

BALLARPUR INDUSTRIES LIMITED
ANNUAL REPORT 2003-04

CORPORATE INFORMATION

BOARD OF DIRECTORS

L M Thapar
Chairman

Gautam Thapar
Vice Chairman & Managing Director

R R Vederah

B Hariharan

Shardul S Shroff

Dr. Ram S Tarneja

Vice Admiral K K Nayyar (Retd.)

R K Ahooja
(Nominee of UTI)

Sanjay Labroo

P K Banerji
(Nominee of LIC)

Dr. Cherif Sedky

Ramni Nirula
(Nominee of ICICI Bank)

Neerja Sharma
Chief General Manager & Company Secretary

Registered office

P.O. Ballarpur Paper Mills – 442 901
District Chandrapur, Maharashtra

Head office

Thapar House, 124 Janpath, New Delhi – 110 001

Operating office

First India Place, Tower – C, Block – A, Sushant Lok – I
Mehrauli Gurgaon Road, Gurgaon – 122 002

Auditors

K K Mankeshwar & Company
Chartered Accountants
Kingsway, Nagpur – 440 001

Listing on Stock Exchanges

The Equity Shares of the Company are listed on the following stock exchanges :

The Stock Exchange, Mumbai

Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001

The Calcutta Stock Exchange Association Limited

7, Lyons Range, Kolkata – 700 001

The Delhi Stock Exchange

DSE House, 3/1, Asaf Ali Road, New Delhi – 110 002

National Stock Exchange of India Limited

Exchange Plaza, Bandra Kurla Complex, Bandra (E),
Mumbai – 400 051

(Note : Listing fees upto the year 2004-05 have been paid to all the above stock exchanges)

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CHAIRMAN'S MESSAGE

Dear Shareholders,

The Indian industry has been witnessing a subtle change in structure over the past few years. That of divergence of ownership and management. The trend is becoming increasingly pronounced and so are the results. As businesses become more complex and more competitive, expertise in implementing strategy, rather than infusing capital, will be critical to their success.

BILT is a leader in the Indian Paper Industry. It feels better than ever before to be in this position for a number of reasons. Paper demand and prices are looking up globally. The GDP growth rate in India has been an enviable 8.2 per cent and a stable 6 per cent plus growth is projected over the foreseeable future.

More importantly, rising literacy levels and India's increasing influence on the world economic scene also augur extremely well for a bridging of the per capita consumption gap between the world and us. I am therefore, confident about our future and the sustainability of our leadership. The basis of this sustainability is the fact that we are continuously investing our business with a strategy for the future and therefore, ensuring that our business practices are either contemporary or futuristic at all points in time.

There is another perceptible difference in how we are evolving to meet the challenges of the future. As the organisation grows older, I believe that the reverse happens to the average age of its people. BILT has a much younger team on the books today than five years ago. This is not only in line with the evolving demographic profile of our country, but also with a growing realisation that the younger generation is the lifeblood of our company. I also believe that while this generation brings with it a new way of thinking, it is the combining of this thought process with our core values and legacy that will create a strong leadership loop that can withstand any challenge.

I believe that success should be achieved through sustainable and ethical business practices. There are certain stated fundamentals on which we conduct our business. These principles are enshrined in the very ethos of BILT and form a part of its larger character.

Together with this emphasis on values, ethics and professionalism, we also acknowledge our commitment to the well being of the underprivileged communities. I would like to say here that what we are doing is not a substitute for the State, but are focused efforts to create empowerment through a partnership based developmental model. This is necessary in the larger interest of economic nation building.

BILT has been created on a strong foundation. It will also continue to grow and be even more successful. I hope that you will continue to accompany us on this journey into the future.



I believe that success should be achieved through sustainable and ethical business practices. There are certain stated fundamentals on which we conduct our business. These principles are enshrined in the very ethos of BILT and form a part of its larger character.

Lalit Mohan Thapar

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VICE CHAIRMAN & MANAGING DIRECTOR'S MESSAGE



As the leader in the Indian Paper Industry, BILT stands for certain fundamentals. Some of these are performance led growth, proactively seizing opportunities, being a socially responsible corporate and creating a rewarding environment for its people.

In 2002, we had re-articulated our Vision statement to become 'A leading creator of Shareholder Value in the Paper Industry'. In a short time since then, we have been able to demonstrate this intent through several initiatives in this direction. I am sharing some of these here as significant highlights of the last year.

