ANDHRA®
THE FUTURE OF PAPER

48th Annual Report

2011

The Andhra Pradesh Paper Mills Limited

On the cover

Growing together: Greening the future

Contents

Concept, Research, Design & Production
Capricorn Associates
Hyderabad

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.

Growing together

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 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.

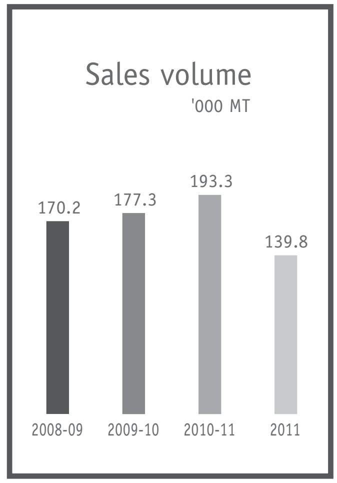
We will also focus on protecting the safety and well-being of our employees, protecting the environment, and supporting our local communities. We are currently implementing International Paper standards, policies, processes and best practices across APPM, and this effort will continue through 2012. There 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

Sales Revenue
₹ Crore

623.4	2011
795.9	2010-11
654.5	2009-10
657.3	2008-09

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.

Raw material security

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.

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.

Key strategies

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;

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.

Professional management

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.

Publicly listed

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

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.

The volumes at Unit:APPM were stepped up as soon as the Paper Machine 6 was stabilized during the year. Capacity utilization was enhanced in each of the three quarters, although it is expected full capacity utilization is likely to be reached only in 2012.

The Company has begun to access International Paper's global expertise and is making short and long term plans to optimize operations. Several initiatives got under way such as upgradation of manufacturing systems and processes, reengineering of products, appraisal of safety standards and culture of safety, improvement in employee engagement and expansion in farm forestry efforts.

Team APPM recognizes that significant strides can be taken, leveraging on the latent talent and competence of its people as well as under-utilized machine capacity. Debottlenecking efforts have also been initiated to free the resources and climb the value chain without significant increase in investment.

The first few steps towards a paradigm shift in business performance and a healthy balance sheet were taken. Although these are multiyear tasks, APPM is drawing on IP's strengths to accelerate the transformation.

Committed to excellence

At APPM, the focus shall be manufacturing excellence with higher volumes, better utilization and enhanced effectiveness from existing capacity, at both mills. We are confident that we shall improve our variable cost effectiveness and reduce fixed costs per ton of product.

APPM is committed to developing and operating with the latest paper manufacturing technologies, systems and sustainable practices. Our initiative is to provide and achieve significant lifecycle cost advantage over natural resources which would enable us to develop sustainable industry practices.

ANDHRA®
THE FUTURE OF PAPER

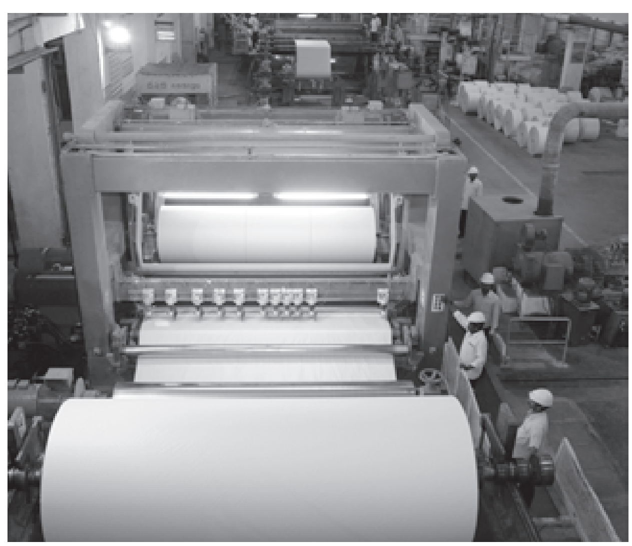
We shall make whatever changes required and strive to ensure that our manufacturing systems and processes meet desired efficiency levels. Our goal is clear: we shall deliver the best paper in the grades that we are present, optimize on volumes and be the most cost effective producer. We shall be the preferred option for our customers and thereby be the best value for our stakeholders.

Access to IP's global benchmarks and best practices has started making a positive difference to developing a culture of refocused, team based improvement program. APPM recognizes the potential to further upgrade the systems and practices and better utilize the capacity, resources and people.

There is a good compass for change and the necessary toolbox is available. The sub-components and proprietary tools have been brought to bear on implementing the changes to upgrade product quality, increase efficiencies and revamp safety performance.

APPM will stay aligned with IP to develop processes and standards to ensure enhanced safety, and strong focus on environmental protection.

Overall, the team will strive to work towards excellence and set higher assurance standards in the manufacturing processes.



Ensuring raw material security

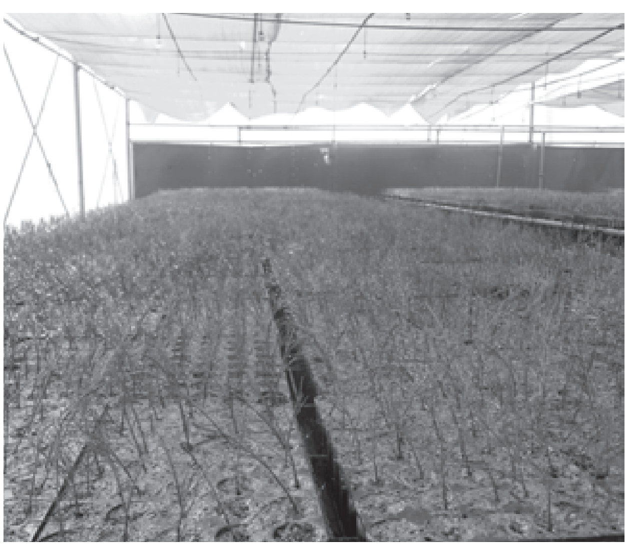
The major strength of APPM's integrated operations is the availability of raw material in the proximity of the mill. Farm forestry efforts of the Company have ensured raw material self sufficiency, for the present and future needs.

In the proximity of Unit:APPM, at a radius of 250 kms, there is abundant availability of pulpwood plantation sufficient to meet our requirement of fibrous raw material in the required species of Subabul, Casuarina and Eucalyptus. The Company consumes about 7 lakh MT which constitutes about 17% of the availability.

Keeping the competitive demand for pulp wood, APPM has taken a proactive role from 1989 to encourage farmers by distributing saplings at subsidized rates. So far, 918 million saplings have been distributed covering about 132,760 ha to over 44,000 farmers. This includes 120 million saplings distributed covering a plantation area of 16,800 ha between April and December 2011.

In the past few years, APPM has been distributing high yielding Casuarina clonal varieties of saplings developed at the in-house nurseries. These yield more than twice the volume of pulpwood making a huge difference to the farmer economics and raw material availability.

APPM's stated objective has been that farmers will be encouraged to plant more than twice the number of trees that are likely to be utilized. The Company believes that it has to deliver the products the customers want while ensuring responsible stewardship of natural resources today, and for generations to come. APPM is an environmentally responsible company and has always taken a sustainable approach to business that balances environmental, social and economic needs. This focus shall continue and in fact, be reinforced.



People first

APPM is becoming a great place to build a career, given the enlarged opportunities and exposure to IP's global operations. The employee engagement levels have been improved with shared expectations clearly communicated to ensure that the concept of accountability and levels of responsibility have been understood at all levels through the organization.

The Company puts a premium on its people and invests and upgrades their knowledge and skills by the in-house and global training programs based on the credo that employees are the foundation of the Company's sustainable future. They make our products, support our customers, manage our day-today environmental performance and make our communities better places to work

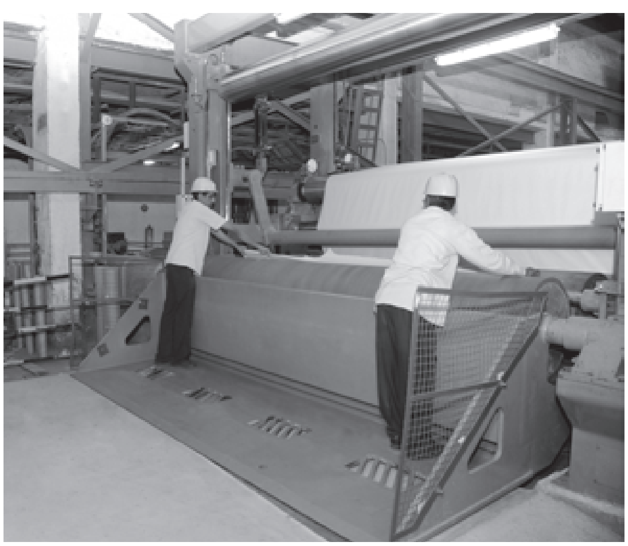
ANDHRA®
THE FUTURE OF PAPER

and live. To help us attract and retain the best of the best, we promote a work environment where our employees can learn, grow and, most importantly, work safely.

Primacy in approach to people ensures they develop and grow. Today, the Company has a solid management team with seasoned group of professionals and workers, who have talent, experience and potential to grow further. The organization works as a unit and their performance will perceptibly impact volumes, quality, productivity and profits.

Individuals recognize that their career objectives are linked to achieving business goals and that quarter-on-quarter they need to demonstrate improvement and deliver results. The team gets encouragement and support and has the access to the expertise and experience of IP's global accomplishments in every functional area.

APPM recognizes that individual employees are keen to harmonize the demands of career and family and it is the Company's responsibility to provide the framework that allows them to do so. The Company therefore strives hard to create opportunities, develops a culture that rewards performance and adopts a clear set of values which will ensure that what is good for the employees is also good for the Company. It's a motivated team at APPM that is poised to make significant contribution on all metrics.



Focused on EHS

APPM takes a holistic view of its responsibility towards the environment, health and safety (EHS) primarily based on the belief that we need to preserve and protect the environment and contribute to further improvement of the living conditions in our communities.

The Company has also been recognized for its processes and practices. In a study based on the forestry-based carbon sequestration for the Green Rating Project by the New Delhi based Centre for Science and Environment covering all the leading paper companies in the country, APPM was rated -6.5 net specific CO_2 emissions (MT CO_2/ADt) (accounting for sequestration). Put in

ANDHRA®
THE FUTURE OF PAPER

perspective, it was an affirmation that APPM has the best carbon footprint across the paper industry and is therefore an environment friendly company.

In 2010, APPM was ranked as Number 2 in an analysis of the greenest manufacturer of paper amongst 28 pulp and paper mills in the country by the Centre for Science and Environment. To arrive at a rating, every mill was evaluated using over 100 criteria under three categories: the corporate environment policy and management systems, the plant-level environmental performance, and the perception of the mill's environmental responsibility, including that of the local community.

APPM strives to lower the consumption of raw materials, chemicals, water, energy and fossil fuels per ton of product. The Company has accomplished improvements in every successive year, for several years.

As a consequence, the discharges in to the air or soil have been much lower than the statutory norms, measured on every parameter. More important, all discharges are treated prior to their safe release.

Safety at the workplace and physical well-being of our employees is another of the Company's top priority. APPM adheres to regulatory standards for a safe, hygienic working environment and takes appropriate actions to ensure the health and safety of its employees. The focus is a continuous attempt to improve on the existing practices.

Board of Directors

Left to right Mr. Rampraveen Swaminathan, Mr. M.K. Sharma, Mr. Brett Allen Mosley, Mr. P.K. Suri, Mr. Paul Brown, Mr. Thomas G. Kadien, Mr. Adhiraj Sarin, Mr. Milind Sarwate, Mr. Shreeyash Bangur and Mr. M.S. Ramachandran.

