INTERNATIONAL PAPER

INTERNATIONAL PAPER APPM LIMITED

54th ANNUAL REPORT 2018

TABLE OF CONTENTS

1 MANAGEMENT NARRATIVES

Highlights of the Year	01
Chairman's Message	02
Corporate overview	03
How we performed	04
Sustaining Forests	06
Investing in People	07
Improving our Planet	08
Innovative Products	09
Inspired Performance	10
Corporate Social Initiatives	11
Board of Directors	12
Corporate Information	13

2 GOVERNANCE

Board's Report	14
Management Discussion & Analysis	36
Report on Corporate Governance	42

3 FINANCIAL SECTION

Independent Auditor's Report	51
Balance Sheet	56
Statement of Profit and Loss	57
Statement of Changes in Equity	58
Cash Flow Statement	59
Notes forming part of the financial statements	60

Attention – Shareholders holding shares in physical form

In terms of notification dated June 8, 2018 issued by Securities and Exchange Board of India, requests for transfer of shares in physical form shall not be processed by companies or Registrars with effect from December 6, 2018. Therefore, if you want to transfer your shares on or after December 6, 2018, please get your shares dematerialised.

HIGHLIGHTS OF THE YEAR

FORESTS - strengthened our partnership with farmers Increased distribution of tree saplings. 100% backward integration of wood supply

PERFORMANCE
Record production, sales and profit

LEADERSHIP
Aligning our leaders and bench strength

PRODUCTS
Innovative new products and improved quality

PEOPLE
Improving safety and building capabilities

PLANET
Improving our environmental footprint

CHAIRMAN'S MESSAGE

Our employees are the backbone of our operations, so we depend on each other. We continue to invest in people, by developing their capabilities and providing a safe and engaging place to work.

Dear Shareholders,

I am pleased to report that we have performed very well for the FY 2018. A year in which we achieved record levels for production, sales, revenue and profits. But, our performance cannot only be measured by the traditional metrics since our key stakeholders depend on us every day for a wide range of needs.

Our customers depend on us for high quality products, excellent service and for delivering their orders on time. We have improved our product quality, introduced new ***innovative products*** and made significant improvements in on-time-in-full delivery.

Our employees are the backbone of our operations, so we depend on each other. We continue to ***invest in people***, by developing their capabilities and providing a safe and engaging place to work. We expect our leaders to have character, capability and be catalysts for change. Our leaders are responsible for the safety of our employees and safety is our highest priority. We need and want our employees to feel valued and take pride and ownership to be part of IP APPM. Our communities depend on us for the direct economic impact of our business and the community service projects we support for education, health & wellness and engagement. Our CSR team leads the efforts to support the community needs for education, access to clean drinking water and skill development and empowerment of women.

Our products are made of fibre from sustainable forests, so ***sustaining forests*** is critical to our strategy. We have improved our plans to ensure long-term access to sustainable fibre by collaborating with farmers and government to develop strong plant species and advanced farming practices to grow sustainable forests for the long term.

We are a company that uses the natural resource of fibre to make our product so we care deeply about the environment. We are accountable for our environmental impact and ***improving our planet***. We have deliberate efforts and committed capital to improve our use of water, chemicals and energy as well as improve our stack air emissions and solid waste disposal.

Shareholders depend on us for ***inspired performance*** including the efficient use of capital to deliver strong financial results and value. As you review this annual report, I think you will see improvement across many fronts and for the areas that matter most. As I stated in the beginning, our performance cannot be measured by operations and financial metrics alone. We have a much greater impact than that for our customers, employees, communities, suppliers, the environment and you the shareholder.

I would like to extend my gratitude and appreciation to our Board of Directors, the IP APPM leadership team and our employees for their support and commitment. I believe our future is bright and holds more opportunity for growth.

Sincerely

Donald P. Devlin
Chairman & Managing Director

CORPORATE OVERVIEW

International Paper APPM Limited is a group company of International Paper Company, USA, a world leader in the paper and pulp industry.

The fifty four year old Company is an integrated paper and pulp manufacturer with a total production capacity of 241,000 TPA. The Company produces a range of premium grade writing, printing, copier and industrial papers for domestic and export markets. Each of these products offer a differentiated proposition and is targeted to meet unique needs of discerning customers.

The Company employs ~1,900 people. The manufacturing facilities comprise of two mills at Rajahmundry and Kadiyam, both located in the East Godavari District, and a conversion center at SN Palem in Krishna District, all located in the State of Andhra Pradesh.

It is our vision to become one of the best and most respected companies in India - as measured by our employees, our customers, our communities and our shareholders. To achieve this goal, the Company is focused on excellence on its five drivers – sustaining forests, investing in people, improving the planet, creating innovative products and delivering inspired performance, while maintaining high standards of integrity and safety in everything we do.

Our Vision

Our vision is to be among the most successful, sustainable and responsible companies in India

Safety of our employees and contract workers

We fulfill our commitments with the highest ethical standards

We are responsible towards our environment and our community

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

Focus on customer support excellence

Achieve world class productivity

Become the low cost producer

Grow in profitable segments

Create a performance culture

Meet our financial objectives

Become the preferred choice of customers

Create a great place to work.

HOW WE PERFORMED

THE IP WAY FORWARD

The IP Way Forward is how we go beyond just doing the right things and defines how we will meet our commitments to our shareholders, customers, employees and communities.
The IP Way Forward is our framework for achieving our vision to be among the most successful, sustainable and responsible companies in India.
It includes sustaining forests, investing in people, improving the planet, innovative products and inspired performance.

Sustaining FORESTS

Our entire business depends upon the sustainability of forests. We will continue to lead in responsible forest stewardship to ensure healthy and productive forest ecosystems.