Generating shareholder value

The international paper industry witnessed a positive cycle. The Asian region saw significant new capacities being commissioned in China to meet its rising domestic demand and as a substitute to current imports into the country. India too benefited from this upturn with the firming of global prices and an increasing domestic demand putting the Paper industry in an expansion mode.

This positive trend as well as our own strategic initiatives helped BILT not only meet its growth targets, but also continue with an optimistic outlook in this year.

Revenues increased by Rs. 1283.32 Millions and operating profits increased by Rs. 320.49 Millions. This was in an industry environment where realisations remained largely flat. An emphasis on cost optimization has helped us report an earning of Rs. 7.27 per share in 2003-04 as against Rs. 6.49 for 2002-03. These results confirm the probity of our strategy of achieving continuous success in an industry which is moving towards free competition.

Given this scenario, I would like to familiarize stakeholders with some of our key strategies as well as some of the challenges that our business is facing today, together with an account of how we are addressing them.

Core business

Paper prices are expected to be more optimistic both in the domestic and global markets through the next twelve months. In India, we expect a significant improvement in realisations because the increasing demand has not been met by a commensurate supply augmentation. This will be especially true for the writing and printing segment, where we have a leading presence. True, existing facilities have been modified across the industry to increase capacities, but no greenfield investments of any significant magnitude have been made in the industry of late.

Demand will also come as a result of the bridging of the per capita consumption differential. Presently, India consumes about one-sixth of the world average of 30 kgs of paper per capita, a figure that is likely to change manifold due to the visible changes taking place in the Indian market context and demographic dynamics. In addition, rising input prices will have to be matched with a corresponding increase in realisations for the industry to maintain a competitive advantage.

Over the last few years, we have stated our strategic intent to grow our position of leadership in the Indian Paper industry. Our initiatives through the year to broad base, decommo ditise and decyclycise the market are examples of this intent.

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However, with this projected increase in offtake, comes the challenge of competition. India's acceptance of the WTO and its stipulations, the signing of Free Trade Agreements (FTAs) with various countries and the overall attractiveness of India as a market contribute to the prospect of increased competition. Also, existing players in the domestic arena are modifying their facilities to increase capacities. These are realities of business today and every successful business has to draw up a strategy to co-exist with these realities.

What this effectively means is increased competition and pressured margins. As a company, we have never shirked or feared competition as it contributes to the expansion and evolution of the market. In fact, we have always welcomed it for two reasons: 1) It allows free market forces to decide the course of the industry and 2) It affords us an opportunity to improve our own internal efficiencies.

As a market leader, we are not only required to respond to this change, but also to bring it about in some measure. As a result, we have been constantly investing in increasing our capacities at our various units, shifting to more value added segments and also optimising costs to a large extent.

We are also aggressively looking at retail selling and increasing the percentage of direct to consumer sales. This will not only help us increase our offtake in value-added segments but also go a long way in containing the impact of the cyclical nature of the industry. It will also contribute to more effective branding and recall, which will have a rub off on the entire product portfolio.

Environment

The responsiveness towards a cleaner and safer environment is one of the critical drivers of success in manufacturing industries. BILT is not restricting itself to merely being compliant with environmental norms, even though the company has already drawn up a detailed investment plan for ensuring minimal environmental impact from its operations. It is also actively playing the role of an industry leader and dialoguing with regulators to help evolve progressive environmental policies. The charter on Corporate Responsibility on Environmental Protection (CREP) is the result of such an initiative. As a responsible corporate, we are also advocating the implementation of a standard in line with the kind followed by the European Union.

Farm forestry

Forests have a long gestation period and are not perennial, self-renewable resources. As such there is a need for a visionary forest policy in order to ensure the sustainability of the resources for industries based on forest products, chiefly paper.

The biggest challenge facing the paper industry today is the spectre of raw material unavailability. A regressive forestry policy coupled with vast tracts of unused cultivable land and a depleting forest cover all contribute

to the likeliness of this scenario. Hence, the debate on farm forestry as a viable solution needs active intervention from the government. BILT has already demonstrated the sustainability of farm forestry as a raw material generation practice through its comprehensive program aimed at creating a sustainable base of raw material.