Unavailable for group photo

Mrs. Ranjana Kumar

Mr. Praveen P. Kadle

ANDHRA®
THE FUTURE OF PAPER

Corporate Information

(As on January 25, 2012)

BOARD OF DIRECTORS

Mr. Paul Brown, Chairman & CEO

Mr. Thomas G. Kadien

Mr. Brett Allen Mosley

Mr. Shreeyash Bangur

Mr. M.S. Ramachandran

Mrs. Ranjana Kumar

Mr. M.K. Sharma

Mr. Milind Sarwate

Mr. Adhiraj Sarin

Mr. Praveen P. Kadle

Mr. Rampraveen Swaminathan

Mr. P.K. Suri, Director (Operations)

EXECUTIVES

CORPORATE OFFICE

Mr. Michael Baymiller
Chief People Officer

Mr. E. Sairam
Senior Vice President (Finance & Accounts) & Chief Finance Officer

Mr. C. Prabhakar
Senior Vice President (Corporate Affairs) & Company Secretary

Mr. Jaspal Singh
Senior Vice President (Marketing)

Mr. J. K. Jain
Senior Vice President (Commercial)

Mr. Yogesh Jain
Associate Vice President (Commercial)

Dr. Alok Prakash
Associate Vice President (Key Accounts & Sales Operations)

Mr. Y. Uday Shankar
General Manager (Product Development & Technical Services)

Mr. S. Vasudevan
General Manager (Sales)

Mr. V.V. Ramakrishna
General Manager (Finance & Accounts)

Mr. Veera Babu Kandukuri
General Manager (HR)

WORKS

Mr. Raghu Reganti
Senior Vice President (Projects & Maintenance)

Mr. Ch.V. Rama Raju
Vice President (Operations)

Mr. K.M. Kasetty
General Manager (Paper)

Mr. T.S. Sundaram
General Manager (Works) (Unit:CP)

Auditors
B S R & Co.,
Chartered Accountants
Hyderabad

Cost Auditors
Narasimha Murthy & Co.,
Cost Accountants
Hyderabad

Bankers
State Bank of India
Canara Bank
Axis Bank Limited
ICICI Bank Limited
Citibank N.A.
BNP Paribas

REGISTERED OFFICE
Rajahmundry - 533 105
East Godavari District
Andhra Pradesh, India
Tel. : +91(883) 247 1831 to 247 1838
Fax : +91(883) 246 1764
E-mail: appmrjy@andhrapaper.com

CORPORATE OFFICE
501-509, Swapnalok Complex,
5th Floor, 92/93 Sarojini Devi Road
Secunderabad - 500 003
Andhra Pradesh, India
Tel. : +91 40 3048 2614, 2781 3715
Fax : +91 40 2781 3717
E-mail: secl@andhrapaper.com

WORKS

Unit:APPM
Rajahmundry - 533 105
East Godavari District,
Andhra Pradesh, India
Tel. : +91(883) 247 1831 to 247 1838
Fax : +91(883) 246 1764
E-mail: appmrjy@andhrapaper.com

Unit:CP
Industrial Area, MR Palem - 533 126
Kadiyam Mandalam, East Godavari District,
Andhra Pradesh, India
Tel. : +91(883) 245 4651
Fax : +91(883) 245 3538
E-mail: appmcp@andhrapaper.com

Website: www.andhrapaper.com

NOTICE is hereby given that the 48th Annual General Meeting of the Members of The Andhra Pradesh Paper Mills Limited will be held **on Thursday, March 22, 2012 at 3.00 p.m. at Cherukuri Subbarao Gannemma Udyana Kalyanavedika, Jawaharlal Nehru Road, Rajahmundry - 533 103, East Godavari District, Andhra Pradesh** to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the Balance Sheet as at December 31, 2011, Profit and Loss Account for nine month period ended as on that date and the Reports of the Directors and Auditors thereon.

2. To consider and, if thought fit, to pass, with or without modification, the following Resolution as an **Ordinary Resolution:**

   "RESOLVED THAT pursuant to the provisions of Section 224 and other applicable provisions, if any, of the Companies Act, 1956, Messrs Deloitte Haskins & Sells (Firm Registration No.008072S), Chartered Accountants, Hyderabad, be and are hereby appointed as Auditors of the Company in place of the retiring auditors Messrs B S R & Co., Chartered Accountants, who are not seeking re-appointment, to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting at a remuneration as may be decided by the Board of Directors of the Company."

SPECIAL BUSINESS

3. To consider and if thought fit, to pass with or without modification, the following Resolution as an **Ordinary Resolution:**

   "RESOLVED THAT Mr. Thomas Gustave Kadien who was appointed as an Additional Director of the Company by the Board of Directors under Article 129 of the Articles of Association of the Company and who ceases to hold office pursuant to Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956 in writing, proposing his candidature for the office of Director be and is hereby appointed as Director of the Company."

4. To consider and if thought fit, to pass with or without modification, the following Resolution as an **Ordinary Resolution:**

   "RESOLVED THAT Mr. Brett Allen Mosley who was appointed as an Additional Director of the Company by the Board of Directors under Article 129 of the Articles of Association of the Company and who ceases to hold office pursuant to Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956 in writing, proposing his candidature for the office of Director be and is hereby appointed as Director of the Company."

5. To consider and if thought fit, to pass with or without modification, the following Resolution as an **Ordinary Resolution:**

   "RESOLVED THAT Mr. Shreeyash Bangur who was appointed as an Additional Director of the Company by the Board of Directors under Article 129 of the Articles of Association of the Company and who ceases to hold office pursuant to Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956 in writing, proposing his candidature for the office of Director be and is hereby appointed as Director of the Company."

6. To consider and if thought fit, to pass with or without modification, the following Resolution as an **Ordinary Resolution:**

   "RESOLVED THAT Mr. M. S. Ramachandran be and is hereby appointed as Independent Director of the Company in the vacancy created by the resignation of Mr. N. Srinivasan, Independent Director and in respect of which vacancy, the Company has received a notice in writing proposing his candidature under the provisions of Section 257 of the Companies, Act, 1956."

7. To consider and if thought fit, to pass with or without modification, the following Resolution as an **Ordinary Resolution:**

   "RESOLVED THAT Mrs. Ranjana Kumar be and is hereby appointed as Independent Director of the Company in the vacancy created by the resignation of Mr. P.J.V. Sarma, Independent Director and in respect of which vacancy, the Company has received a notice in writing proposing her candidature under the provisions of Section 257 of the Companies, Act, 1956."

8. To consider and if thought fit, to pass with or without modification, the following Resolution as an **Ordinary Resolution:**

"RESOLVED THAT Mr. Rampraveen Swaminathan, who was appointed as Additional Director of the Company by the Board of Directors under Article 129 of the Articles of Association of the Company and who ceases to hold office pursuant to Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956 in writing, proposing his candidature for the office of Director be and is hereby appointed as Director of the Company.

FURTHER RESOLVED THAT subject to the provisions of Section 269 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 or any other statutory modification(s) or re-enactment thereof, the consent of the Company be and is hereby accorded to the appointment of Mr. Rampraveen Swaminathan as Managing Director designated as Managing Director & CEO, who will not be liable to retire by rotation, for a period of five years from the date of his joining and to the payment of remuneration to Mr. Rampraveen Swaminathan, Managing Director & CEO during his tenure of appointment on the terms and conditions set out below:

i. **Salary:** ₹800,000 (Rupees Eight Lakhs only) per month with such increments as may be determined by the Board of Directors of the Company from time to time in the salary range of ₹800,000 to ₹1,600,000.

ii. **Performance incentive:** Not exceeding 40% of the salary payable annually for each financial year as may be decided by the Board. However, depending on the performance of the Company, it may go up to 80% of the salary, as may be determined by the Board.

iii. **Personal allowance:** 15% of the salary per month.

iv. **Perquisites:**

   a. **Housing:** The expenditure incurred by the Company in providing furnished accommodation to the Managing Director shall not exceed 60% of his salary. In case no accommodation is provided by the Company, he shall be entitled to house rent allowance at 60% of salary per month.

   b. **Helper allowance:** ₹3,500 per month

   c. **Food coupons/allowance:** ₹1,300 per month

   d. **Conveyance:** Car with driver to be provided by the Company.

   e. **Telephone:** Provision of telephone at the residence and cell phone.

   f. **Leave travel concession, contribution to provident fund and gratuity:** As per the rules applicable to the senior staff of the Company.

   g. **Medical reimbursement:** Actuals subject to a ceiling of one month salary per annum.

   h. **Club fees:** Fees of clubs subject to a maximum of two clubs.

   i. **Personal accident insurance premium:** Not exceeding ₹7,500 per annum.

   j. **Leave:** Leave in accordance with rules applicable to the senior staff of the Company.

   k. Such other benefits, amenities, facilities and perquisites as may be permitted by the Board of Directors to the Managing Director.

v. Use of Company's car for official purposes, cell phone, telephone at residence and encashment of leave at the end of the tenure and contribution to provident fund, and gratuity will not be considered as perquisites.

vi. In the event of loss or inadequacy of profits in any financial year, the Managing Director shall be paid remuneration by way of salary, allowances and perquisites as specified under Section II of Part II of Schedule XIII of the Companies Act, 1956 or within such ceilings as may be prescribed under Schedule XIII from time to time or the Companies Act, 1956 and as may be amended from time to time.

vii. The Managing Director & CEO shall not be paid any sitting fees for attending the meetings of the Board of Directors or Committees thereof.

viii. The contract of appointment of five years may be terminated by either party by giving six months' notice in writing to the other party."

9. To consider and if thought fit, to pass with or without modification, the following Resolution as an **Ordinary Resolution:**

"RESOLVED THAT Mr. Praveen P. Kadle who was appointed as an Additional Independent Director of the Company by the Board of Directors under Article 129 of the Articles of Association of the Company and who ceases to hold office pursuant to Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956 in writing, proposing his candidature for the office of Director be and is hereby appointed as Director of the Company."

10. To consider and if thought fit, to pass with or without modification, the following Resolution as an **Ordinary Resolution:**

"RESOLVED THAT subject to the provisions of Section 269 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 or any other statutory modification(s) or re-enactment thereof, the consent of the Company be and is hereby accorded to the appointment of Mr. Paul Brown as Chairman and Managing Director designated as Chairman and Chief Executive Officer of the Company, who will not be liable to retire by rotation, for a period of five years with effect from October 15, 2011 without remuneration.

FURTHER RESOLVED THAT Mr. Paul Brown be and is hereby re-designated as Executive Chairman with effect from the date of joining of Mr. Rampraveen Swaminathan, Managing Director & CEO."

11. To consider and if thought fit, to pass with or without modification, the following Resolution as a **Special Resolution:**

"RESOLVED THAT subject to the approval of Central Government and pursuant to Section 309 and other applicable provisions, if any, of the Companies Act, 1956 consent of the Members of the Company be and is hereby accorded for waiver of recovery of excess remuneration, as calculated in terms of provisions of Companies Act, 1956 paid to Mr. L.N. Bangur, former Executive Chairman, Mr. M. K. Tara, former Managing Director, Ms. Sheetal Bangur, former Director (Commercial), Mr. Shreeyash Bangur, former Director (Corporate) and Mr. P. K. Suri, Director (Operations) of the Company aggregating to ₹194.64 lakhs for the financial year (nine months) ended on December 31, 2011 over and above the limits prescribed under Section 309 read with Schedule XIII of the Companies Act, 1956."

By Order of the Board
For The Andhra Pradesh Paper Mills Limited

C. Prabhakar

C. Prabhakar
Sr. Vice President (Corporate Affairs) &
Company Secretary

Registered Office:
Rajahmundry - 533 105
East Godavari District,
Andhra Pradesh
February 10, 2012

Important Communication to Members on Green Initiative

The Ministry of Corporate Affairs has taken a "Green Initiative in the Corporate Governance" by allowing paperless compliances by companies and has issued circulars stating that service of notice/documents including Annual Report can be sent by e-mail to its members. To support this green initiative of the Government, members who have not registered their e-mail addresses, so far, are requested to register their e-mail addresses, in respect of electronic holdings, with their respective Depository Participants.

Members who hold shares in physical form are requested to down load the "E-Communication Registration Form" from our website: www.andhrapaper.com under "Financials" and send the duly filled-in and signed form to Secretarial Department, The Andhra Pradesh Paper Mills Limited, Rajahmundry-533105, East Godavari District, Andhra Pradesh.

