood, ratio of pulp to paper, water and energy consumption and, equally important, in minimizing discharge of waste water and suspended particles. APPM is committed to be in business for the long term to satisfy the customers, society and future generations.

A brief understanding of the paper making process would help appreciate the care that is taken to produce paper that has little or no impact on the environment.

The Company makes available Casuarina and Subabul seedlings to the farmers to plant on their marginal and degraded wastelands at very low cost per seedling. Care is taken so that the number of seedlings distributed and the trees developed, are more than twice the number of trees for raw material requirement. Further, the clonal saplings distributed by APPM have improved the wood productivity by more than double when compared to the seed-rooted plants. APPM is proud to have improved the forestation and green cover and helped plant more trees than it needs for paper manufacture.



The wood thus procured is processed through chippers where wood is cut into pieces, called chips, in required size and are screened in vibrating screen. The accepted size chips are cooked in digester and the waste wood chip dust is used along with coal to fire in coal fired boiler to generate steam for co-power generation and steam is being used for the processes of pulping & paper making.

The chips are charged to continuous digester with addition of chemicals and cooked to remove lignin. The cooked chips, known as pulp, along with spent liquor are washed on Brown Stock washers. The washed pulp is further delignified in Oxygen delignification process and then screened in screening plant.

The filtrate from Brown stock washing called black liquor i.e. fossil fuel, having residual chemicals and lignin are concentrated in evaporators. The concentrated black liquor is fired in recovery boiler to generate steam for power generation and for processes of pulping and paper making. Inorganics collected in recovery furnace are dissolved in weak white liquor. The dissolved chemicals, called green liquor is



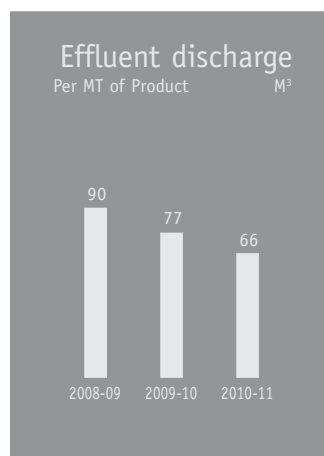
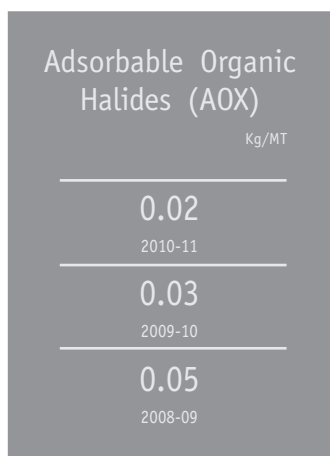
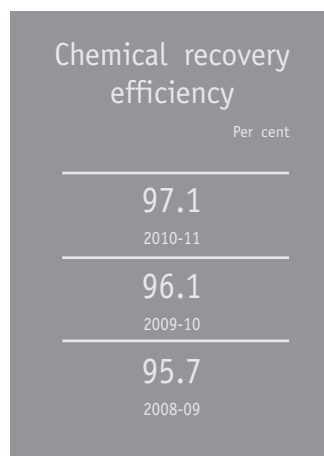
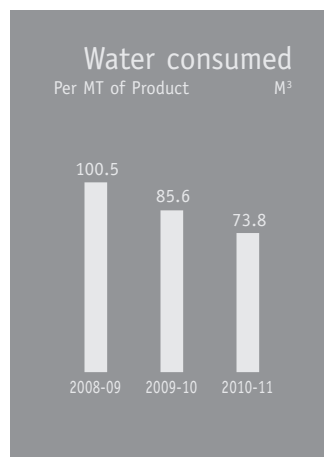


processed in causticising plant to convert into cooking chemicals which are in turn used in continuous digester. The solid waste from causticising plant is recycled through rotary lime kilns to produce burnt lime which in turn is used in causticising plant.

The screened pulp is bleached in ECF bleaching process. Bleached pulp is supplied to stock preparation plant where stock is refined, cleaned and treated with sizing chemicals.

Stock from stock preparation is pumped to wire part of paper machine where stock is spread on the dewatering wire table to remove the free water. The removed water is recycled. The wet sheet from wire part is passed to press part where absorbed water by cellulose fiber is removed. The wet sheet after presses is subjected to drying in dryer part by evaporation.

APPM strives to conserve water and over the years, has been reducing water consumption per MT of product to the level of 73.8 M³. Dried sheet is passed through calendars to obtain required smoothness and thickness.



