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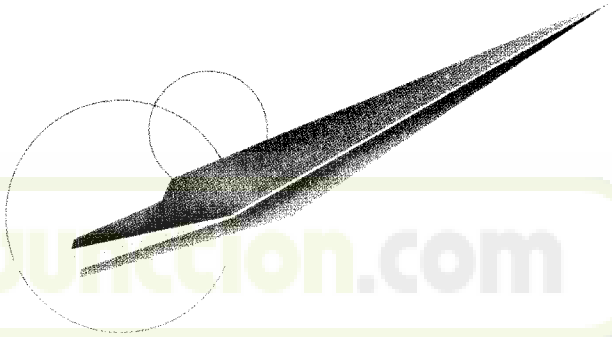
OUR STRATEGY
TO GROW BIGGER, STRONGER,
FASTER AND MORE PROFITABLE

re positioned for growth...



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Yash Papers Limited

REVIEW, 2006

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Remembrance

A tribute to our founder member Mr. K.K. Jhunjhunwala, whose vision remains our guiding light.

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Corporate information

Board of Directors

Mr. G. Narayana, Chairman

Mr. Ved Krishna, Managing Director

Mr. A.K. Gupta, Director Finance

Mr. R.N. Chakraborty, Executive Director

Mrs. Manjula Jhunjhunwala, Director

Mr. G.N. Gupta, Director

Dr. P. Banerjee, Director

Mr. Yash Krishna, Director

Mrs. Sheetal Jhunjhunwala, Alternate Director to Yash Krishna

Mr. Basant Khaitan, Additional Director

Mr. Ramesh Narayan, Additional Director

Bankers

State Bank of India

Canara Bank

Industrial Development Bank of India Ltd.

Auditors

Kapoor Tandon & Co.
Chartered Accountants
Kanpur

Registered office

47/81, Hatia Bazar,

Kanpur – 208001

Works and corporate office

Yash Nagar,
Faizabad – 224135, Uttar Pradesh
Phone: (05278) 326611-14
Fax No: 05278-258062
Website: www.yash-papers.com
Email: info@yash-papers.com

Registrar and Share Transfer Agent

Skyline Financial Services Pvt. Ltd.
123, Vinoba Puri, Lajpat Nagar – II
New Delhi – 110024
Phone: 011-29833777, 29847136
Fax: 011-29848352
Email: admin@skylinerta.com

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What you will find in this report

Our corporate culture 02
At Yash Papers, we are committed to enhance value for all those who touch us

Our corporate identity 03
At Yash Papers, we have the vision of becoming India's largest niche paper manufacturers

From the Chairman's desk 04
At Yash Papers, we are honest to our purpose, sincere to our intent and focused on our goals

10-minutes with the Managing Director 06

Management discussion and analysis 08
At Yash Papers, we are operating in one of the world's fastest growing paper markets

Director's Report 21
At Yash Papers, we are proud of our achievements

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Auditor's Report 35

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our corporate culture

Vision

To create the largest specialty paper manufacturing Company in the world by 2025.

Mission

- Ensure higher profitability than the industry average year-on-year for continuous growth.
- Provide a working environment with freedom of thought and innovation; hire and cultivate the best people and provide work conditions that energise.
- Find solutions for customers and add value to their processes. Create a dedicated customer base.
- Work as partners with vendors; ensure integrity and create processes that provide them with ease in dealing with us.
- Provide the optimum ROI to our stakeholders, ensuring their continuous support.
- Invest time, effort and resources to continuously improve the environment; ensure 'clean and green' surroundings for future generations.
- Develop the community around us by encouraging entrepreneurship.
- Spread the goodwill of our nation around the world.

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PERFORMANCE, 2006

- 13.92% growth in turnover to Rs 34.13 cr.
- 7.26% growth in production to 16,158 tonnes.
- 5.87% increase in sales to 16,368 tonnes.
- 52.25% increase in exports to 1,891 MT.
- 28.40% growth in EBIDTA to Rs 3.91 cr.
- 1.29 basis point growth in EBIDTA margin to 11.45%.
- 9.94% growth in post-tax profit to Rs 1.10 cr.
- 38.83% growth in cash profit to Rs 3.40 cr.

our corporate identity

Positioning

- Emerged as the largest manufacturer of low grammage unbleached kraft paper (using bagasse as the primary raw material) in India.
- Commenced commercial production in 1983 with an installed capacity of 1,940 MT per annum; augmented the installed capacity to 16,000 MT per annum; also installed 2.5 MW co-generation power plant.
- Listed on the Kanpur and Bombay Stock Exchanges.