Notes

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THIS ANNUAL GENERAL MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY FORM DULY COMPLETED MUST REACH THE REGISTERED OFFICE OF THE COMPANY AT LEAST FORTY EIGHT HOURS BEFORE THE COMMENCEMENT OF THE MEETING.**

2. The explanatory statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of Item Nos. 3 to 11 is annexed hereto.

3. The Register of Members and Share Transfer Books of the Company will remain closed from March 13, 2012 to March 22, 2012 (both days inclusive).

4. Trading in equity shares of the Company through stock exchanges is permitted only in dematerialized form. Members can dematerialize their equity shares in the Company through their Depository Participant(s). The ISIN in respect of equity shares is INE435A01028.

5. Members holding shares in physical form are requested to notify any change in their address immediately to the Registrars and those Members holding shares in electronic form should inform change in their address to their Depository Participant(s).

6. Members are requested to bring their copies of Annual Report to the Meeting.

7. As per provisions of the amended Companies Act, 1956 facility for making nomination is available to the investors in respect of the shares held by them in physical form. The investors holding shares in physical form can download the nomination form as prescribed under the Companies Act, 1956 from our Website: www.andhrapaper.com. In respect of shares held in electronic form, the nomination should be recorded with the respective Depository Participants. The Company would not accept any nomination in respect of the shares held in electronic form.

8. ECS Mandate form is also placed on our website. Interested Members can download this form from the website.

9. **INFORMATION REQUIRED UNDER THE LISTING AGREEMENT**

   As required under the Listing Agreement, the particulars of Directors who are proposed to be appointed are given below:

   a. Mr. Thomas G. Kadien is a graduate BS from Bucknell University, USA and MBA from Drexel University, USA. He joined International Paper (IP) in 1978 and held various sales and marketing positions in IP's Packaging businesses. He became Manufacturing Manager for Nicolet in 1991 and General Manager of Nicolet in 1992. He was Vice President of Fine Papers in 1999 and Vice President of Commercial Printing and Imaging Papers in 2000. In April 2003, he was appointed President of IP Europe, and was named a Senior Vice President of IP in May, 2004.

      In November 2005, Mr. Kadien became Senior Vice President and President of xpedx, IP's distribution business. He was named Senior Vice President of Consumer Packaging & IP Asia and India on January 1, 2010.

      Mr. Kadien is a director on the board of Sherwin Williams Company.

      He does not hold any shares in the Company.

   b. Mr. Brett Allen Mosley is a graduate BS (Chemical Engineering) from University of Arkansas, USA. He is presently director of Global Technology Center of Excellence, IP. Mr. Mosley has more than 27 years of experience in manufacturing. He joined IP in 1984 and has held a number of leadership positions in manufacturing for the company including mill manager at Mansfield and Camden mills, as well as manufacturing director for Wood Products.

      He does not hold any shares in the Company

   c. Mr. Shreeyash Bangur did his MSc in Engineering Business Management from the Warwick Manufacturing Group, UK and worked for two years in Ernst & Young before joining APPM. He was associated with the Company as Director (Corporate) from February 18, 2007 to October 14, 2011.

      As Director (Corporate), his prime areas of focus were marketing, human resource development, corporate planning and business development related functions. He is presently on the Boards of Digvijay Investments Limited, Kiran Vyapar Private Limited and Sidhidata Tradecomm Private Limited.

      He does not hold any shares in the Company.

   d. Mr. M.S. Ramachandran did his BE (Mechanical Engineering) and has held numerous senior positions in the Indian energy sector. He has extensive corporate and operational experience spanning over 35 years with Indian Oil Corporation Limited, where he started as a management trainee in 1969 and eventually left as Chairman of the board in 2005. During his tenure, Indian Oil grew to become the leading Indian corporate in the Fortune 'Global 500' listing. Prior to his appointment to the board of Indian Oil, Mr. Ramachandran served as the Executive Director of Oil Coordination Committee of India's Ministry of Petroleum and Natural Gas. He has acted as non-executive director on the boards of a number of companies and has also acted in an advisory capacity to organizations including BHP Billiton India, Chevron Business Development Inc. etc.

He is currently on the Boards of Bharat Electronics Limited, Ester Industries Limited, Gulf Oil Corporation Limited, ICICI Bank Limited and Supreme Petrochem Limited. He is a member of Audit Committee of ICICI Bank Limited, Bharat Electronics Limited and Ester Industries Limited and a member of Remuneration Committee of Gulf Oil Corporation Limited and Ester Industries Limited.

He does not hold any shares in the Company.

e. Mrs. Ranjana Kumar, Graduate in Arts, is a prominent Indian banker with varied experience of four decades. She retired as a Vigilance Commissioner from the Central Vigilance Commission and has held many significant positions in her career, including that as the Chairperson and Managing Director of Indian Bank, Chairperson of NABARD, Executive Director holding concurrent charge as Chairman and Managing Director of Canara Bank and CEO of the US operations of Bank of India based in New York. Mrs. Kumar, under her chairmanship, was instrumental in turning around Indian bank from a loss making entity into a successful bank. She has been recipient of various awards, notable being, 'BMA Management Woman Achiever of the Year Award 2008-09', 'Banker of the Year 2002' by Business Standard, and was acclaimed 'India's turn around Queen - Nov. 2003' by The Economist, UK.

She is currently on the Boards of Tata Global Beverages Limited, Coromandel International Limited, National Stock Exchange of India Limited, Future Value Retail Limited, GVK Power & Infrastructure Limited, International Asset Reconstruction Company Private Limited and Vyome Biosciences Private Limited. She is a member of Audit Committee of Tata Global Beverages Limited and International Asset Reconstruction Company Private Limited.

She does not hold any shares in the Company.

f. Mr. Rampraveen Swaminathan is a Commerce Graduate from St. Josephs Commerce College, Bangalore with a Post Graduate Diploma in Industrial Management from T A Pai Management Institute, Manipal. He also attended an Executive Education program at Harvard Business School on 'Strategic Agility' in 2007.

He is presently serving as Executive Director, Power Systems Business in Cummins Inc, USA. In this role, he has global responsibility for Integrated Power Systems, Power Distribution and Power Projects. Mr. Swaminathan joined Cummins in 1999, and his prior roles in Cummins include leading the global Power Electronics Business, and leading the Power Generation Business in India. Prior to Cummins, he worked with the Tata Group, and was a member of the Tata Administrative Service.

He does not hold any shares in the Company.

g. Mr. Praveen P. Kadle is an Honours Graduate in Commerce and Accountancy from Mumbai University. He is also a Member of the Institute of Chartered Accountants of India, the Institute of Cost and Works Accountants of India and the Institute of Company Secretaries of India.

He is a respected finance professional with a strong track record spanning over twenty years in leadership roles with Tata group. He joined Tata Motors Limited as its Vice President of Finance in 2001 and over time, expanded his role to include oversight of human resources, information technology and corporate affairs. In this role, he led a crucial right sizing initiative and raised US$ 2 billion from India and overseas markets. Previously, he played a key role in restructuring Tata Finance's business. He is a trusted advisor within the Tata Group.

He is also actively involved with various public charitable institutions notably as the board member and honorary treasurer of Child Rights and You. He has won a number of awards in recognition of his outstanding contribution to Tata Motors Limited viz., CNBC-TV18, the 'Country's best performing CFO in the Auto & Auto Ancillaries sector for 2006,' 'the Best CFO of the year 2005' in India by Business Today; the 'CFO of the year 2004' by IMA (Formerly known as Economist Intelligence Unit).

Mr. Kadle is the Chairman of Tata Capital Markets Limited, Tata Securities Limited, e-Nxt Financials Limited, Tata Toyo Radiators Limited, Tata Capital Housing Finance Limited, T. T. Holdings & Services Limited, Managing Director of Tata Capital Limited and a director on the Boards of Tata Technologies Limited, T. C. Travel and Services Limited, Tata Auto Comp Systems Limited, Tata Capital Financial Services Limited, Tata Cleantech Capital Limited besides a director on the boards of various Tata group foreign companies.

He is Chairman of the Audit Committee of Tata Capital Markets Limited and TT Holdings & Services Limited; Member of the Audit Committee of Tata Capital Housing Finance Limited, TC Travel & Services Limited, Tata Autocomp Systems Limited, Tata Technologies Limited and e-Nxt Financials Limited; and Member of Shareholders/Investors Grievance Committee of Tata Capital Limited.

He does not hold any shares in the Company.

h. Mr. Paul Brown is President of IP India. Earlier, he was President of IP Asia. In this position, Mr. Brown had leadership responsibility for the company's businesses across Asia including coated board; consumer packaging; industrial packaging; food service packaging; uncoated free sheet (office and printing papers) and paper, board and pulp distribution. IP Asia is headquartered in Shanghai, China and employs some 4,500 people with operations and offices in China, Korea, Japan, Singapore, India and Thailand.

Mr. Brown joined IP in 1984 and during his career with IP, has held various technical, manufacturing, sales and general management positions in paper and packaging in the USA and Europe before being appointed to his current position in November 2009.

Prior to the position as President of IP Asia, Mr. Brown was Vice President and General Manager responsible for IP's industrial packaging business in Europe, Middle East and Africa. Mr. Brown holds a B.S. in industrial engineering from the University of Florida, Gainesville, Florida, USA and an MBA from Drexel University, Philadelphia, Pennsylvania, USA.

He is a director of IP Paper (India) Private Limited, IP Holding Asia Singapore PTE. Limited, and chairman of SCA (Suzhou) High-graphic Packaging Company Limited, Suzhou SCA Packaging Technical Development Company Limited, Suzhou Cenpak Paper Products Company Limited, Suzhou SCA Environment Production Paper Products Company Limited and SCA (Nanjing) Packaging Company Limited.

He does not hold any shares in the Company.

Explanatory Statement

Pursuant to Section 173 (2) of the Companies Act, 1956

Item 3

The Board of Directors of the Company at their meeting held on October 14, 2011 appointed Mr. Thomas Gustave Kadien as an Additional Director and he holds office up to this Annual General Meeting pursuant to Section 260 of the Companies Act, 1956 and Article 129 of the Articles of Association of the Company.

A notice under Section 257 of the Companies Act, 1956 has been received from a Member of the Company signifying his intention to propose the name of Mr. Kadien for appointment as a Director of the Company.

The Board commends the Resolution as set out in the notice for approval by the Members.

None of the Directors, except Mr. Kadien, is concerned or interested in the said Resolution.

Item 4

The Board of Directors of the Company at their meeting held on October 14, 2011 appointed Mr. Brett Allen Mosley as an Additional Director and he holds office up to this Annual General Meeting pursuant to Section 260 of the Companies Act, 1956 and Article 129 of the Articles of Association of the Company.

A notice under Section 257 of the Companies Act, 1956 has been received from a Member of the Company signifying his intention to propose the name of Mr. Mosley for appointment as a Director of the Company.

The Board commends the Resolution as set out in the notice for approval by the Members.

None of the Directors, except Mr. Mosley, is concerned or interested in the said Resolution.

Item 5

Consequent upon change of management, Mr. Shreeyash Bangur, Director (Corporate) resigned from the Board with effect from October 14, 2011. The Board of Directors of the Company at their meeting held on October 14, 2011 appointed Mr. Shreeyash Bangur as an Additional Director and he holds office up to this Annual General Meeting pursuant to Section 260 of the Companies Act, 1956 and Article 129 of the Articles of Association of the Company.

A notice under Section 257 of the Companies Act, 1956 has been received from a Member of the Company signifying his intention to propose the name of Mr. Bangur for appointment as a Director of the Company.

The Board commends the Resolution as set out in the notice for approval by the Members.

None of the Directors, except Mr. Bangur, is concerned or interested in the said Resolution.

Item 6

The Board of Directors of the Company at their meeting held on December 6, 2011 appointed Mr. M.S. Ramachandran as an Independent Director to fill the casual vacancy caused by the resignation of Mr. N. Srinivasan, Independent Director.

As per Section 262 of the Companies Act, 1956, Mr. Ramachandran will hold office upto the date Mr. Srinivasan would have held office had it not been vacated.