FROM THE DESK OF THE EXECUTIVE CHAIRMAN



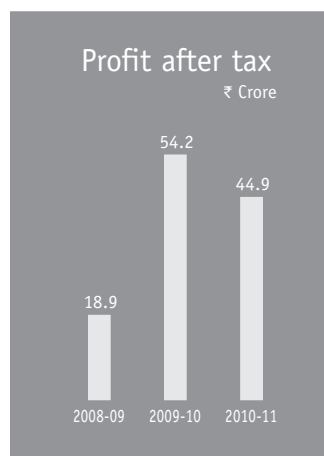
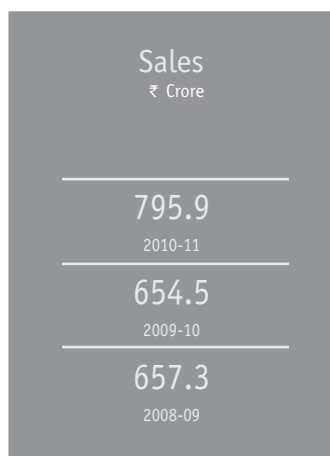
Going global

Dear friends,

It was another good year. We produced more pulp and paper and with aggressive marketing, saw revenues touching a new high. We achieved success in our existing markets, while identifying high potential growth opportunities in newer ones.

Over the past 12 months, APPM continued to build on the foundation that we had laid in recent years. We benefited from the newly added capacity, improved our operating processes and have become a far stronger organization with a robust business model. The fundamentals that we have put in place are paying off in solid progress.

It was a year when we sold 1.93 lakh MT, the highest ever, approximately 9% over the previous year. The revenues were up by 21.6% at ₹795.9 crore. The EBITDA improved to ₹163.9 crore from ₹153.0 crore in 2009-10, a rise of 7.1% over the previous year.



The EBITDA margin was affected because of higher input costs and retrospective settlement of wage revision following an agreement with the union at Unit:APPM. The profit before tax was lower due primarily to higher depreciation incurred consequent to the capitalization of Paper Machine No.6 (PM6). The revenues were inadequate to cover the costs incurred. The capitalised newer assets had not stabilized till late in the year, while costs were recognized in the books. This is a temporary blip in our march towards improved performance. We see PM6 to be a key revenue generator in 2011-12 and are confident that we would see traction in both revenues and bottom line.

At the same time, I am particularly gratified that pay off of our efforts is getting visible in higher volumes and market share. It is relevant to highlight that our margin is being improved in 2011-12 and beyond by cost effective manufacturing process. We are likely to witness a rising volume-margin matrix, which would favourably impact the bottom line on a continual basis.

Today, APPM is a globally competitive producer of quality writing and printing paper. We are a strong world-class enterprise and I am proud to have been part of such institution building. We have indeed built a renewed APPM ready for the new era, and I am confident we are poised for enduring success.

We have been working for sustainability on a long term basis. My vision for the future is for APPM to be successful, trusted and respected in domestic and global markets as a leading paper manufacturing company.

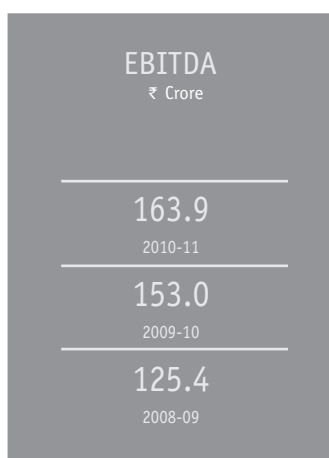
The business has a clear goal: to create value through efficient management of our assets, resources and people. As Members are aware, the highly respected US based International Paper is taking a major stake in APPM, and I am confident that the growth and prospects for the Company would be better than at any time before. They are a highly successful paper manufacturing company and APPM can look forward to their association with renewed optimism. I welcome them to the APPM family and wish them and APPM all the very best.

This is my one of my last communications to you. I look back with satisfaction on APPM's achievements and more important, am confident that the Company is moving into the best hands in the industry, anywhere in the world.

Warm regards



L. N. Bangur
Executive Chairman



FROM THE DESK OF THE MANAGING DIRECTOR & CEO



Up to the Challenge

Q. How was the Company's performance in 2010-11?

A. We stayed customer and product oriented and stepped up our marketing efforts. We saw our volume sales climb to 1.93 lakh MT and revenue grow healthily to ₹795.93 crore, a new high for us in the Company. We had PM6 commence production which adds 67,000 TPA to our paper making capacity, although the machine stabilized only late in the financial year.

We had therefore rise in revenue without a corresponding increase in profits. The year therefore ended with a drop in profit before tax to ₹57.09 crore, from ₹65.05 crore in the previous year.