Corporate social responsibility

We have continued to strengthen our CSR initiatives as part of a larger responsibility to our communities. This has become necessary in a scenario where stakeholders are becoming more conscious of their rights and the host communities, more demanding. Since most of our manufacturing plants are located in underdeveloped areas, where the government programs and policies have not been able to make their presence felt, the adoption of a developmental module of CSR, rather than philanthropy, has become an imperative.

We scaled up our community development activities during the year to 38 villages and 6 Urban Slum Colonies across all our manufacturing locations. Community development activities have been strengthened and new ones implemented with specific partner NGOs at each of these locations. The results have been quite heartening as other stake holders such as the Central and State Governments, Financial Institutions and other international resource agencies have also started participating in the process with us.

Conclusion

Over the last few years, we have stated our strategic intent to grow our position of leadership in the Indian Paper industry. Our initiatives through the year to broad base, commoditise and decyclicise the market are examples of this intent.

This year, we had the distinction of being the first company in the Indian Paper industry to implement Economic Value Add (EVA) as a measure of organizational performance. This is a significant initiative in as much as it is expected to yield long term results in reorienting the organisation towards continued shareholder value creation and is also a measure of the pervasive culture of performance in the company.

In closing, I would like to acknowledge here the responsibility that is implicit with our position. It implies an expectation from our stakeholders not only to continue to grow the business, but to grow it on a sustainable platform of being economically, ecologically and socially viable. As always, the continued support of each of our stakeholders is important for us to be able to meet these expectations.

Gautam Thapar

MANAGEMENT DISCUSSION & ANALYSIS REPORT

INDUSTRY SCENARIO

International

The global paper markets remained stable during the first three quarters of the financial year and in the last quarter, followed the surge in pulp prices to end at a higher level.

The major global focus in terms of new capacities has been China, where additional capacities at an average of nearly a million metric tonnes are being created every year. This capacity creation is largely aimed at domestic demand and substitution of current imports into China. Most of these capacities, therefore, are being put up for industrial packaging grades with only limited investments in writing and printing capacities. However, marginal production from these capacities as well as the volumes released from other countries due to import substitution are likely to have some impact on the overall supply situation in the world market, specifically Asian markets. This represents the bulk of new capacities being put up worldwide.

The Coated Wood Free prices continued to remain under pressure during the current year, also due to higher production levels, mainly in Europe and South East Asia. Towards the end of the year, however, the prices moved up by US\$ 80-100 / MT as a result of a pulp price push in almost all markets except Europe where there was not much of a change, owing to the continued supply pressure.

After remaining stable during the first three quarters, the Uncoated Wood Free prices also followed the pulp prices, to register an increase in excess of US\$ 100 / MT in the last quarter of the year.

Domestic

The domestic paper & paperboard market was firm and maintained a healthy price level throughout the year as a result of the overall economic growth. The price levels were also helped by only marginal increases in capacities and domestic production.

During the first half of the year, the prices remained largely stable, with demand also being stable. The second half registered a significant price increase where your Company took the lead by undertaking two general across the board price increases and a few other selective increases.

In line with the overall policy of the government, the customs duty on paper and boards was reduced from 25% to 20%. SAD of 4% was also abolished. This has brought down the total effective import tariff by nearly 12%. While this reduction had no real impact on the Uncoated Wood Free imports, Coated Wood Free imports became more economical. The expected spurt in the import of Coated paper and boards did not materialise due to global prices of the product going up significantly. This helped your Company to improve its price levels.

All the manufacturing units of your Company performed at a very high level during the year. Unit Bhigwan, which manufactures world-class top end blade coated products, improved its performance on all operating parameters e.g. productivity, efficiency, cost, reduction in semi processed and finished goods inventory etc. All other units at Ballarpur, Yamunanagar and Orissa also recorded higher levels of performance on parameters like productivity, product mix, quality etc., to help your Company turn in excellent overall results for the year.