A notice under Section 257 of the Companies Act, 1956 has been received from a Member of the Company signifying his intention to propose the name of Mr. Ramachandran for appointment as director.

The Board commends the Resolution as set out in the notice for approval by the Members.

None of the Directors, except Mr. Ramachandran, is concerned or interested in the said Resolution.

Item 7

The Board of Directors of the Company at their meeting held on December 6, 2011 appointed Mrs. Ranjana Kumar as an Independent Director to fill the casual vacancy caused by the resignation of Mr. P.J.V. Sarma, Independent Director.

As per Section 262 of the Companies Act, 1956, Mrs. Kumar will hold office upto the date Mr. Sarma would have held office had it not been vacated.

A notice under Section 257 of the Companies Act, 1956 has been received from a Member of the Company signifying her intention to propose the name of Mrs. Kumar for appointment as director.

The Board commends the Resolution as set out in the notice for approval by the Members.

None of the Directors, except Mrs. Ranjana Kumar, is concerned or interested in the said Resolution.

Item 8

The Board of Directors of the Company at their meeting held on January 25, 2012 appointed Mr. Rampraveen Swaminathan as Additional Director and he holds office upto this Annual General Meeting pursuant to Section 260 of the Companies Act, 1956 and Article 129 of the Articles of Association of the Company.

A notice under Section 257 of the Companies Act, 1956 has been received from a Member of the Company signifying his intention to propose the name of Mr. Swaminathan for appointment as a Director of the Company.

The Board had at the same meeting also appointed Mr. Swaminathan as Managing Director & CEO for a period of five years from the date of his joining pursuant to the provisions of Section 269 read with Schedule XIII and any other applicable provisions of Companies Act, 1956 and pursuant to Article 150A of the Articles of Association of the Company.

The above may be treated as an abstract of the terms of appointment of Mr. Swaminathan, Managing Director & CEO under Section 302 of the Companies Act, 1956.

The Board believes that his appointment as Managing Director & CEO will provide immense value to the Company and commends the resolution as set out in the Notice for approval by the Members.

None of the Directors except Mr. Swaminathan, is concerned or interested in the said Resolution.

Item 9

The Board of Directors of the Company at their meeting held on January 25, 2012 appointed Mr. Praveen P. Kadle as an Additional Independent Director and he holds office up to this Annual General Meeting pursuant to Section 260 of the Companies Act, 1956 and Article 129 of the Articles of Association of the Company.

A notice under Section 257 of the Companies Act, 1956 has been received from a Member of the Company signifying his intention to propose the name of Mr. Kadle for appointment as a Director of the Company.

The Board commends the Resolution as set out in the notice for approval by the Members.

None of the Directors, except Mr. Kadle, is concerned or interested in the said Resolution.

Item 10

Consequent upon resignation of Mr. M.K. Tara, former Managing Director & CEO effective from October 14, 2011, the Board of Directors at their meeting held on October 14, 2011 appointed Mr. Paul Brown as Chairman & Managing Director designated as Chairman & Chief Executive Officer of the Company for a period of five years with effect from October 15, 2011 subject to the provisions of Section 269 read with Schedule XIII and any other applicable provisions, if any, of the Companies Act, 1956 and pursuant to Article 150A of the Articles of Association of the Company. No remuneration is payable to Mr. Brown.

In compliance with the provisions of Schedule XIII, the Company had applied to the Central Government seeking approval for appointment of Mr. Brown, as Chairman & Managing Director designated as Chairman & CEO of the Company for a period of 5 years with effect from October 15, 2011 which is awaited.

With the appointment of Mr. Rampraveen Swaminathan as Managing Director & CEO of the Company by the Board of Directors at their meeting held on January 25, 2012 redesignated Mr. Brown as Executive Chairman of the Company from the date of joining of Mr. Swaminathan, Managing Director & CEO.

The above may be treated as an abstract of the terms of appointment of Mr. Brown, Executive Chairman under Section 302 of the Companies Act, 1956.

The Board believes that his appointment as Executive Chairman will provide immense value to the Company and commends the resolution as set out in the Notice for approval by the Members.

None of the Directors, except Mr. Brown, is concerned or interested in the said Resolution.

Item 11

The managerial remuneration paid to Mr. L.N. Bangur, former Executive Chairman, Mr. M.K.Tara, former Managing Director & CEO, Ms. Sheetal Bangur, former Director (Commercial), Mr. Shreeyash Bangur, former Director (Corporate) and Mr. P.K. Suri, Director (Operations) exceeded the limits prescribed under section 309 and the limits laid down in Schedule XIII of Companies Act, 1956 due to loss but was within the limits approved by the Members of the Company. The excess remuneration paid to Mr. L.N. Bangur, Mr. M.K.Tara, Ms. Sheetal Bangur, Mr. Shreeyash Bangur and Mr. P.K. Suri for the financial year (nine month period) amounted to ₹194.64 lakhs.

The dates of approval accorded by Members for payment of remuneration to them are given below:

	Particulars	Mr. L.N. Bangur	Mr. M. K. Tara	Ms. Sheetal Bangur	Mr. Shreeyash Bangur	Mr. P. K. Suri
i.	Age (Years)	62	66	38	31	53
ii.	Academic qualifications	B.Com.	B.E. (Chem)	Post Graduate - Commerce & Business Administration	B.Sc. Accounting & Management, M.Sc. -Engineering, Business Management	B.Tech (Chemical Engineering)
iii.	Experience (Years)	26	41	10	9	34
iv.	Particulars of previous employment as appointed	Industrialist	Chief Executive, Abhishek Industries Limited	–	Ernst & Young Private Limited, Chartered Accountants	General Manager (Manufacturing), Star Paper Mills Limited
v.	Date of approval of appointment/last re-appointment	July 15, 2010	September 27, 2008	July 15, 2010	September 21, 2007	September 27, 2008
vi.	Approval for increase in remuneration, if any	–	July 15, 2010	July 15, 2010	July 15, 2010	July 15, 2010

Pursuant to Share Purchase Agreement dated March 29, 2011 entered into with erstwhile Promoters and Letter of Offer relating to Open Offer dated August 24, 2011 made to the Public shareholders, 29,827,529 equity shares of ₹10 each (representing 75% of the paid up equity share capital) of the Company were acquired by IP Holding Asia Singapore PTE. Limited on October 14, 2011 being the effective date of change in the promoters. Pursuant to such acquisition, IP Holding Asia Singapore PTE. Limited became the Holding Company of The Andhra Pradesh Paper Mills Limited with International Paper Company being the ultimate holding company. Consequent upon change in management Mr. L.N. Bangur, Ms. Sheetal Bangur and Mr. Shreeyash Bangur resigned from the Board of Directors of the Company with effect from October 14, 2011. Mr. M.K. Tara had also resigned from the Board of Directors of the Company with effect from October 14, 2011.

As approved by the Board at the meeting held on December 6, 2011 the financial year of the Company was changed from April 1, 2011 - March 31, 2012 to 9 months from April 1, 2011 to December 31, 2011 and to calendar year for subsequent years.

The Company had made provisions and write offs aggregating to ₹47.20 crore and deferred tax of earlier years amounting to ₹84.75 crore during the financial year (nine month period) ended December 31, 2011 which resulted in net loss of ₹97.81 crore.

Consequently, remuneration of ₹194.64 lakhs paid to Mr. L.N. Bangur, Mr. M.K. Tara, Ms. Sheetal Bangur, Mr. Shreeyash Bangur and Mr. P.K. Suri in the financial year ended December 31, 2011 exceeded the limits laid down in Section 309 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956.

The details of excess remuneration paid to them are given below: ₹ Lakhs

Name	Salary & allowances	Perquisites	Contribution to provident fund, superannuation fund and gratuity	Total
Mr. L.N. Bangur	144.00	–	5.76	149.76 *
Mr. M.K. Tara	146.88	0.75	5.73	153.36 *
Ms. Sheetal Bangur	26.51	1.09	2.77	30.37 *
Mr. Shreeyash Bangur	26.50	1.06	1.44	29.00 *
Mr. P.K. Suri	39.62	5.84	8.04	53.50
TOTAL				415.99
Less: Eligible remuneration as per Section 198, 309, 310 read with Schedule XIII of Companies Act, 1956				221.35
Excess remuneration paid				194.64

* Employed for part of the year

The Board of Directors at their meeting held on January 25, 2012 have approved, subject to the approval of the shareholders and of the Central Government, the payment of remuneration to the managerial personnel in excess of the limits prescribed under Section 309 read with Schedule XIII and other applicable provisions of the Companies Act, 1956 and authorized Company Secretary to file an application to the Central Government for seeking its approval for payment of excess remuneration and waiver from recovery of the same.

The Board recommends the above Resolution for approval by the Members.

None of the Directors except Mr. P.K. Suri and Mr. Shreeyash Bangur is concerned or interested in the said Resolution.

By Order of the Board
For The Andhra Pradesh Paper Mills Limited

C. Prabhakar

C. Prabhakar
Sr. Vice President (Corporate Affairs) &
Company Secretary

Registered Office:
Rajahmundry - 533 105
East Godavari District,
Andhra Pradesh
February 10, 2012

Your Directors have pleasure in presenting the 48th Annual Report and the Audited Accounts for the nine-month period ended December 31, 2011.

Financial Results ₹ Crore

	9 Months ended December 31, 2011	12 Months ended March 31, 2011
Sales and other income	600.84	798.62
Earnings before interest, depreciation, taxation and before one time charges (EBIDTA)	112.58	164.72
Less: Interest	44.00	39.88
Depreciation	50.62	66.97
Loss on assets discarded	31.12	0.78
Profit/(Loss)before tax	(13.16)	57.09
Less: Provision for tax	84.65	12.14
Profit/(Loss) for the year	(97.81)	44.95
Add: Profit brought forward from previous year	60.31	69.99
Profit/(Loss) available for appropriation	(37.50)	114.94
Appropriations		
Transfer to general reserve	–	50.00
Proposed equity dividend	–	3.98
Corporate tax on dividend	–	0.65
Balance carried to Balance Sheet	(37.50)	60.31
	(37.50)	114.94

During the 9-month period under review (hereinafter referred to as 'financial year'), your Company recorded paper production of 160,667 MT as against 136,081 MT for the corresponding period of the previous year and 187,233 MT for the twelve months ended March 31, 2011.

The Company has posted ₹593.91 crore from paper, pulp and power sales for the nine months ended December 2011 as against ₹527.02 crore for the corresponding period in the previous year and ₹781.81 crore for the twelve months ended March 31, 2011.

The EBIDTA for the nine months ended December 31, 2011 was ₹112.58 crore as against ₹125.27 crore for the corresponding previous period and ₹164.72 crore for the twelve months ended March 31, 2011. The Company has made provisions and write offs aggregating to ₹47.20 crore and deferred tax of earlier years amounting to ₹84.75 crore during the financial year under review which resulted in net loss of ₹97.81 crore for the year under review.

Marketing and exports

The Company made a sale of 139,888 MT for the nine months ended December 31, 2011 comprising of 139,786 MT of paper sales and 102 MT of pulp sales against 130,400 MT comprising of 125,667 MT of paper and 4,733 MT of pulp sale for the corresponding period of previous year. For the twelve months ended March 31, 2011, the Company had made sale of 193,302 MT comprising of 188,569 MT of paper sale and 4,733 MT of pulp sale.

For the nine months ended December 31, 2011, the domestic paper sales were 124,503 MT against 109,586 MT for the corresponding period of previous year and 166,900 for the twelve months ended March 31, 2011. Similarly, the exports sales for the nine months ended December 31, 2011 was 15,283 MT against 16,081 MT for the corresponding previous period and 21,669 MT for the twelve months ended March 31, 2011.

While there has been a slight decrease in quantity, we were able to substantially increase the sales realization per MT over the last year. The Company managed to get a better net sales realization per MT over the previous year due to upward price revisions across all grades and a change in the product mix.

