UNLOCKING POTENTIAL

INTERNATIONAL PAPER

The Andhra Pradesh Paper Mills Limited / 49th Annual Report 2013

The Andhra Pradesh Paper Mills is an International Paper company and a leader in the paper and pulp industry. Headquartered in Hyderabad, India, we produce writing, printing and copier papers for foreign and domestic markets.

Our success comes from aligned, dedicated, highly motivated people delivering superior value to customers through operational excellence. It is our mission to become one of the best and most respected companies in the country - as measured by our employees, our customers, our communities and our shareowners.

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Financial Highlights

Paper sales of 279,093 MT in 15 month period ended March 2013, an annualized improvement of 19.8% accompanied by 3.7% increase in Net Sales Realization.

Revenue of ₹1230.50 crore as against ₹595.23 crore for the 9 month period ended December 2011, registering a year-on-year growth of 24%.

Volume growth of 147% in exports.

EBIDTA of ₹138.77 crore up from ₹73.56 crore, an annualized increase of 13.2%.

W. Michael Amick Jr.
Executive Chairman

Unlocking and unleashing our potential

"Creating an environment where individual opinions and ideas are valued, is critically important to our success."

Dear Shareowners,

It is my privilege and pleasure to be part of the exciting renewal process at Andhra Pradesh Paper Mills. As you are aware, APPM has a long and successful history in the Indian domestic paper industry: a strong platform, I am confident, we can build on. Standing firm on our International Paper principles with a relentless focus on our customers, operational excellence and our people, together, we will *unlock and unleash our potential.*

Paul Brown began the journey for International Paper and his inspired leadership has set the tone to an already strong company rich in capabilities, resources and talent. I extend my gratitude to Paul for all the good work he has put in and wish him well.

How we fared: "Mixed but promising"

2012-13 was an exciting and fulfilling first year as part of the IP family. We brought in talented new leaders, increased capacities, battled rising input costs, dramatically improved safety & environmental performance, improved efficiencies, delighted (and on a few occasions, disappointed) customers, nurtured talent and implemented international best practices in many areas to ensure ongoing, continuous improvement. We are now a better company than we ever were - well positioned for the future, more competitive, and very optimistic in our outlook.

In keeping with International Paper's norms on prudential accounting and all the values that we cherish, APPM chose to recognize underlying liabilities and contractual obligations and accounted for them through the Revenue Statement. The bottom line impact is hence a function of accounting for exceptional items in an environment of rising costs.

I must add that our business is inherently strong with potential to improve volumes, revenues and margins. Our team is working to put together all the resources to drive several initiatives that can add momentum, and create a powerful

engine of growth. As we go ahead, we are confident of reporting healthy improvements that will translate into enhanced shareholder value.

Focus Areas: People, Customers, Operational Excellence

As a matter of top priority, I have ensured that our teams have been provided with the necessary resources, training and work environment to perform their jobs in a safe and environment-friendly manner.

Reaching our full potential as a Company requires the people of APPM and International Paper be ready, willing and able to contribute to their own full potential. As a matter of top priority, I have ensured that our teams have been provided with the necessary resources, training and work environment to perform their jobs in a safe and environment-friendly manner. To hear from our teams on how best to improve, we embarked on the Company's first Employee Engagement Survey with an amazing 97% participation rate. We are looking forward to the improvements that will result.

Further, I am excited about the addition of Mr. Rampraveen Swaminathan as APPM's Managing Director & CEO. His enthusiasm and leadership in his first year is already having tremendous impact.

At APPM and International Paper, our core principles and values, however, will not change. Leadership will insist on and uphold the highest ethical standards even as our teams are passionately focused on achieving results that our customers and shareowners value.

At APPM, delighting our customers is a keen focus. In 2012-13, we listened to our customers, understood their needs, and worked towards delivering superior products and service. We tuned our manufacturing processes, quality standards and stepped up our deliverables to meet their expectations.

With raw material costs rising, we must focus on the things we can control to drive operational costs down. Our long standing and premier farm forestry program celebrated the planting of its billionth sapling in 2012. This strategic partnership between APPM, communities and farmers has helped improve employment, society and resource availability.

During the financial year, our productivity improved by 8% owing to the efficiency initiatives that we instituted. We fully expect this trend to continue as our investments in reliability and best practices drive the operational excellence our customers and shareowners demand.