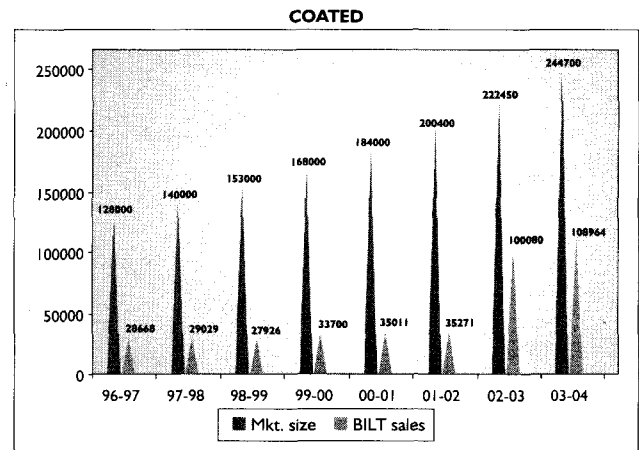
The domestic market has been growing at a healthy rate of 6% with the supply side lagging with a growth of 2.5%. This widening gap of demand and supply will turn India into a growing import market. Looking at this opportunity and in order to leverage its superior marketing and distribution reach, your Company has initiated an outsourcing program for strategic tie-ups with overseas manufacturers of paper and boards for sourcing value added products for Indian markets. Apart from this, opportunities from domestic sources are also being explored for economy coated products, Creamwove etc., for top and bottom line growth and enhancing market share.

PRODUCT PERFORMANCE

During the year, your Company not only improved its market share in all the major focus segments, but also improved its net realisations for these products over the increases taken by rest of the industry. Specific segment wise performance is highlighted as under :

1. Coated Wood Free

Your Company is the only producer of Coated paper and boards through state-of-the-art Blade Coated technology. Due to its superior quality and the shifting consumer preference for world-class products, the demand for these blade-coated products has been growing at over 20% for last 2 years.

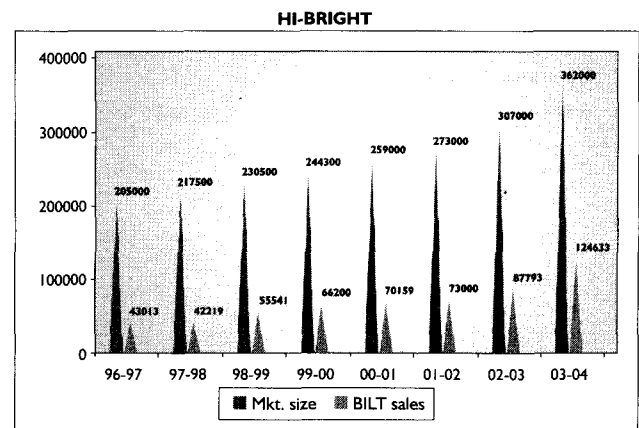


Your Company's efforts towards offering superior service and investments in brand building have paid off. During the year, your Company has captured major share of the growth in this segment and further strengthened its market share in the top end Blade- Coated market. The leadership in the total Coated segment (blade + low end air knife) was maintained with a 45% share.

The Company's Coated product brands, 'BILT Royal' and 'BILT Emperor' have been selling at price premiums over all imported brands from Europe and South East Asia, indicating the value that the customers attach to your Company's products.

2. Uncoated Wood Free (Hi-Bright)

In the top end of uncoated products also, your Company has improved its performance and ended the year with a higher share of 34%. This was achieved through higher volumes of the

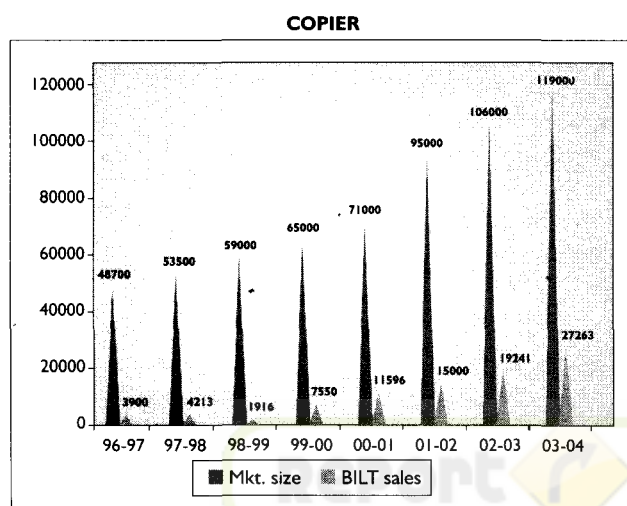


popular product, 'Easy Print', a unique offering in the industry as well as SS Maplitho-HB from Unit Sewa in addition to its lead brands like Sunshine Super Printing and TA Maplitho NSD Premium.