Change in the status of the Company

In October, 2011 IP Holding Asia Singapore PTE. Limited acquired 29,827,529 equity shares of ₹10 each representing 75% of the paid-up capital of the Company from the erstwhile promoters and public. Consequently, your Company has become a subsidiary of IP Holding Asia Singapore PTE. Limited with effect from October 14, 2011.

Change in the financial year

The Board approved the change in the financial year of the Company from April 1, 2011 to March 31, 2012 to 9-month period from April 1, 2011 to December 31, 2011 and subsequent financial years of the Company to a period of calendar year beginning from January 1 to December 31 in each year.

Dividend

In view of the loss, your Directors are constrained to skip payment of dividend on the equity shares for the financial year under review.

Raw material procurement

Concerted efforts by APPM enabled the mills to meet 100% requirement of pulpwood from own catchment area and overcome the stiff competition in pulpwood procurement.

During the year, bamboo supply from government was also resumed up to some extent.

Raw material resource development

120.70 million quality seedlings were developed and distributed during the planting year 2011 covering an area of 16,823 Ha under plantation against development and distribution of 103.70 million seedlings covering an extent of 15,000 Ha during previous 2010 planting year. Research on clonal development has resulted into introduction of high yielding, disease resistant clones and versatile to a wide variety of agro-climatic conditions in inland and coastal areas.

Research and development initiatives with low cost planting techniques, quality seed material and high yielding, short rotation planting stock have enhanced raw material availability spread over more than 132,759 Ha. These benefits are extended to around 44,563 families creating employment resource pool of 66 million man-days especially in rural areas so far.

Forestry targeting marginal and wastelands

The ongoing farm forestry activities focused on the local agrarian community of small and marginal land holdings which could be better utilized for pulpwood plantations with minimal investment by adopting low cost planting technology. Introduction of Casuarina hybrid has resulted in higher yield ensuring quality raw material to mills and higher returns to farmers.

The Company's farm forestry activities have helped in generating the pulpwood requirement to the mills and also in sustaining the local needs of farmers by means of generating employment and upliftment of socio-economic conditions of the villagers and tribal communities.

The Company's presence and initiatives in greening waste lands for raw material resources have created a strong network comprising tribal beneficiaries, self-help groups and village organizations to fight against poverty and natural disasters.

Projects

Unit: APPM

i. Retrofitting of electro static precipitators (ESP)

Retrofit of ESPs for reduction of emissions and environment improvement was completed for coal fired boiler No.5 in May 2011. Pressure parts modification work is in progress, which is expected to be completed in May 2012.

ii. Construction of D1 tower for DnD sequence

New RCC D1 tower for DnD sequence was taken into operation on trial in July 2011.

iii. Installation of a new ESP and retrofit of recovery boiler # 4

ESP was taken into circuit in May 2011. Boiler retrofit shall be carried out during next maintenance outage of the Mill in 2012.

iv. Modifications in Paper Machine # 5

New state of art design steam & condensate system equipment, new ceramic top de-watering elements, new closed hood & PV system for post dryer area and new micro travel variable speed high pressure oscillating showers were installed in April 2011. New hood & PV system for pre-dryer area and UTM pulper under size press will be completed during next maintenance outage of the Mill in 2012.

v. Rewinders for PM # 3 and PM # 6

A new rewinder for PM#3 was installed and trials are in progress. All materials for the new winder on PM # 6 were received and the erection is nearing completion.

vi. Installation of presses in effluent treatment plant for handling sludge

Two presses of each 20 tpd sludge handling capacity are installed and pre-commissioning trials are in progress.

vii. On-line monitoring systems for stacks, ambient air and TOC analyzer for waste water

All the items have been received at site, installed and pre-commissioning trials are in progress.

Unit: CP

i. Retrofit of De-Inking Plant

Plant was commissioned in July 2011 and is in regular operation.

ii. On line monitoring systems for stack and TOC analyzer for waste water

All the items were received at site, installed and pre-commissioning trials are in progress.

Award

The Company received second prize in appreciation of the achievements in **Energy Conservation in Large Scale Industry Sector for the year 2010-11** from Government of Andhra Pradesh.

Corporate Social Responsibility

Under CSR activities, medical aid to the rural population through mobile medical van service was inaugurated on August 15, 2011. It was well received and appreciated by the people in rural areas. From August 15, 2011 to December 31, 2011 the mobile medical van visited 136 villages benefitting 6,601 persons by distributing medicines.

At the request of the residents of Katheru Village, East Godavari District drinking water is being supplied through water tanks to facilitate drinking water to the residents of Katheru Village during 2011. At the request of the residents of Venkatanagaram Village, East Godavari District 3 CC Roads were laid and culvert and ramp were constructed at Venkatanagaram Village as a part of village development program.

Financial assistance was provided to the Music College, Rajahmundry to encourage students. School bags, note books, benches and ceiling fans were donated to Zilla Parishad High Schools at Gurrampalam Village and Gandigudam village, Anakapalli Mandal as a part of literacy campaign and encouraged school going children in rural areas.

Two tailoring centers successfully continue to provide free training in embroidery and tailoring for economically backward women folk to make them self-reliant. 106 women were successfully given training in 4 batches during the year 2011.

Apart from the above, R.O Plant was arranged to Government College, Rajahmundry providing drinking water to the students. Approximately 1,000 students and staff are being benefited by this project.

Particulars of conservation of energy, technology absorption and foreign exchange earnings and outgo

Particulars of conservation of energy, technology absorption and foreign exchange earnings and outgo as required under Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in Report of the Board of Directors) Rules, 1988, are given in the Annexure - I attached and forms part of this Report.

Particulars of employees

The information required under Section 217 (2A) of the Companies Act, 1956 and the rules made thereunder is provided in the annexure - II forming part of the Report.

Public deposits

31 deposits totaling ₹17.01 lakhs due for repayment on or before December 31, 2011 were not claimed by the depositors as on that date. Deposits aggregating to ₹11.37 lakhs were refunded/renewed during January 2012. During the year under review, there was no unclaimed deposit amount which is required to be transferred to Investor Education and Protection Fund.

The provisions of Section 58A of the Companies Act, 1956 have been complied with.

Auditors

Messrs B S R & Co., Chartered Accountants, Hyderabad, Auditors of the Company informed that they would not wish to be reappointed as statutory auditors for the financial year ending December 31, 2012. On the recommendation of the Audit Committee, your Board of Directors decided to propose the appointment of Messrs Deloitte Haskins & Sells, Chartered Accountants, Secunderabad as statutory auditors for the financial year ending December 31, 2012 to hold office from March 22, 2012 being the date of 48th Annual General Meeting till the conclusion of next Annual General Meeting.

The Board placed on record its appreciation to the outgoing firm of auditors viz. Messrs B S R & Co., and the valuable assistance rendered by them during their tenure as auditors.

Directors

During the year under review, Mr. L.N. Bangur, the then Executive Chairman, Mr. M.K. Tara, the then Managing Director & CEO, Ms. Sheetal Bangur, the then Director (Commercial) and Mr. Shreeyash Bangur, the then Director (Corporate) resigned from the Board of Directors of the Company with effect from October 14, 2011 and Mr. Thomas Gustave Kadien, Mr. Brett Allen Mosley and Mr. Shreeyash Bangur were appointed as additional directors with effect from October 14, 2011.

The Board placed on record its appreciation for the valuable advice and guidance received from Mr. L.N. Bangur, Mr. M.K. Tara, Ms. Sheetal Bangur and Mr. Shreeyash Bangur during their tenure as Directors of the Company.

Mr. Paul Brown was appointed as Chairman & Managing Director designated as Chairman & CEO with effect from October 15, 2011 subject to the approval of shareholders and Central Government.

Mr. N. Srinivasan, Mr. P.J.V. Sarma, Mr. P.K. Paul, Mr. Rajiv Kapasi and Mr. P.R. Ramakrishnan, Independent Directors resigned from the Board with effect from December 6, 2011.

The Board placed on record its appreciation for the valuable advice and guidance received from Mr. N. Srinivasan, Mr. P.J.V. Sarma, Mr. P.K. Paul, Mr. Rajiv Kapasi, and Mr. P.R. Ramakrishnan during their tenure as Directors of the Company.

The Board of Directors at the Meeting held on December 6, 2011 appointed Mr. M. S. Ramachandran, Mrs. Ranjana Kumar, Mr. M. K. Sharma, Mr. Milind Sarwate and Mr. Adhiraj Sarin as Independent Directors in the casual vacancies caused by the resignations of Mr. N. Srinivasan, Mr. P.J.V. Sarma, Mr. P.K.Paul, Mr. Rajiv Kapasi and Mr. P.R. Ramakrishnan respectively.

Mr. M.S. Ramachandran and Mrs. Ranjana Kumar who were appointed as Independent Directors in the casual vacancies caused by the resignations of Mr. N. Srinivasan and Mr. P.J.V. Sarma respectively will hold office up to the ensuing Annual General Meeting and being eligible, offered themselves for appointment.

The Board of Directors at the Meeting held on January 25, 2012 appointed Mr. Praveen P. Kadle as an Additional Independent Director and Mr. Rampraveen Swaminathan as Additional Director and also appointed him as Managing Director & CEO of the Company from the date of his joining the Company. The Board re-designated Mr. Paul Brown as Executive Chairman from the date of joining of Mr. Rampraveen Swaminathan as Managing Director & CEO of the Company.

Mr. Thomas G. Kadien, Mr. Brett Allen Mosley, Mr. Shreeyash Bangur, Mr. Praveen P. Kadle and Mr. Rampraveen Swaminathan will hold office up to the ensuing Annual General Meeting. The Company has received requisite notices in writing under Section 257 of the Companies Act, 1956 from members proposing their candidature.

Industrial relations/initiatives

The industrial relations at both units of the Company have been harmonious and cordial. The employees and the unions have been cooperating in improving productivity.

All the employees have been motivated to submit their ideas of concern/suggestions in the entire plant on improvement of safety and environment and facilitate management to take proactive steps/measures on the above said areas.

Cost accounting records

Costing accounting records for the year ended December 31, 2011 were maintained as per Cost Accounting Records Rules. M/s. Narasimha Murthy & Co., Cost Accountants were appointed as Cost Auditors of the Company with the approval of Central Government to audit the cost accounts for the financial year ended March 31, 2012.

The Cost Audit Report due for filing on September 30, 2011 for the financial year 2010-11 was filed with the Ministry of Corporate Affairs on September 8, 2011.

The report for the year ended December 31, 2011 will be filed on or before June 30, 2012.

Directors' Responsibility Statement

Your Directors hereby confirm and declare that:

a. in the preparation of annual accounts for the period ended December 31, 2011, the applicable accounting standards has been followed along with proper explanation relating to material departures;

b. they had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the period ended December 31, 2011 and of the loss of the Company for that period;

c. they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

d. they had prepared the accounts for the period ended December 31, 2011 on a 'going concern' basis.

Response to auditors' observation

As regards auditors' observation in the Audit Report dated January 25, 2012 regarding payment of managerial remuneration in excess of maximum limits specified in Schedule XIII to Companies Act, 1956 to the extent of ₹194.64 lakhs, the Company would make necessary application to Central Government under Section 309 of Companies Act, 1956 seeking their approval for excess remuneration after the special resolution is passed by shareholders at the ensuing annual general meeting.

Acknowledgements

Your Directors wish to place on record their gratitude to the central government and the Government of Andhra Pradesh, BNP Paribas, Citibank N.A., IFC, DEG, Finnish Fund for Industrial Cooperation Limited, State Bank of India, Canara Bank, ICICI Bank and Axis Bank for their continued support during the year. Your Directors also wish to convey their thanks to the valued customers and dealers for their continued patronage during the year. Your Directors also place on record their appreciation of the contribution made by all the employees during the year.

For and on behalf of the Board

Secunderabad
February 10, 2012

Paul Brown
Chairman & CEO

Annexure-I

Information under Section 217 (1) (e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 and forming part of Directors' Report.

