



48th Annual Report
2011

The Andhra Pradesh Paper Mills Limited

On the cover

Growing together: Greening the future

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APPM is growing to its full potential with support and guidance from International Paper. We are building on the bedrock of knowledge, experience and global best practices that have helped International Paper succeed globally and deliver value through a focus on people, customers and operational excellence.

International Paper brings industry know how and confidence and will foster APPM's business improvement and growth in the fast growing Indian market.

Together, we shall build on the existing strengths of APPM to become the top performing and most respected paper company in India.





FROM THE DESK OF THE CHAIRMAN & CEO

Dear shareowners,

It is my privilege to lead APPM, a company with talented people, good assets, loyal customers and enormous potential.

As you are aware, International Paper (IP) acquired majority ownership in APPM in October 2011. International Paper is pleased to enter the Indian market and we are committed to building on the strengths of APPM to grow the business, improve its operations, develop our employees, provide excellent products and service to our customers and support the communities where we operate.

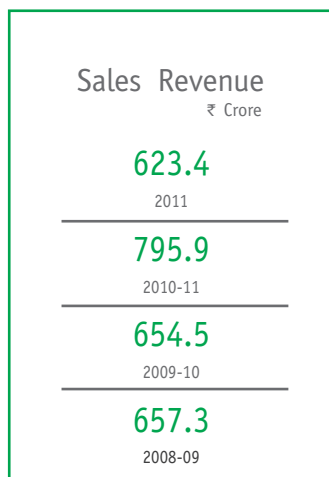
International Paper is a global paper and packaging company with operations in 24 countries. We have considerable experience in successfully acquiring and integrating companies into our global network. Our focus at APPM will

Growing together

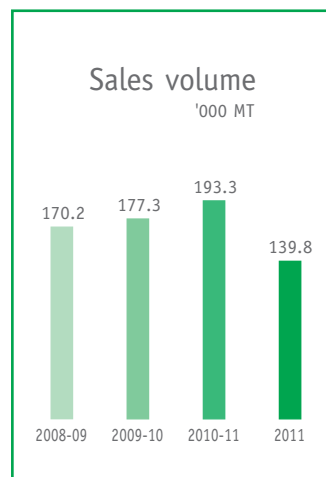
be to implement global best practices in pulp and paper manufacturing in order to improve mill operations, improve product quality and develop people talent across the company.

We will also focus on protecting the safety and well-being of our employees, protecting the environment, and supporting our local communities. We are currently implementing International Paper standards, policies, processes and best practices across APPM, and this effort will continue through 2012. There is strong enthusiasm inside APPM for the change and improvements which are being implemented and I thank my APPM colleagues for their support.

While making operational improvements we are also planning how to grow the company in the future. We are taking a methodical look at the best plan to generate long term



2011 - April to December
Previous 3 years April-March



business results, expand APPM's market presence and deliver shareholder value.

We took several actions in late 2011 to improve the quality of our balance sheet which resulted in a write down of assets, restatement of deferred tax valuation, and provision for liabilities which reflect the current state of the business. These actions resulted in a loss in 2011, despite strong operational and sales performance.

Looking ahead, growing earnings is our primary business objective. We have taken several initiatives to improve APPM's operating performance and we are committed to earnings improvement through volume growth and mix improvement, cost reduction and improved productivity. We are focused on cash flow, and will rigorously manage debt and spending.

I am comforted by the fact that we have a large reservoir of

talented and dedicated professionals who are committed to APPM's success and our employees remain our major source of strength towards converting our vision into reality.

The future is bright for APPM. I am pleased that we have an experienced and eminent Board and shall count on their guidance and expertise as we improve and grow the business. Our vision is clear, APPM will become the top performing and most respected paper company in India.

Our stakeholders can look forward to the future with optimism. We thank our shareowners for their support and are committed to work hard to reciprocate their trust in the Company.

Sincerely,



Paul Brown

APPM at a glance

A 48 year young company

The Andhra Pradesh Paper Mills (APPM) is one of the largest integrated pulp and paper manufacturers 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 Kadiyam. The Rajahmundry based Unit:APPM is an integrated wood based paper mill with a rated production capacity of 174,000 MT per annum finished paper production and 182,500 BDMT per annum of bleached pulp production. The unit manufactures industrial grades, posters, uncoated and office papers using Subabul, Casuarina and Eucalyptus hardwoods as raw materials.

At Kadiyam, 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.

Our market

The strength of APPM's products was always well known in the addressable markets. Customers are treated as partners in the business and APPM even supports them in developing their business. The two-way communication with them ensures they get the products when they want, encourages them to familiarize themselves with APPM's technology, with updates provided on product strength and quality. This regular interaction has helped build Brand **Andhra** gain loyalty amongst both old and new customers.