During the year, the Hi-Bright products from Unit Sewa were repositioned at the top end of this segment. This has resulted in significant improvement in net realisations in the product pricing. This repositioning exercise has enabled your Company to have an enviable brand basket in this segment, offering products for all consumer preferences and choice in terms of grammage, shade and other quality parameters. The Company is further poised to increase its strong hold over the market with imminent launch of another brand of Hi-Bright product from Unit Shree Gopal at Yamunanagar.

3. Copier

In the highly competitive market of Copier also, the market share was increased to 23% by improving volumes of both its brands, 'Copy Power' as well as 'Image Copier'. In fact, volumes



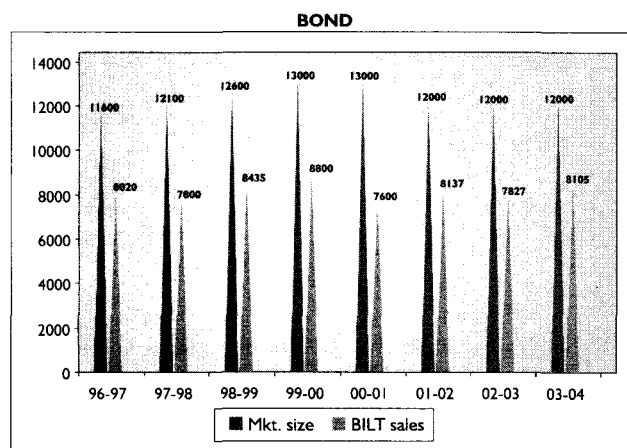
of 'Image Copier' were ramped up during the last quarter to about 1000 MT / month from 500 MT / month in the first three quarters.

Apart from increasing volumes of the hitherto economy brand, 'Image Copier', it was also repositioned as a premium brand. This was achieved through quality up-gradation of the product. This enabled the Company to realise improved product pricing and at the same time, its substance was reduced from 75 to 70 GSM to leverage its class leading thickness and therefore offering value to the consumer.

During the current year, your Company plans to more than double its production of 'Image Copier', which will take it closer to its objective of being number one in this focus segment as well.

4. Business Stationery

Business stationery segment has traditionally comprised of



letterheads for corporates and individuals. Your Company's foray into business stationery was to have value added consumer facing brands. Today we have BILT Royal Executive Bond (REB) and BILT Matrix under the business stationery segment.

The bond market is a 12000 MT market and BILT is the leader with a share of 67%. Our flagship retail brand, 'Royal Executive Bond' has seen tremendous success since its inception and today, is a name that has become generic to its category. The product has been made available across the length & breadth of India through a strong distribution network.

The retail pack venture started with 100 sheet packs and 500 sheet packs, now also has three pastel shades.

Your Company has an ambitious growth agenda to establish its retail brands as category leaders in the premium stationery business. Towards this, it has recently launched a premium & contemporary range of paper based stationery under the brand name 'BILT Matrix'.

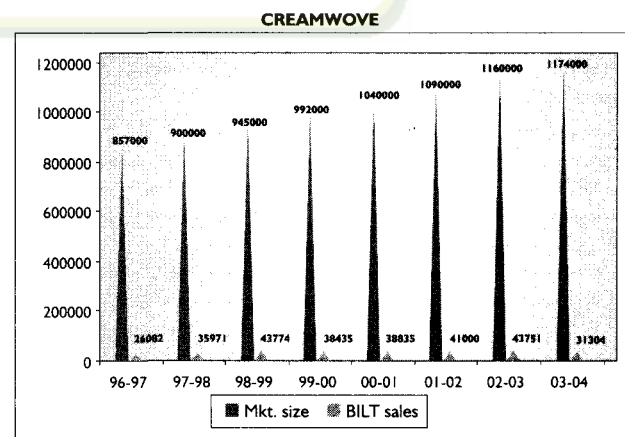
This launch was supported by a high decibel media campaign in press and outdoors, which helped create brand awareness and customer pull. The year to come shall see several innovative product offerings, aimed at taking the business to the next level.

BILT Matrix was launched with premium notepads in October 2003. Targeted at the middle level executives, we aim to build it up as a powerful brand in the converted paper stationery products category.

Your Company is now poised to emerge as a strong contender in the 1300 crore plus paper based office supplies market which is growing at a rate of 8-10% per annum.