Presence

- Located in the Faizabad district of Uttar Pradesh, India's largest sugarcane belt.
- Proximate to some of India's largest sugarcane mills, facilitating the easy procurement of bagasse (sugar mill by-product).

Patrons

- Pan-Indian distribution channel comprises 36 dealers.
- Products exported to more than 15 countries worldwide.

Portfolio

- Manufacture of specialty paper, insulating the Company from aggressive competition.
- Product range comprises unbleached kraft paper including hard tissues (28 – 30 GSM), wrapping grades (30 – 60 GSM) and packaging/ stationery grades (60 – 80 GSM) with average GSM range of 49 – 64.
- Paper varieties cater to the growing downstream demand in matchbox manufacture, bidi covers, gum tape, plywood, coated papers and tea pouches among others.

Provide the optimum ROI to our stakeholders, ensuring their continuous support.

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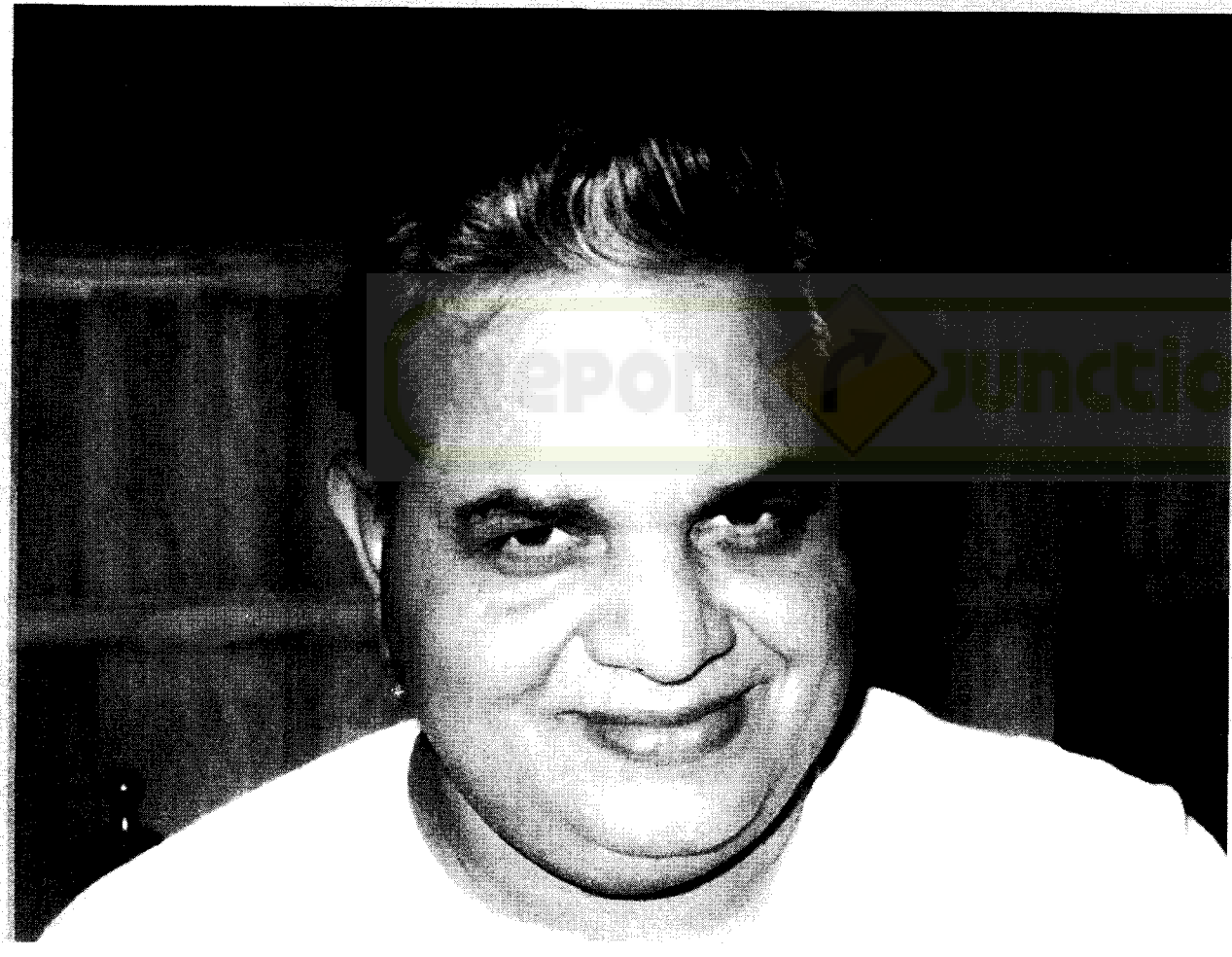
From the Chairman's desk