Technology advantage

The care that we have shown in increasing pulp and paper production using best available technology while sustaining the environment has helped in improving the fundamentals of the Company. More importantly while doing so, we have succeeded in protecting nature and helped in regenerating the green cover.

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 our effort to ensure sustained growth, we have consolidated our business, gained market presence, developed innovative products and drawn strength from the firm fundamentals of the Company as we kept raising the bar for ourselves.

APPM's initiatives to achieve raw material sufficiency and sustained availability in future have been paying off. The Company's ambitious farm forestry program emphasizes conservation of natural resources and environment and encourages farmers to plant on a massive scale on their marginal and degraded farm lands. Such efforts ensure availability of hardwood and raw material security in the long term and more important, are a reliable source to cover future pulp or paper expansion plans.

Over the years, APPM has built a distinct competitive advantage through knowledge, skills and capabilities. All of them have added value to both the customer and the Company through:

- Cost leadership in production;
- Focus on quality of pulp and paper production;
- Value creation through technology up gradation.

APPM's strategic plan is to achieve consistent growth in earnings by concentrating on the development of high value-added products, where our expertise provides a competitive edge. These are being achieved by adopting the following strategic goal posts:

- Focus on core skills in pulp and paper production;
- Position the products in growing market segments;

Raw material security

Competitive strength

Key strategies

Key strategies (Contd.)

- Differentiate ourselves by using state-of-the-art technology;
- Invest in developing new products and efficient processes;
- Be cost competitive by striving to reduce cost of production;
- Maintain strong relationship with customers, vendors, governmental agencies and other stakeholders;
- Continue to invest in employees to ensure they are well trained, motivated and encouraged to face challenges of the future;
- Ensure the business is run in a sustainable way by optimal utilization of resources;
- Be a responsible steward of the environment;
- Achieve consistent and above industry average growth in earnings;
- Increase shareholder value through enhanced financial performance;
- Deliver Return on Investment above cost of capital.

Parentage

International Paper (IP) incorporated on January 31, 1898 is a global paper and packaging company with manufacturing operations in North America, Europe, Latin America, Russia, Asia and North Africa. Its businesses include uncoated papers and industrial and consumer packaging, complemented by xpedx, the Company's North American distribution company. Headquartered in Memphis, Tennessee the company employs about 61,000 people in more than 24 countries and serves customers worldwide. 2011 net sales were \$26 billion.

At IP, good corporate governance is the foundation upon which it builds and achieves the corporate goals and provides value to the shareholders, customers and the communities. The Company upholds the highest ethical standards and is accountable for all its actions. The people of IP believe that ethical behavior and personal integrity are the core of the corporate culture and how it conducts its business is just as important as the business results it seeks to achieve.

The key to IP's success is driven by highly motivated, dedicated people who deliver superior value through a focus on customers and operational excellence. IP is a company where people are proud to work, and with whom local and global customers and suppliers choose to partner. It is IP's mission to become one of the best and most respected companies in the world - as measured by employees, customers, communities and shareowners.

As global leaders in the paper, packaging and distribution industry, IP provides sustainable solutions to meet the needs of businesses and customers worldwide.

The company also offers printing, packaging, graphic arts, maintenance and industrial products.

IP is passionate about delivering innovative, high-quality products the customers want and about protecting the environment. The Company stays focused on the efficient use of natural resources, pollution prevention and continuous performance improvement through technology and employee engagement.

IP has a long-standing policy of not using wood from endangered forests and uses third-party certification, chain-of-custody and internationally recognized forest certification standards in all of our operations.

The company recognizes the following certification standards for use in its global operations:

- Programme for the Endorsement of Forest Certification (PEFC)
- Forest Stewardship Council (FSC)
- Sustainable Forestry Initiative® (SFI®) and
- Cerflor, the Brazilian Program of Forest certification

In countries or regions of the world that do not have established certification standards, IP implements ISO 14001 environmental management systems on the wood or fiber purchasing systems for our facilities.

IP supports communities where its employees live and work. The International Paper Foundation has awarded grants of more than \$70 million since 1995. Through the Foundation, IP employees give not only their money, but give their time to make communities better places to live.

APPM profits from a highly professional management team that has several years of experience in the pulp and paper industry. Every function is manned by a capable and talented team who are committed to deliver results with high levels of ethics and accountability. The Company owes its leading position in the paper industry to the huge reservoir of human resources who bring commitment and passion to their work.

APPM's shares are listed on the Bombay Stock Exchange and National Stock Exchange.

Professional management

Publicly listed

Review of operations



A highlight of the year was the process of consolidation in the market and in manufacturing operations. While there was a slowdown in the market in the context of rising supplies and inventory buildup, prices were under pressure. Yet, APPM grew its market share, up traded with larger volume of whites and improved the product mix.