Core Principles: Leadership, Results, Responsibility

As we move through the years, our priorities and initiatives do and must change in order to perform successfully in this dynamic, competitive world. At APPM and International Paper, our core principles and values, however, will not change. Leadership will insist on and uphold the highest ethical standards even as our teams are passionately focused on achieving results that our customers and shareowners value**.** At the same time, we have a responsibility to the health and safety of our employees, and in sustaining the world's precious resources.

Looking ahead: Success

I see a very promising future for APPM and International Paper here in India. We have an exceptionally strong team led by a very talented and experienced Board of Directors with the support and resources of the leading global company in the industry. We have enormous untapped potential and we shall relentlessly improve our performance. I am sure we shall be successful.

Yours sincerely,

W. Michael Amick Jr.
Executive Chairman

Rampraveen Swaminathan
Managing Director & CEO

Back to basics

Dear Shareowners and Employees,

The past year has been one of transition. Against the backdrop of a challenging global and Indian business environment, demand drivers for printing & writing papers remained positive, resulting in strong demand in domestic and exports markets.

During 2012-13, we focused on the basics - safety, customer support excellence and operational improvements, and I am pleased to record the progress APPM has made in improving safety, asset performance and cost management. While we have witnessed a significant increase in fiber costs, our execution in 2012-13 provides a strong foundation for further growth and performance.

Safety

In 2012-13, safety was a key priority. During the year, we focused on adopting best practices, strengthening our internal policies, behavioral training and focused reduction of safety risks by involving almost all of our employees. I am gratified to report that significant improvements have been made on Total Incident Rate (TIR) and Lost Work Incident Rate (LWIR) during the year. Through the adoption of best practices from International Paper, we have implemented new safety practices for Lockout/Tagout (LOTO), machine guarding and contractor safety. I am further pleased to note that our outages during 2012-13 were executed without any significant incidents.

Customer Support Excellence

During the year, our team placed greater emphasis on customer support excellence. Initiatives have been launched in three areas - improving customer delivery and order fulfillment, improving product quality & consistency, and launching a customer-centric product development process focused on our key segments. During the year under review, several projects were launched to improve On-Time-In Full (OTIF) performance and we actually improved by 20%. We established a Distributor Council, comprised of select distributors to help partner with us strategically and provide us Voice of Customer (VoC).

On the product development front, field testing processes were re-engineered to include feedback from end-users and we expanded our plant-level focus on consistency. We also launched a strategic project to expand the A4 sheeting capacity. These initiatives will help position APPM to gain customer acceptance, as we launch new products in the coming years.

We undertook a maintenance outage during 2012-13 and made investments to improve the reliability and performance of the pulp mill and paper machines, as well as the waste water treatment system.

In 2012-13, we instituted checks and balances to ensure that our product quality is both consistent and sustainable. Our quality stands enhanced, customer complaints have significantly tapered and we perceive a rising demand on almost all grades.

In the first year of operations as part of International Paper, APPM has enhanced its operational efficiencies in 2012-13 across the segment, gained a competitive edge in the market, strengthened its supply chain management and made remarkable improvements in quality control. We saw the challenges of the paper industry early in 2012 and swiftly made significant changes to stay competitive.

Operations & Manufacturing Excellence

We made strategic investments in production, upgraded environmental facilities and strengthened the fiber supply chain. We undertook a maintenance outage during 2012-13 and made investments to improve the reliability and performance of the pulp mill and paper machines, as well as the waste water treatment system. These changes will help position us for better asset performance, a key earnings driver in the long term.

During the year, there was an unprecedented pressure on availability of fiber and consequently prices spiraled upwards. Added to that, inflationary pressures saw a marked rise in the prices of specialty chemicals. We also witnessed significant challenges in availability of coal and an adverse grid power scenario. These headwinds put tremendous pressure on the Company's financial results.

We reacted quickly and were able to launch several productivity projects and cost reduction efforts. We enhanced productivity of key paper machines, improved the pulp mill performance and minimized conversion losses in sheeting operations. We managed to control and leverage several moving parts; improve the yield to reduce the impact of high cost of fiber, optimize on use of specialty chemicals, increase production efficiencies, step up capacity utilization, consciously raise productivity and manage funds better in an environment of rising interest costs.

Through it all, we remained quality conscious. In 2012-13, we instituted checks and balances to ensure that our product quality is both consistent and sustainable. Our quality stands enhanced, customer complaints have significantly tapered and we perceive a rising demand on almost all grades.