5. Creamwove

This segment represents the lower end of the writing and printing papers. This is a large market of over 1.2 million tonnes, which is growing at a low rate of 3%. Your Company has deliberately



focussed on higher value added products as a strategy and therefore, the presence in this segment remained at 3%.

UNIT-WISE PERFORMANCE

The unit-wise performance of the Company during the year is enumerated below.

Unit Ballarpur

Continuing with its consistent performance, Unit Ballarpur achieved a production of 119926 MT, which is higher by 1145 MT as compared to the last year. Quality improvements were brought about in the Company's premium brands like 'NSD Premium' and 'Copy Power' through increased brightness and bulk, thereby enhancing customer satisfaction. Your Company has also invested in an increase in capacity at Unit Ballarpur, the full effect of which will be visible from the current year onwards.

On the energy conservation front, the Unit has made a major breakthrough, which reflects in reduction in consumption of water by 11% and power and steam by 2-10%. The Maharashtra Government recognized the efforts and the unit was awarded the First Prize for Excellence in Energy Conservation & Management.

The Unit has embarked on a TQM program for improvements in the processes as also change in culture. This has percolated down to the level of workers all across the Unit and is yielding improvements in the areas of quality, productivity and cost reduction.

On the environment front, the electrostatic precipitator has been upgraded to further reduce air emissions. The Unit has taken a step forward in the area of Avenue Plantation and is helping farmers by providing seedlings at concessional rates and technical support through the Farm Forestry Division.

Unit Shree Gopal

The Unit achieved a production of 80706 MT as against the previous year's production of 88137 MT. This is mainly due to shutdown of PM-4 for rebuild and shuts on other machines for quality improvement jobs.

Pulp production for the year was 59527 MT, which is higher by 2523 MT as compared to last year. This has been achieved by process optimization of the total cooking cycle. There is considerable reduction in the cost of pulp produced due to better efficiency and procurement of fibrous material at highly competitive prices and also through improved chemical recovery efficiency.

In view of your Company's commitment towards continuing quality initiatives, a major rebuild of PM-4 was carried out for manufacturing of 'Wood Free Hi-Bright' papers. Quality improvements have also been carried out at some of the other machines for improving the cross profile of Royal Executive Bond and for improving reel building in SS Super Printing paper.

A modern synchro sheeter has been installed and commissioned for sheeting of all speciality machine products like BCB & Royal Executive Bond in line with international quality standards.

Constant focus in the area of water consumption has resulted in reduction in water consumption by 23% as compared to last year. The Unit has been awarded by the Ministry of Power, Government of India for its continuous efforts towards improvement in energy and other resources.

The Unit has made significant progress towards environment management, by installing rotary lime sludge kiln and upgrading the electrostatic precipitator of the recovery boiler.

It is also in the process of institutionalisation of Total Quality Management leading to consistent improvements in the processes, which eventually, would lead to consistent quality as well as cost reduction.

Unit Kamalapuram

During the year, the Unit recorded a production of 93725 MT of pulp as against 87413 MT of last year. This was mainly achieved through process modification of the cooking cycle.

Despite constraints in terms of quantity and quality of raw material, the performance of the plant was better in terms of consistency in quality to the utmost satisfaction of the customers. Process improvements in bleaching parameters resulted in reduction in consumption of bleaching chemicals during the year.

The Unit is also working on environmental initiatives towards ISO 14001 certification.

Unit Bhigwan

The Unit continued to manufacture high quality grades of paper, meeting international standards and stringent customer requirements. During the year, Unit Bhigwan produced 115283 MT of Paper, which is higher by 13928 MT as compared to the previous year.

The cost reduction initiatives undertaken at the Unit have resulted in substantial savings in the cost of production mainly from improved usages, improved machine efficiency, reduction in wastages, vendor

development and energy cost reduction initiatives.

The Unit achieved ISO 14001 certification for effective Environment Management System. It is already ISO 9001:2000 certified and consistently follows all the laid down procedures and systems.

Unit Bhigwan also completed its first Safety Audit by the Central Labour Institute, Mumbai. It was given the Greentech Gold Safety Award by Greentech Foundation, New Delhi, in recognition of its high level of safety standards and accident free record in the paper industry for the year 2003-04.

Unit Sewa

The Unit produced 62434 MT of paper during the year under review as against last year's production of 48318 MT. This was mainly on account of stabilization of Paper Machine II and commissioning of the A4 line for increasing the premium grade 'Image Copier Paper'.