Conservation of energy: The Company has implemented the following measures for energy conservation during the nine month period ended December 31, 2011:

a. Replacement of dyno-drives of coal fired boilers drag chain feeders with VFDs resulted in savings of power by 18 KW.
b. Replacement of 4 feet, 36W tube lights in colony with 2 feet, 18W lights resulted in saving of power by 3 KW (105 Nos).
c. Installation of heat exchanger in coal fired boiler # 3 for recovery of heat from flue gas resulted in increase of DM water temperature; thereby reduction of LP steam consumption in de-aerator by 13 TPD.
d. Removal of one stage in feed water pump of coal fired boiler # 6 resulting power saving of 40 KW.
e. Installation of heat exchanger to recover energy from Eop filtrate (to reduce its temperature) and to increase the temperature of warm water resulting reduction of LP steam consumption in pulp mill by 43 tpd.
f. Running of new chest agitator only during running of pump (instead of continuous operation) in AP No. 2, 3 and 5 machines resulting power saving of 1 KW.
g. Bypassing of one out of three streets in AP 2, 3 & 5 machines (stopping 2 pumps and 2 agitators) resulting power saving of 9 KW.
h. Stoppage of one refiner in AP3 Machine and one refiner in AP5 Machine resulted in power saving of 15 KW.

FORM 'A'
FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

Particulars	Unit	Current period	Previous year
A. Power & Fuel Consumption			
1. Electricity			
a. Purchased units	KWH/Lakhs	242.44	320.99
Total amount	Rs/Lakhs	1017.58	1335.09
Rate/unit	₹	4.20	4.16
b. Own Generation			
i. Through diesel generator:			
Units	KWH/Lakhs	2.57	2.67
Units/Ltr of diesel oil	KWH	3.31	2.75
Cost/unit	₹	13.88	15.84
ii. Through steam turbine (Double extraction-cum-condensing)			
Units	KWH/Lakhs	2047	2793
Cost/unit	₹	2.50	2.59
iii. Through steam turbine (Single extraction-cum-condensing)			
Units	KWH/Lakhs	272.43	379.95
Cost/unit	₹	3.59	3.06
2. Coal (steam/slack)[1]			
Quantity	MT	229514	315632
Total cost	₹/Lakhs	6099.55	6777.63
Average rate	₹/MT	2658	2147
3. Furnace oil			
Quantity	KL	406	770
Total amount	₹/Lakhs	144.70	228.76
Average rate	₹/KL	35639	29710
4. Sawdust & others			
Quantity	MT	14587	15919
Total amount	₹/Lakhs	8.99	8.02
Average rate	₹/MT	271	241
B. Consumption per MT of production			
Electricity[1]	KWH	1409	1587
Furnace oil	KL	0.003	0.004
Coal[1]	MT	1.416	1.705
Husk, saw dust & others	MT	0.090	0.086

[1] Excludes quantity of consumption meant for sale of power.

FORM 'B'

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO ABSORPTION

A. Technology Absorption

Unit:APPM

a. **Efforts made towards technology absorption, adoption and innovation:** Nil

b. **Benefits derived as a result of the above efforts:** Nil

c. **Imported technology (imported during the last 5 years reckoned from the beginning of the financial year)**

1.	a.	Technology imported	Adoption of state-of-the-art technology of Duo-former, size press and calendar including heating and cooling system in Paper Machine No.3.
	b.	Year of import	2007-08
	c.	Has the technology been fully absorbed	Technology has been fully absorbed.
2.	a.	Technology imported	i. Adoption of state-of-the-art technology of duo-former, Nipco presses, speed size and Nipco calendar along with Paper Machine No.6.
			ii. Adoption of states-of-the-art technology of synchro duplex sheeter.
			iii. Adoption of state-of-the-technology of A-4 cutting line.
	b.	Year of import	2010-11
	c.	Has the technology been fully absorbed	Technology has been fully absorbed.

Unit:CP

Imported technology (imported during the last 5 years reckoned from the beginning of the financial year):

a.	Technology imported	As a part of augmentation of capacity of sludge handling, incorporated a high capacity 35 BD MTPD dry solids handling belt press (Sludge de-watering machine) at ETP, for which design and main components such as rollers, belts, cylinders, etc., were imported from Andritz - Singapore & China and assembled at Andritz Separation (India) Private Limited, Chennai.
b.	Year of import	2009-10
c.	Has the technology been fully absorbed	Technology has been fully absorbed.

B. Research & Development

Unit:APPM (Plant)

1. Specific areas in which R&D carried out by the Company	New product development.
	Product quality improvement.
	Process optimisation studies.
	Identification of functional additives and plant trials for cost reduction/ quality improvement.
2. Benefits derived as a result of the above R&D.	New products developed as per market demand.
	Modification of products for customer satisfaction.
	Identified the additives for quality improvement and cost reduction.
3. Future plan of action	New product development.
	Evaluation of alternate fibrous raw materials.
	Process optimization studies.
	Identification of functional additives/chemicals for product development, process/quality improvement and cost reduction.

Unit:APPM (Forest)

1. Specific areas in which R&D carried out by the Company	Development of quality seedlings by means of low cost planting techniques in farm forestry.
	Macro propagation of Casuarina and Eucalyptus for high yielding clones.
	Wasteland development projects for resource development.
	Clonal demonstration plots.
	Establishment of Casuarina clonal seed orchards.
2. Benefits derived as a result of the above R&D	Quality seedlings by low cost planting technique has sustained farming community in their marginal lands by giving higher yield with minimal investment.
	Macro propagation has helped in increased productivity per unit area with in a short rotation cycle.
	Demonstration plots giving first hand information to farmers and the benefits derived from clones under field conditions.
	Clonal seed orchards to derive quality seed material with identity for utilization in farm forestry activities.
3. Future plan of action	Major thrust shall be given for increasing the Casuarina clonal plantation by introducing new low cost Casuarina clone development technique.
	Introduction of more site-specific clones by means of macro propagation.
	Development of superior genotypes of Casuarina by micro propagation.
	Clonal demonstration plots as a tool to promote clones for the benefit of farmers.
	Clonal trials for Subabul.

C. Expenditure on Research & Development (₹ Lakhs)

a.	Capital	:	7.00
b.	Recurring	:	117.93
c.	Total	:	124.93
d.	Total R&D expenditure as a percentage of total turnover (%)	:	0.20

D. Foreign exchange earnings and outgo (₹ Lakhs)

a.	Foreign exchange earned	:	2139.32
b.	Foreign exchange utilised	:	6304.09

Annexure-II

Information as per Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of Directors' Report for the financial year ended December 31, 2011.

Name of the employee	Mr. L.N. Bangur	Mr. M.K. Tara	Ms. Sheetal Bangur	Mr. P.K. Suri
Age (Years)	62	66	38	53
Designation	Executive Chairman	Managing Director & CEO	Director (Commercial)	Director (Operations)
Remuneration (₹ Lakhs)	149.76*	153.36*	30.37*	53.50
Qualification	B.Com.	B.E. (Chem.)	Post Graduate - Commerce & Business Administration	B.Tech. (Chemical Engineering)
Experience (Years)	26	41	10	34
Date of commencement of employment	May 27, 2010	November 7, 2007	April 1, 2005	May 12, 2008
Last employment held	Industrialist	Chief Executive, Abhishek Industries Limited	–	General Manager (Manufacturing), Star Paper Mills Limited

* Employed for a part of the year.

Notes:

1. Mr. L.N. Bangur and Ms. Sheetal Bangur are related to each other and are also related to Mr. Shreeyash Bangur. Mr. M. K. Tara and Mr. P.K. Suri are not related to any of the Directors of the Company.
2. The nature of appointment of the above Directors is contractual.
3. Remuneration includes salary, allowances, production bonus (wherever applicable), Company's contribution to provident fund and other funds, reimbursement of medical expenses and other sums actually paid during the year and monetary value of other perquisites.

For and on behalf of the Board

Secunderabad
February 10, 2012

Paul Brown
Chairman & CEO

GLOBAL SCENARIO

With its incredible versatility and application, paper is a ubiquitous product with daily demand from almost all sections of society. The most well-known applications of paper and paper industry products include writing & printing (W&P) paper, industrial paper, specialty paper such as tissues, newsprint, and value added products such as packaging materials, corrugated cartons, paper cups, building materials, hospital products, fire-resistant and water proofing materials.

Paper, made from natural and recyclable materials such as cellulose sourced primarily from wood products as also from rags, grass and dry waste materials, is a eco-friendly product because it is,

a. made from renewable materials;

b. sourced from forest products that are planted at a rate faster than they are utilized, with increasing forest cover;

c. bio-degradable and recycled; and,

d. a source of renewable energy at the end of its life-cycle.

Worldwide the paper industry remains responsible to the environment and prides itself in planting more number of trees than are used. The industry has strived to be a responsible steward of sustainable development of forest resources which, in turn, has added to the raw material security for the paper manufacturers.

The clean technology management programs adopted by the paper manufacturers have culminated in reduced environmental impact even as the paper production volume has been stepped up. The industry has reduced its dependence on fossil fuels, saved on energy consumption and cost, lowered water consumption, successfully worked towards air purity and has been well-documented to be non-CO_2 intensive. The paper industry is hence well-positioned to supply larger volume of paper and has been growing despite the challenges from alternative mediums such as internet and mobile applications.

INDIAN PAPER INDUSTRY

The Indian paper industry is more than 140 years old with the first mill having been commissioned in 1867. There are, at present, about 515 units engaged in the manufacture of paper and paperboards and newsprint in India. The country is almost self-sufficient in manufacture of most varieties of paper and paperboards. Import, however, is confined only to certain specialty papers.

Over the years, in line with the improvement in the well-being of people and rising literacy and aspiration levels, paper usage has increased. While India accounts for approximately 17% of the global population, the domestic paper industry accounts for about 1.6% of the world's production of paper and paperboard. The estimated turnover of the industry is ₹30,000 crore (USD 6.2 billion) approximately and the industry provides employment to more than 120,000 people directly and 340,000 indirectly.

Paper sector is dominated by small and medium size units; number of mills of capacity 50,000 tons per annum or more is not more than 25. Less than half a dozen mills account for almost 90% production of newsprint in the country.

The industry was delicensed in July 1997 by the Government of India, which enabled foreign participation and investment in the domestic industry. Most of the paper mills are in existence for a long time and hence present technologies fall in a wide spectrum ranging from oldest to the most modern.

Today almost every person uses paper in one form or the other. The industry has responded to the growth in demand and the installed capacity in India has risen from 0.137 million MT per annum in 1951 to the current 10.8 million MT. This includes capacity expansion of approximately 1.2 million MT in the recent past.

A brief analysis of the industry structure reveals that W&P paper capacity is 3.5 million MT, of which 85% constitutes uncoated paper and the balance being coated varieties. The uncoated varieties comprise of cream wove, maplitho and copier papers.

Out of the 10.8 million MT capacity referred above, paperboard (industrial paper) accounts for 5 million MT. 58% of the products such as kraft paper are used in tertiary packaging and the remaining 42% constitute consumer packaging. Of the total industry cake, newsprint accounts for 1.9 million MT capacity and specialty paper holds the balance 0.4 million MT.

The industry is further categorized on the basis of raw-material used for manufacturing paper into forest-based (with a share of 21%), agro-based (23%) and recycled fiber-based paper (56%).

There is a growing need to modernize the Indian mills, improve productivity and build new capacities. Indian paper industry is capital, energy and water intensive, highly fragmented and has sub-optimal economies of scale due to use of obsolete technology.

There is however, a perceptible transformation in the industry. Medium and larger domestic producers have been focusing on reducing cost of product and improving quality of finished product. Some of the initiatives taken by them include increasing the size of machines with high-speed features, upgrading to new machine technology and increasing farm plantation activities.

The Indian paper industry is one of the world's fastest growing paper markets, growing at a CAGR of 6.7% over the past 5 years, FY06-11 (Source: CARE, August 2011). The paper industry performance is highly correlated with the macro economic trends and is often demonstrated by an analogous directional move. Over the years, the beta between the growth trends of GDP and paper industry is nearly one. During the same 5 year period referred above, paper industry demand has grown at an average 0.9x multiple of GDP.