Outlook

The financial year ahead will see us pursue our corporate goals to be the most reliable manufacturer as well as reciprocate the trust of our investors. The uncertain economic environment and continued inflationary trends require us to remain focused on the basics. We are striving to be the lowest cost producer in the industry, to excel in customer support, manage world-class operations while staying focused on safety, environment and productivity, to expand our offerings in the writing and printing segments and overall, create a performance culture.

We shall invest our resources, time and effort towards growing the Company's revenues while keeping our focus on the bottom line. Each aspect of the business is being addressed to make a difference to our tomorrow. In International Paper, we have the ability to marshal global resources to support our focus on execution.

As your company enters its 50th year of operations, we have tremendous opportunity to consolidate and grow the business. The continued trust and support of our Board of Directors and stakeholders - shareowners, financial institutions and partners - has been a key ingredient and I would like to express my appreciation to all of you.

With warm regards,

Rampraveen Swaminathan
Managing Director & CEO

APPM at a glance

Andhra Pradesh Paper Mills, which is now an International Paper company, is one of the biggest integrated paper and pulp manufacturing centers in India. The Company produces indispensible writing, printing and copier papers for foreign and domestic markets. It employs around 2,500 employees and is headquartered in Hyderabad.

APPM's production facilities are comprised of two mills in Rajahmundry and Kadiyam with a total production capacity of 240,000 TPA. The Company is becoming a driving force in sustainability in the paper manufacturing arena through focused social and community programs, including pioneering work in raw material generation through social farm forestry. International Paper owns a majority interest in APPM, and the remaining shares are publicly traded on the Bombay and National Stock Exchanges 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 Rajahmundry based facility 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, the facility 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 Advantage, Operational Excellence, Talented People and Commitment to the Environment.

Our Values

We fulfill our commitments with the highest ethical standards.

We are focused on superior results to create value for our shareholders.

We are responsible towards our environment and our community.

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 our brands gain loyalty amongst both old and new customers.

Our Business Objectives

Meet our financial objectives

Become the preferred choice of customers

Create a great place to work

Our Strategic Principles

Achieve world class productivity

Become the low cost producer

Customer support excellence

Expand in writing & printing papers and industrial packaging

Create a performance culture

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.

Competitive Strength

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

Farm Forestry Initiative

From the early 1980s, APPM embarked on an ambitious plan to generate the raw material by coordinating with farmers to utilize their barren marginal and degraded lands. This pioneering step marked the commencement of the farm forestry plantation activities, and was a turning point in the history of the company.

Started in 1989 by APPM, the social forestry initiative has spread across Andhra Pradesh. The program provides a means of survival for the small farmers, and improves the socio-economic status of their communities. In return, APPM has achieved total self-sufficiency in the sourcing of raw material.

To date, around 1,079 million saplings of fast-growing Subabul, Casaurina and Eucalyptus have been distributed to cover 1,58,891 hectares of coastal land, and aided more than 48,700 farmers directly and generating 79 million man-days employment amongst the rural population.

APPM is developing high yielding, genetically superior clones of Casaurina and Eucalyptus to maximize plantation productivity and revenue generation for the farmers. The productivity of degraded lands has improved tremendously since the inception of the social farm forestry program, and soil erosion has been controlled. There has also been an observable improvement in moisture conservation.

Our corporate vision is to support, enhance and respect the communities where we live and work.

Our Social Responsibility

Our corporate vision is to support, enhance and respect the communities where we live and work. We believe that investing in our communities is crucial to our sustainable development.

APPM has been involved in community development work since its inception, but it was only in the year 1995 that the concept of strengthening its relations with the local stakeholders gained momentum. After its acquisition by International Paper and as a part of aligning processes towards IP's global focus areas in community development, Corporate Social Responsibility (CSR) was reinforced in a more structured way. Today, the CSR activities of the company, in line with IP, are focused in the areas of education, environment and community engagement, along with employee volunteering.

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. The Company is the premier manufacturer of containerboard and corrugated packaging products, uncoated free sheet, coated paperboard and fluff pulp and delivers innovative single-use packaging to the foodservice industry. It is also a leading business-to-business distributor of packaging, print and facility supplies and equipment. Headquartered in Memphis, Tennessee the company employs about 70,000 people in more than 24 countries and serves customers worldwide. 2012 net sales were $27.8 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 is 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