Yash Papers Limited is positioned to grow attractively, thanks to a complement of forward-looking initiatives.

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I am pleased to remind our esteemed shareholders that the PM 3 project – which is about to be commissioned – is the result of the vision of the late Krishna Jhunjhunwala, our erstwhile vice chairman. The project is now being implemented by the dynamic Ved Krishna and his team of young and experienced leaders.

The PM 3 project will take the business of the company ahead: its integrated plant combines efficiency, economy and ecology, reconciling the Company's technical, financial and environmental objectives. As a result, the plant will strengthen the company's 'triple bottomline' positioning, enabling it to play responsible roles for shareholder, employee, resident and citizens of the world.

While we grow from strength to strength, we continue to remain grateful to our shareholders for their support, our bankers and financial institutions for their time-critical assistance and to our members for their untiring involvement.

With their continuous support, we expect to grow our presence profitably and sustainably over the coming years.

G. Narayana
Chairman, Yash Papers Limited

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10 minutes with the

Managing Director

"A surplus capacity of allied infrastructure comprising pulp, power and soda recovery will enable the Company to add paper-making capacity at a low cost, improving the bottomline significantly in the near future."

Mr. Ved Krishna, Managing Director, reviews the Company's performance in 2006.

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Q. How would you rate the performance of the Company in 2006?

A. I was happy with our performance during the first three quarters of 2006, though I must admit that we could have done better with our profitability in the last quarter. Let me give you a perspective: if we had not suffered a loss of Rs 0.61 cr in the last quarter of 2006, our net profit for the year would have been healthier at Rs 2.33 cr, an increase of 133% over the previous year. The impact on our bottomline was largely on account of an unprecedented increase in raw material and energy costs during the fourth quarter.

Looking at the positives, our topline growth of 14% to Rs 34.13 cr in 2006 was aided by the highest-ever volume sales of 16,368 MT, strengthened by a 7.59% increase in average realisations over 2005. We now enjoy a continuous demand for 500 MT of paper at any given point in time, a reflection of the growing appetite of the market and customer confidence. Correspondingly, our production volumes peaked at 16,158 MT in 2006, which we achieved through asset de-bottlenecking with a nominal outlay.

It would be relevant to indicate that an increasing output, growing sales and rising realisations come at a time when we are on the threshold of commissioning our third paper machine (PM3), translating into a potentially enhanced profitability over the coming years.

Q. The PM3 was expected to come on stream in 2006.

A. The establishment of a 70-tpd paper machine, a 6 MW power plant and a soda recovery plant represent our single-biggest expansion. Once commissioned,

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these assets will help us capture a larger share of the fast-growing specialty paper market, derive economies-of-scale, reduce costs and strengthen our focus in niche varieties.

It would be pertinent to indicate that almost 75% of the work on PM3 was completed by December 2006. However, the power plant was installed in March, 2007 and the trial of the pulp mill has been completed. The delay in the supply of the paper machine, primarily a result of over-booked orders on the part of machine suppliers, translated into a time overrun.

As a result, we expect to commission the paper machine by May 2007, making up for the delay through increased utilisation across the rest of the year. I am optimistic that since our PM3 is the largest equipment of its kind in India, it will lead to an attractive scale and scope.

Since a delay in the commissioning of PM3 delayed the establishment of soda recovery plant, we now intend to commission this soon after our PM3 becomes operational.