THREATS & OPPORTUNITIES

Historically, the demand elasticity for the industry is sensitive to favorable excise policy, increased government spending on education and improved activity from service, print media, FMCG, consumer durables and pharmaceutical sector. Demand for paper and paperboard closely follows the economic growth of the country and has a positive correlation to the prevailing economic trends. In India, the demand drivers and growth triggers have come from a combination of factors:

- rising level of national income;
- growing per capita disposable income;
- rising aspiration levels of the people;
- increasing size of the population;
- increasing size of the service industry;
- spread of education and literacy throughout the country;
- several government initiatives that focus on education; and
- higher level of industrial activity and corporate spending.

Historically, strong economic growth has been accompanied by equally robust demand for paper. So far, the growth in Indian paper industry has mirrored the growth in GDP which grew on an average at 7.45% over the past decade, with growth better than 8.5% in each of the past five years.

In the same five years referred above, newsprint registered a growth of 13%, while W&P, container board, carton board and others registered growth of 7.5%, 11% and 9%, respectively (Source: IPMA).

The increasing demand for paper brings with it new challenges of economies of scale, efficient usage of resources, need to develop and expand sustainable use of fiber, and value chain management, etc. Despite the fact that the Indian paper industry has potential and capabilities to serve the growing demand in domestic and international market and create huge employment avenues in the country provided it retains the competitive edge, there are deterrents that need to be addressed.

The wood resources and availability are limited across the country. Hence, the cost of wood is much higher in India in comparison to the global scenario. The official policies do not permit corporate farming which hampers securing wood and hence is a major challenge for the paper producers. Wood based segment of the paper industry meets its current wood requirements primarily through social/farm forestry and supplements with purchases made from the state forest agencies.

Energy is a major component of cost of production and has increasingly become a challenge for the manufacturers. The Government of India has withdrawn the core sector status hitherto enjoyed by the paper industry. Cost of coal is escalating and prospect of availability of quality coal is diminishing. The coal price has had a steep price rise and resulted in escalation of cost of production of mills which are dependent on coal for generation of steam/power. Also, power purchased from the grid is proving expensive for the industry.

PAPER INDUSTRY OUTLOOK

Paperboard demand is expected to grow at the fastest rate across all segments due to strong demand from organized retail market and flexible packaging products. Newsprint demand is expected to grow with rise in literacy rate and increased focus of print media companies on regional market. P&W demand is also forecast to continue growing rapidly with increased government spending on education and improved activity from service & manufacturing sector.

As per current estimates (Source: CRISIL, December 2011), some of the key components of growth in the paper industry over the next five years are briefly listed below:

- Coated and copier papers will drive W&P paper growth by ~8%;
- Uncoated paper to grow at ~7.5%;
- Led by key drivers such as education and office printing, branded copier paper market to grow by ~16%;

- Demand for coated paper to be at ~9% with art paper to grow by ~12% driven by organized retail, marketing brochures and magazines;
- Paperboard demand to grow by ~7.5% with increase in organized retail and rise in urbanization;
- Consumer packaging to grow by ~8% with higher demand from organized retail, pharmaceuticals, textiles, food and FMCG products;
- Average wood pulp and wastepaper prices to decline in 2012; and,
- Operating rates to improve for producers from 2013.

APPM is alert to the pressures of the market and is striving to improve on all fronts including volumes, revenues, margins and cash flow. It is also relevant to refer that while India imports about 2 million MT of pulp (both hardwood and softwood) and faces the volatility in prices accentuated by a weakening rupee-strong dollar trend, APPM manages its sensitivity with captive in-house production of cost effective, good quality pulp to meet its total requirement. Today, APPM is a low cost producer of paper in India and this strength is likely to be retained.

APPM - A PERSPECTIVE

The Andhra Pradesh Paper Mills Limited (APPM) is a leading manufacturer of pulp and paper products and caters to both the domestic and foreign markets. With two manufacturing units in Andhra Pradesh and a total paper production capacity of 241,000 MT per annum, APPM produces writing and printing and copier papers. With gross sales of approximately ₹623 crore (US$ 130 million), focused social and community programs backed up with its own pioneering work in raw material generation through social farm forestry and a very strong strategic growth focus, APPM is becoming a driving force in the green paper manufacturing arena in the world economy.

APPM has been one of the first to recognize the potential in actively promoting agro forestry with private land holders/ farmers to meet its raw material needs in a sustainable manner. This has helped the Company to access pulp of the highest quality, modernize the processes by incorporating the latest state-of-the-art production technology, enhance production capacity, conserve fossil fuel, recover and recycle chemicals and water, improve productivity and quality of products, upgrade environmental technologies and be cost competitive in manufacturing economics. APPM has hugely improved its competitive strength and presently has the ability to overcome the pressure points that confront the industry.

APPM is one of the largest integrated pulp & paper manufacturers in India 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 & operates two units, one at Rajahmundry and another at Kadiyam. The Rajahmundry based Unit:APPM is

APPM at Paperex 2011

an integrated wood based paper mill with a rated capacity to produce annually 174,000 MT of finished paper production and 182,500 MT per annum of bleached pulp production. The unit manufactures uncoated writing and printing paper mainly copiers, industrial papers and posters using Casuarina and Subabul as main source of pulp woods.

Unit:CP the second manufacturing unit at Kadiyam, has a rated capacity to produce 67,000 MT per annum of finished paper such as cream wove, azurelaid, colored copiers, kraft liner and newsprint using recycled fiber and purchased pulp as base raw materials.

APPM has done path finding work to develop its unique model of farm forestry that has helped the Company not only to create adequate supplies of wood in the catchment area but also develop a sustainable source of pulpwood for the future. The Company sells saplings from its nurseries and counsels farmers on the best methods to grow them thereby conserving natural resources and creating a healthier environment.

The farm forestry program is based on developing massive plantations on marginal and degraded farm lands. As of today, the Company ensures that it gets 100% of its requirement of hardwood from its farm forestry efforts. While doing so, APPM supports farmer welfare programs and champions the cause of an eco-friendly environment.

The Company has always been conscious of its corporate responsibilities and for decades followed a strict environmental policy. Investments continue to be made to remain ahead of compliance standards. Such efforts have helped protect and regenerate the natural resources, conserve energy and water, improve productivity and set a positive environmental track record at the mills.

Paper industry is capital intensive and has a large gestation period. Payback is partly earned through better product characteristics and value realization and partly by improving productivity. In its endeavor to match global standards, APPM has invested heavily in environment friendly technologies that facilitate increasing the overall quality of products and demonstrating productivity gains.

Over the past five years, APPM invested in certain key equipments and processes which include the following:

- A chipper line which enables more homogenous chips which in turn help produce good quality pulp;
- A continuous digester that works on low solid and low temperature cooking of chips;
- A two stage oxygen delignification plant followed by an elemental chlorine free bleaching plant;
- A non-condensable gas burning system suitable for high volume and low concentration gases;
- A chemical recovery system based on high steam economy evaporation and crystallization technology for higher solids concentration;
- A recausticizing plant;
- A rotary lime kiln;
- A 34 MW turbine with a power boiler to supplement captive power, and,
- A diffused aeration system with cooling tower to improve the efficiency of the effluent treatment plant.

These plants and processes ensure consistent pulp quality with high strength properties, low consumption of utilities and chemicals and offer economies of scale. The Company has improved the economics of production in the mill and exceeded current environmental norms applicable in the country.

At Unit:APPM the paper production capacity was being enhanced with commissioning of the Paper Machine No. 6 which augments the marketable quantities of paper by 67,000 MT per annum and add to both top and bottom lines of the Company.

The Company has been striving to produce higher grade varieties of paper that are in demand in the addressable markets. During the past two years, several newer and high-end writing and printing varieties were introduced. In the copier and graphic papers, 90+ brightness paper was launched.

For all grades, marketing and distribution is done primarily through a network of 75 dealers. Some large consumers are also being catered directly and the Company participates in government tenders. Exports are undertaken through a network of indenting agents across 20 countries.

PERFORMANCE REVIEW

Finished paper production for the 9-month period ending December 2011 was 160,667 MT as compared to 187,233 MT in the 12-month financial year ending March 2011. Unbleached pulp production was 139,876 MT during the reporting period as compared to 171,140 MT in the previous financial year.

Paper sales were 139,786 MT comprising 124,503 MT in the domestic market and 15,283 as export sales. In 2010-11, in comparison, domestic paper sales were 166,900 MT while export sales were 21,669 MT. Gross domestic net sales realization was 7.5% higher over the previous year at ₹44,891 per MT with export realization higher by 8.7% at ₹42,015. The Company managed to get a better net sales realization per MT over the previous year partly due to better market conditions and improved product pricing and partly due to change in product mix at Unit:CP.

During the nine months ending December 2011, the revenue from operations totaled ₹593.91 crore, while Other Income was ₹6.92 crore. Total revenue for the period was therefore ₹600.84 crore.

Earnings before interest, depreciation and taxation (EBIDTA) were at ₹112.58 crore (before adjusting for one-time charges) constituting 18.73% of the revenue from operations. In the previous financial year 2010-11, the corresponding amount was ₹164.72 crore accounting for 20.62% of the revenue.

Lower EBIDTA is also a function of the sensitivity attached to the demand cycles. Market demand, volume sold and prevailing prices are normalized in a 12-month cycle and hence are not comparable with a 9-month review period ending December 2011.

Interest and finance charges were ₹44 crore, which accounted for 6.92% of the gross revenue. Interest rates remained firm throughout the period at review.

The volatility in the rupee-dollar exchange rate adversely impacted and the Company incurred loss, primarily on account of mark-to-market (MTM) loss, of ₹7.90 crore as at December 31, 2011. Such MTM losses were on account of foreign exchange differences on long term foreign currency loans contracted for acquisition of capital assets. Comparatively, the corresponding cost was ₹0.12 crore as at March 31, 2011.

Profitability was also affected due to higher input cost (substantially on account of the inflationary conditions in the economy) and non-recurring loss such as write-off of plant & machinery, stores & spare parts considered obsolete and inventory of damaged finished stock and provisioning for legal cases and diminution in value of investments. The Company made an internal technical review during the second and third quarter and recognized impairment in the value of these assets aggregating to ₹47.20 crore. They are non-recurring costs and have been charged to the revenue account during the review period.

In addition, there was a non-cash charge of ₹84.75 crore being provision for arrears of deferred tax liability. The Company had been recognizing deferred tax expense arising primarily from depreciation on tangible fixed assets on the basis of currently applicable Minimum Alternate Tax rather than regular tax rates. The Company had challenged the provisions of Accounting Standard 22 in relation to this matter and filed a writ petition. In view of the long pendency in resolution of the matter, the Company has provided for arrears of deferred tax liability in the Profit and Loss Account during the review period.

As a result, the Company has reported a pre-tax loss of ₹13.16 crore as against profit before tax of ₹57.09 crore reported in the earlier year. The loss after tax adjustment is ₹97.81 crore. The profit after tax in the financial year ending March 2011 was ₹44.95 crore.

Raw material

APPM could source all its requirement of pulpwood within a radius of 250 kms (primarily within Andhra Pradesh) and almost 100% of the procurement was obtained from the Company's own farm forestry initiative. The clonal saplings distributed by the Company have started yielding results and the farmers have reported more than 100% improvement in yield per acre of wood produced.

During the nine months to December 2011, about 120.70 million quality saplings (including 0.5 million clonal saplings) were distributed to develop an area of 16,823 hectares under plantation against 103.70 million saplings covering an extent of 15,000 hectares in the previous planting year. The farm forestry program of APPM has raised plantations in 132,759 hectares since 1989 when the initiative was started with a goal of achieving raw material self sufficiency and sustained availability. Distribution of 918 million quality saplings has benefited 44,563 families till date creating employment resource pool of 66 million mandays especially in the rural areas.

Research and development initiatives with low cost planting techniques, quality seed material and high yielding, short rotation planting stocks have enhanced raw material availability. Clonal development has resulted in introduction of high yielding, disease resistant clones and versatile to a wide variety of agro-climatic conditions in inland and coastal areas. Low cost planting techniques, quality seed material and high yielding varieties and short rotation planting stock have enhanced raw material availability.