As a part of a cost reduction exercise, the Unit had taken several initiatives in energy conservation by optimizing the chipping operation, broke handling system and installation of new Belt Press Filter in ET plant and re-engineering of the Recovery ESP for lower chemical consumption besides cleaner environment.

Apart from the above, the Unit had also taken initiatives in reducing the cost of production including water conservation and a well balanced QAS system in operation.

FIBRE RESOURCE DEVELOPMENT

Your Company's Farm Forestry Program is aimed at achieving :

- Motivation of marginal farmers through contact program for raising rain-fed plantation on their unproductive marginal land.
- Production and distribution of good planting stock at subsidised cost.
- Providing free technical guidance to farmers during planting and maintenance and assured buy back of the pulpwood.
- Progressively increase availability of pulpwood within the mills' catchments.

The program has been under implementation in six States in the Country, viz., Maharashtra, Haryana, Orissa, Andhra Pradesh, Chhattisgarh and Tamil Nadu.

The Company has progressively enlarged the Farm Forestry Activity during the year under review. As compared to 30.3 million plants distributed in 2003, during 2004, a total of 41.1 million plants were produced and are currently under distribution.

With the completion of current year's program, a total of approximately 21,900 hectares has been covered till date involving more than 18,000 farmers.

Towards increasing economic returns to farmers, your Company has initiated site-specific forestry research projects to identify and produce high yielding clones of pulpwood species like Eucalyptus and Lucaena Leucocephala. The Company plans to progressively increase usage of high yielding clones in the Farm Forestry program. The policy of developing in-house high quality seed orchards has already started yielding results towards meeting long-term target of increasing productivity. The enabling infrastructure is being developed at 3 additional sites to augment the production of high yielding clones. This will help the Company achieve its long-term goal of covering more than half the annual farm forestry under high yielding clones. Your Company has entered into an agreement with the Biotechnology Division of the Centre of Research and Excellence, TCIRD, Patiala for fundamental forestry research.

From 2005 onwards, the production and distribution plan is 53-54 million plants covering 12,000 / 12,500 hectares / year. The next five year plan would be culminating with coverage of approximately 65,000 / 70,000 hectares and will involve 50,000 / 55,000 farmers.

MARKETING INITIATIVES

During the year, your Company has reinforced its leadership position in all key segments in the market. The Company has also moved ahead in all its key sales & marketing initiatives.

Few years ago, your Company had undertaken the pioneering initiative of turning the business in the Indian paper industry from transaction based to that of relationship based. The focus was shifted to consumer servicing, lasting relationship and brand building.

As a result, today your Company has an active base of nearly 20,000 consumers. The Company has leveraged this base to increase its counter share through cross selling and up selling opportunities. Further efforts are on to maximize returns for the Company as well as its consumers.

Your Company had also initiated brand building and advertising for its products when it was unheard of in the Indian paper industry. These investments have been bearing fruit and its brands in all its product categories are recognized and recalled not only by its customers but by general public as well. BILT's brand basket today boasts of brands such as Royal Executive Bond, Copy Power, Image Copier, BILT Royal, BILT Emperor, BILT Matrix.

In the crucial segment of Blade Coated Paper & Board, the domestic market has seen an exceptionally strong growth of over 20% over the last year. The Company has capitalized on this opportunity by improving its market share to 67% as compared to 60% in 2002-03. This was achieved by making higher volumes available for the domestic market by improved production, reduction of system stocks and cutting back on exports. The Company captured nearly 90% of the growth in the domestic market by capitalizing on its strong distribution, strong brand building measures taken during last few years and superior servicing.

RISK ASSESSMENT AND MITIGATION

Paper business in India has its own specific set of risk characteristics, which need to be carefully evaluated, managed and mitigated.

Business Risks

The business risk arises from the fundamental cyclical nature of business (minimum Greenfield project cost Rs. 800 crores for 100,000 MT p.a. or Rs. 80,000 per MT). Supply increases in staircase in a block, which creates pressure in the market and in turn can potentially trigger a downturn on prices. In order to mitigate any such eventuality, we have redefined our market place that includes the international market in addition to the domestic market. As and when the domestic market shows signs of downturn arising out of annual seasoning factor or long term cyclical nature of business, we have an opportunity to market our products in other global markets leading to optimisation of product mix and volumes as the amount we sell in the world market is a fraction of demand in that market, such a strategy does not cause disruption and helps mitigate negative pressure in the domestic markets. Should the Company's growth strategy change i.e. becomes more aggressive, this risk would need reassessment. A better understanding of segmentwise, marketwise growth patterns coupled with segmentwise demand drivers, we are in a better position to forecast any down turn trends leading to better forecast and forward planning leading to better business optimisation.