Q. What will be the importance of PM3 in the Company's strategy?

A. As I see it, the commissioning of the PM3 will result in numerous changes and improvements:

- First, the paper machine will grow our aggregate installed capacity to 39,100 MT per annum, one of the largest in India for the manufacture of specialty paper grades, which is growing at almost twice the growth rate of the regular paper grades in the Indian paper industry.
- Second, the enhanced scale will help us spread our overheads across a larger production volume.
- Significant investment in instrumentation will enhance efficiency.
- Surplus infrastructure comprising pulp, power and soda recovery will create incremental paper-making capacity at a lower capital cost.

Q. How does the Company expect to counter volatile raw material prices since the expansion will only increase requirement?

A. Bagasse prices strengthened in the fourth quarter of 2006, largely on account of an increasing captive consumption by sugar manufacturers with the objective to generate their own power. We increasingly diversified our bagasse sourcing to include sugar mills from the neighbouring states, especially as our annual requirement will double, following the commissioning of PM3.

Power and fuel costs also rose during the fourth quarter following a price surge in rice husk, which was used to generate boiler heat; this transpired as a result of an acreage shift towards sugarcane.

We invested in higher efficiency power and recovery boilers with a higher pressure (65 bar) cycle to reduce energy consumption. The Company also insulated all steam lines and vessels to reduce heat loss. The evaporators purchased were of the falling film type with better steam efficiency.

Q. What are some of the distinctive trends influencing the Indian paper industry?

A. The Indian paper industry is growing at almost thrice the rate of the global paper market. Interestingly, it is observed that when per capita GDP crosses $1,000, the demand multiplier in the paper industry rises above 1.0. So if GDP grows by 8%, paper consumption should surge 10%. I am happy to state that we are fast approaching this tipping point.

Domestic waste paper prices rose sharply, forcing manufacturers to curtail production and vindicating our strategy to select a relatively neutral raw material like bagasse.

Large writing and printing paper capacities have been planned in India, which should go on stream within two years. An imbalance – however temporary – could impact prices and profitability. However, the capacity of unbleached kraft paper and other specialty grades is not likely to increase significantly, inspiring the prospect of a buoyancy in prices and demand.

Q. What is the outlook for 2007?

A. We intend to commission PM3 and other allied infrastructure to become fully operational by the beginning of the second quarter of 2007, following which we foresee incremental pulp, power and recovery capacities. To gainfully utilise these surplus resources, we are actively looking at expanding our paper production – organic or inorganic route – by the end of 2007.

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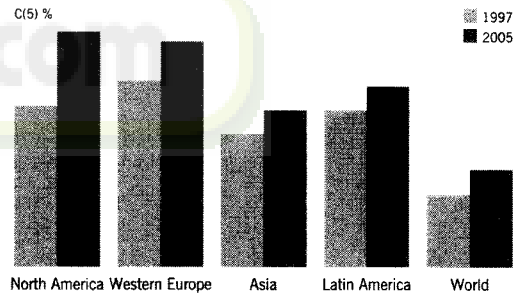
Management's discussion and analysis

Global paper industry

The production of paper is considered to be a key economic activity, accounting for nearly 2.5% of the world's industrial production (in value terms) and about 2% of its trade. The global paper industry is influenced by a number of macro-economic factors, comprising economic growth, industrial output, global trade, consumption, promotion, population, literacy and demand-supply. Paper and paper products are essential for education, healthcare, communication and packaging, enhancing our quality of life in numerous ways.

The global paper industry remains relatively fragmented with the top five paper manufacturers controlling between 20 – 40% of the regional market in which they operate. Remarkably, their share has increased considerably region-wise over eight years (demonstrated in the following chart), pointing to interesting industry trends, comprising:

- Consolidation leading to mergers and acquisitions
- Resource crunch leading to the closure of under-sized paper units
- Stringent environmental compliance leading to the closure of unviable mills
- Investments in modern technology and advanced equipment, leading to a large production output.



Source : Jaakko Poyry Consulting

C(5) = combined share of top five firms

These trends explain that the global paper industry is poised to report greater resource mobilisation, utilisation discipline and better asset management techniques, leading to enhanced price stability across various categories.

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