1.7 Billion
saplings since 1989

74.30 Million
Saplings planted in FY18

79,000 farmers
sustaining our forest program

4000 New farmers
added in FY18

10,250 hectares
of farm forestry added in FY18

Investing in PEOPLE

We invest to protect and improve the lives of our employees, mobilize our people, products and resources to address critical needs in the communities where our employees live and work.

100 leaders participated in the annual leadership conference

155 training programs for skill development in FY18

Introduced medical insurance policy for workmen and their spouses

92% Satisfaction Score
in the global employee engagement survey.

22% reduction in serious safety incidents

Improving our PLANET

We take deliberate steps to reduce our environmental footprint and promote the long-term sustainability of natural capital.

Innovative PRODUCTS

We create innovative, sustainable and recyclable products that help our customers achieve their objectives.

Inspired PERFORMANCE

We deliver long-term value for all stakeholders by establishing advantaged positions in attractive, fiber-based market segments with safe, efficient manufacturing operations near sustainable fiber sources.

4.1% reduction
in power consumption
Kwh/T of paper

1.7% reduction
in Process steam consumption
Kwh/T of Paper

1.6% Reduction
in effluent discharge

8% reduction
in water consumption/ton of paper produced

Reflection - White was introduced in cut-size

Aligned Product development strategy for education sector

Improved our product offering to meet growing demand for copier paper

4% Increase
in product sales volume

29% Increase in EBITDA during the year

156% Increase in Profit after Tax on the back of higher sales, improved efficiency and manufacturing cost

25% Improvement
in net Cash flow

SUSTAINING FORESTS

Our entire business depends upon the sustainability of forests. We will continue to lead responsible forest stewardship to ensure healthy and productive forest ecosystems.

Rythukosam
make your farm profitable!

IP APPM's digitization of plantation data is picking up pace. As on FY18 we have digitized around 1,640 hectares of plantation. This process creates an environment of intense interaction with the farming community and builds a robust relationship of trust and confidence between the Company and the farmers. Through our online farm forestry initiative- www.rythukosam.com the farmers can interact online with the Company as well as access data about best farm forestry practices.

FY18 initiatives on forestry

Our Company's farm forestry program generates more wood on the earth than we consume; in fact, at more than double the rate of consumption. Our investment towards responsible farm forest stewardship ensures a healthy and productive forest ecosystem.

The Company has begun execution of its fiber strategy to increase procurement within 300 km of the mills. In this direction, the Company is exploring partnerships with leading forestry institutions to complement its forestry R&D program.

The Company is committed to increase farmers' income by increasing per unit yield from their pulpwood plantations.

1.7 billion
saplings since 1989

250,000
hectares under farm forestry initiatives since 1989

74.30
million saplings planted in FY18

79,000
farmers sustaining our forest programme

4,000
new farmers added in FY18

10,250
hectares of farm forestry added in FY18

During the year the Company distributed 4.30 million high yielding clones along with 70 million casuarina seedlings to farmers. The total number of saplings distributed since 1989 has gone up to 1.7 billion since 1989. As at March 31, 2018 there are 250,000 hectares of forest area under IP APPM's farm forestry initiatives benefiting 79,000 farmers.

INVESTING IN PEOPLE

We invest to protect and improve the lives of our employees and mobilize our people, products and resources to address critical needs in the communities where our employees live and work

1900+
Employees

100+
Participated in the annual leadership conference

155
Training Programes in FY18

92%
Of the employees expressed high satisfaction at work during global employee engagement survey

Safety

The safety of our employees is our highest priority. We have robust safety programs that require leadership, sound policy, continual training plus certification and constant communication. Most importantly, it requires our employees to engage and take responsibility for the work environment and safe behaviours of themselves and their colleagues. We have implemented a safety leading indicator program that focuses on identifying and eliminating risks and hazards before they become an incident. These efforts are continuous and evolving to achieve and maintain an injury free workplace.

Attract Talent

Talent is needed at all levels. We hire young engineers to develop future leaders. We hire the industry's best talent to develop mid-level leaders. We promote from within to develop our bench strength for top management.

Develop Capabilities

We use a combination of training, coaching and on-the-job experience to develop our people. From safety to maintenance skills, to 6 sigma and leadership development, we invest in our people to create a work-force that is highly engaged and improving capabilities.

Retain + Engage

We believe that highly engaged employees care more about their efforts, care more about their colleagues and produce better results for safety, production, serving our customers and earning better profits.

During 2017, we conducted a survey to measure employee engagement. We use the survey results to develop plans to improve engagement at every level.

IMPROVING OUR PLANET

We make paper products from fibre, which comes from nature and sustainable forests. Along with promoting sustainable forestry practices, our goal is to minimize the environmental impact and promote the long-term sustainability of natural capital.

Land, water and air

We are committed to compliance with environmental regulations and continuously monitor our actions and output to ensure we operate within limits. Our mills have direct links to the Andra Pradesh PCB monitoring systems providing live daily feeds.

We are investing capital to reduce water consumption, convert sludge to energy and improve controls for boiler stack emission and odorous chemicals.

The monitoring of effluent treatment plant performance has facilitated the reuse, reduction and recycling of sludge. New technologies were adopted for odour control to collect and treat foul streams. Implemented projects to reuse and recirculate water within our mills to minimize consumption of fresh water.

We invest in R&D and collaborate with both farmers and government to support a sustainable forestry strategy ensuring a healthy forest and sustained access to fibre for years to come.

4.1%
Reduction in power consumption/ton of paper

1.6%
Reduction in average daily effluent discharge

14.8 Lakh m3
Annual volume of water supplied to villages in Kadiyam and Rajahmundry

8%
Reduction in water consumption/ton of paper.

1.7%
Reduction in process steam consumption/ton of paper