There is technology related business risk. Although the old manufacturing asset base in India has been refurbished from time to time, it still lags behind international technological standards in terms of economies of scale and productivity. The reason for the same lies in the fragmentation of the Indian market. We have already moved to grow in Coated and Uncoated Wood Free papers through installation of contemporary large size machines for paper production. Additionally, the finishing house equipments have been upgraded in the last 2 years and today most of our paper is cut and packed on either synchro cutters or automatic A4 lines.

Supply Chain Risks

At the supply chain level, the risk is on the limited fibre supply in India. Being the signatory to the convention on biological diversity, India is focused on increasing conservation of forests as opposed to increasing productivity of forests. No definite plantation laws exist in the country. The Farm Forestry program of the Company currently having plantation of approximately 21,900 hectares of land under

plantation in the captive areas of our manufacturing locations, is helping us to mitigate this risk. Going forward, our target over the next five years, is to have 65,000 / 70,000 hectares of land under the Farm Forestry program leading to better raw material efficiency. Currently, we are running our own nursery operations providing high yield saplings to farmers under the above referred forestry program.

Second level of supply chain risk - As per the projections made by Coal India for the year 2011-12, the domestic demand supply gap of coal would be 95 million tonnes. Alongwith the quantity issue on coal, there is also an issue of lower quality leading to higher coal consumption. To mitigate this issue, we have started importing coal of higher quality leading to more cost effectiveness on this front. This will have some impact on the overall energy cost.

Market Risks

Being the signatory to WTO, the customs duties have been coming down on paper and paper products. The import duty tariff currently is at 20% and is likely to come down by 5% during the next budget. Although the WTO bound rate is 10%, this risk gets mitigated to an extent by the fact that the peak duty rate comes down on the inputs as well, like pulp, chemicals etc. which are imported for our higher grades of paper. Our other initiatives on cost competitiveness in the areas of operational efficiencies, sourcing, cost reduction, better distribution management etc. also mitigate this risk completely.

OUR JOURNEY TOWARDS EVA IMPROVEMENT

Your Company has effectively embraced the EVA framework as the centrepiece of management decision-making, capital budgeting and compensation systems. The EVA management framework was adopted during 2003, with the assistance of management consultants, Stern Stewart & Co., to ensure that all our key strategic, financial and operational actions are aligned with objective of maximizing sustainable wealth creation for our shareholders.

Our managers are aligned towards sustained EVA improvements over a multi-year horizon as their variable compensation is now transparently linked to multi-year EVA improvement targets. This has assisted in encouraging a long-term perspective and tying accountability over a longer-term horizon, consistent with our objective of long-term wealth creation for the shareholders.

All your Company's capital expenditure proposals are now evaluated through the value based lens, which has improved the rigor in project evaluation and approval. Our budgeting processes and regular performance reporting systems are based on EVA. This has assisted us in evaluating our operating decisions under the EVA lens to make the right income statement and balance sheet trade-offs.

We have made significant investments in training and communication to ensure that the EVA momentum is cascaded across the entire organization. A team of 'EVA Champions' has been constituted internally to facilitate EVA based decision making across the organization. A repertoire of reference material including a dedicated EVA micro-site has been specially developed.

INTERNAL CONTROL SYSTEMS

Your Company continues to ensure proper and adequate internal control systems and procedures commensurate with its size and nature of business. These control systems ensure that all assets are safeguarded and protected against loss from unauthorized use or disposition and that transactions are authorized, recorded and reported correctly. The internal control system enables documented policies, guidelines, authorization and approval procedures.

The Company has an extensive system of internal controls which ensures optimal utilization and protection of resources, IT security, accurate reporting of financial transitions and compliance with applicable laws and regulations as also internal policies and procedures. The internal control system is supplemented by extensive internal audits, regular reviews by management and well documented policies and guidelines to ensure reliability of financial and other records to prepare financial statements and other data.