APPM's ambitious farm forestry schemes emphasize conservation of natural resources and healthier environment, massive plantations on marginal and degraded farm lands and supports farmer friendly practices.

During the review period, the Company used primarily (98%) two species of hardwood (Casuarina and Subabul). The competitive pressure in the market for hardwood coupled with higher transportation costs saw an increase in landed cost at the depots. Average rate of raw material (Bone Dry) was 12.6% higher between the two reporting periods.

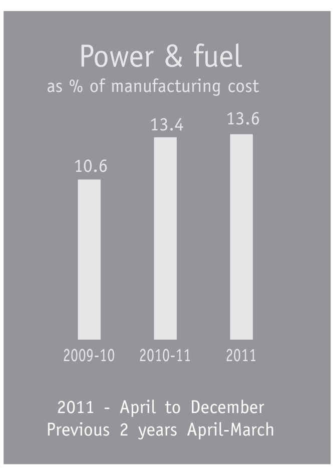
While thru'put was increased with process efficiencies, only part of the increased raw material cost was mitigated. Raw material cost was hence higher by 10.4% at ₹9,791 per MT, over ₹8,867 per MT in the previous financial year at Unit:APPM.

At Unit:CP, higher utilization and change in mix with larger quantum consumption of dry pulp reels increased the raw material cost by approximately 13.6% per MT.

Utilities

APPM capacity was scaled up with PM6 being stabilized during the first quarter of the review period with sustained higher pulp production from May 2011. Impetus was given to manufacturing excellence in the last quarter as the production team strived to optimize machine efficiencies, incorporated process improvements at both units and endeavored to reduce cost of utilities. There were visible impact on quality and costs while production volumes were stepped up.

Inflationary pressures impacted costs all of which could not be neutralized with production efficiencies and higher thru'put. As a consequence, per ton cost of production was higher during the period.



Power & fuel for the year was ₹7,783.64 lakhs during the period while it was ₹9,402.62 lakhs in 2010-11. At Unit:APPM, coal cost per MT fluctuated between ₹2,257 and ₹3,316 during the nine months, with an average cost of ₹2,794. In the previous financial year, the average cost of coal was ₹2,186 per MT.

Steam from recovery boiler increased from 50% in the previous year to 53% in the period under review. During the same time, steam from coal fired boiler decreased from 50% to 47%. Steam generation per MT of coal during the period was 3.71 ton, significant increase over 3.59 ton produced in the financial year 2010-11. The gross calorific value of coal increased from 2,952 in the previous financial year to 3,022 during the period under review. As a result of the foregoing, the power consumed was 1,362 kWh per MT of product, lower than 1,447 kWh utilized in 2010-11, a decrease of 85 kWh per MT of product between the two periods.

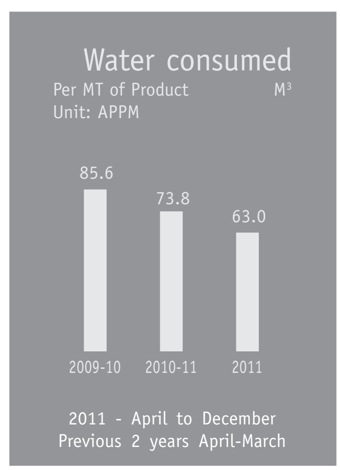
Coal purchased during the period was 185,392 MT compared with 277,898 MT purchased in 2010-11.

Power & fuel as a percentage of manufacturing cost was 13.6% lower than 13.4% incurred in 2010-11. The cost includes purchase of coal required for generation of surplus power, which was exported to APTRANSCO until July 2011.

Since the coal cost kept rising while the wheeling charges received from the state grid was non-remunerative, APPM discontinued exporting power from July 2011. Revenue earned was ₹535 lakhs in the period as compared ₹1530.81 lakhs during the previous financial year.

At Unit:APPM, water consumed was lower at 63 M^3 per MT of product as compared to 73.78 M^3 per MT in 2010-11. Water consumption has consistently come down every year from 103 M^3 per MT in 2007-08.

At Unit:CP, water consumed was higher at 56 M^3 per MT of product as compared to 49.8 M^3 per MT in 2010-11. This area is being addressed with concrete plans to reduce the consumption in 2012.



Stores, spares and packing materials

Consumption of stores, spares and packing materials was ₹16,797.69 lakhs in the 9-months ended December 2011 as compared to ₹17,092.10 lakhs in the previous financial year. There was significant rise in cost from 24.36% to 29.40% as a proportion of manufacturing cost. The cost was higher over the previous year due to cost increases in bought out chemicals such as lime, sodium chlorate, hydrogen peroxide, sulfuric acid etc.

For instance, sulfuric acid cost has climbed by 37.2% and hydrogen peroxide by 43.6% between the two periods, while sodium chlorate rose by 12.7% and lime by 12.5%. Despite achieving better utilization, inflationary pressures impacted the results at Unit:APPM with higher chemicals cost at ₹7,352 per MT in the 9-months period as against ₹6,581 in the previous financial year.

Chemical recovery efficiency

Per cent

97.2	2011
97.1	2010-11
96.1	2009-10

2011 - April to December
Previous 2 years April-March

Chemical recovery efficiency was once again higher at 97.23% during the review period as compared to 97.07% in 2010-11. The improving trend can be seen from the fact that it was 96.13% in 2009-10, 95.69% in 2008-09, 93.05% in 2007-08 and 92.36% in 2006-07. Every year there has been a marked improvement in recovery efficiencies.

Personnel costs

Personnel costs for the year were ₹6,566.08 lakhs in the review period as compared to ₹7,976.24 lakhs in 2010-11. Costs include all provisions for provident funds and gratuity as required by the Accounting Standard.

Interest & finance charges

During the review period, interest and finance charges were ₹4,400.49 lakhs as compared to ₹3,988.43 lakhs recorded in the previous financial year.

APPM finances its operations through a mixture of retained profits and borrowings from financial institutions and banks. Borrowings are at both fixed and floating rates of interest. In a rising interest rate regime, the base rates were hiked by the bankers with consequent increase in effective interest rates. The net blended interest cost to the Company was higher by 36 basis points, up from 8.99% in 2010-11 to 9.35% in the review period.

The Company has a comprehensive forex policy and hedging of currency exposure helped to mitigate the volatility and losses.

Depreciation

Depreciation for the 9-month period was ₹5,062.13 lakhs, compared to ₹6,696.72 lakhs in the previous financial year.

Note: The current period figures relate to 9 months ending December 2011 as against the 12 month period ended March 2011 in the previous report and hence are not comparable. Paper demand has seasonal impact which may not permit extrapolation between two unequal periods.

INTERNAL CONTROLS

The Company has established and maintained adequate internal controls over the financial reporting. Internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with accounting principles generally accepted (GAAP) in India. The Company has an internal control system commensurate with the size and nature of the business. The Audit Committee of the Company provides reassurance to the Board on the existence of an effective internal control environment.

The internal control includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets;
- provide reasonable assurance that transactions are recorded as necessary to allow for the preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of the management;
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposal of assets that could have a material effect on financial statements; and
- provide reasonable assurance as to the detection of fraud.

All internal control systems have inherent limitations, including the possibility of circumvention and overriding of controls, and therefore can provide only reasonable assurance of achieving the designed control objectives. The Company's internal control system is supported by laid out systems, self-monitoring mechanisms, and is audited by an external firm as part of the internal audit function. Appropriate actions are taken by management to correct deficiencies as they are identified.

The control environment component is the foundation for all other components. APPM aspires to reflect internationally accepted standards and/or best practice and is in the process of upgrading its systems and procedures to further enhance all its operating systems and controls.

IT SUPPORTS BUSINESS

Enterprise wide IT and ERP infrastructure is monitored and supported by a dedicated in-house IT team in areas such as 4ERP (SAP) support, data centre management, hardware capacity planning, networking, software development and systems administration. A centralized data center has been installed at Unit:APPM having clusters of IBM P-series servers with AIX operating system to comply with the SAP landscape. MySAP ECC 5.0 and ORACLE database provides 24x7 service to all users within the Company. Connectivity across different locations in APPM is provided through contemporary communication links like MPLS backbone, Wi-Fi/SSL VPN/Internet services/video conferencing through trusted service providers.

Similarly, employees across plants and corporate office are well connected through unified telephony system (One Office solution) and CUG network to facilitate mobile connectivity across locations. Firewalls and other security solutions like Unified Threat Management (UTM) and end-point security measures have been taken to enforce strict security practices in all nodes to mitigate risks and protect IT assets from all threats & vulnerabilities.

The ERP system supports the complex and heterogeneous business footprint with ease. Based on priorities related to the business, the implementation of SAP had been phased in three stages. Implementation has been completed in key function areas such as materials management, sales & distribution, production planning, quality management, finance and costing.

In order to support manufacturing excellence initiative, APPM has further strengthened the ERP value chain by deploying plant maintenance suite at both the plants during 2011. APPM is committed to improve business dynamics and decision making capabilities across all layers of management through implementing BI suite in the near future.

Another focus area is infrastructure integration and alignment and following standard practices aligned to International Paper's global policies.

APPM has implemented web enabled 'Dealer Portal' which is integrated with MySAP ERP. This enables dealers to process orders, track dispatches online etc., resulting in reduced cycle time. To improve collaboration among group members of APPM and IP, the intranet site has been improved and access rights have been granted to all key members to leverage the benefits in toto.

Highlights of the implemented ERP System are briefly listed below:

- Streamlined business processes with inbuilt control
- Informed and accelerated decision making

AWARD

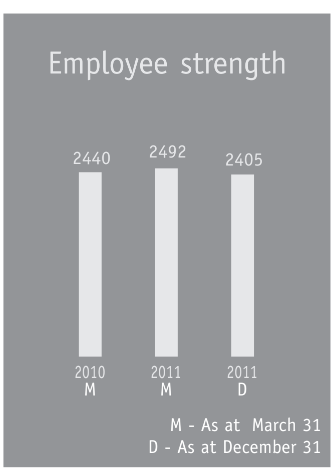
The Company received second prize in appreciation of the achievements in **Energy Conservation in Large Scale Industry Sector for the year 2010-11** from Government of Andhra Pradesh.

- Online interaction across the value chain
- Automated work-flow in all functional areas
- Reduced manufacturing cycle time of orders and improved logistics operations
- Standard platform for all users to share and view data
- Proliferation of automation process using barcode and real-time data capturing
- Improved working capital and cash-flow management
- Empowered and nurtured manpower having cross functional exposure

HUMAN RESOURCES

The Company stands revitalized today and the employees remain encouraged with the market opportunities and business challenges. The decentralized professional management structure is fully empowered. There has been a visible qualitative improvement with change in approach and thought process. In a positive work environment, the operating teams have been able to promise and perform to meet expectations.

APPM invests in training and knowledge at all levels in order to align employees with market needs, technology up gradations, process improvements, innovation and behavioral competencies. Post-training, participants have been able to demonstrate a different attitude and add significant value at work. A delegated authority structure has further improved the Company performance as the knowledge base is well spread within the organization leading to dynamic benchmarking amongst departmental teams.



APPM attaches great importance to safety of its employees and strives to achieve a zero accident rate. Potential risks have been identified by critical task observation and suitable control measures developed. Training in safety practices, enhancing operations and providing practical proposals have gone a long way to guarantee occupational safety.

As at December 31, 2011 the Company had 2,405 employees on its roll.

APPM OUTLOOK

APPM is well-positioned to face the challenges of tomorrow. A strong technical team, revitalized marketing strategy, new product developments and high-end quality products would add to traction at APPM to ride the future with confidence. The Company will leverage the resources, support systems and experience available at International Paper to create one of the best integrated paper companies and ensure sustainable growth.

The priority is to sustain momentum, create better value for products and bring APPM closer to its customers. The Company shall add traction to its business performance and operating results by working simultaneously with all its key levers, a few of which are enumerated below:

- Execute the strategy of relentlessly offering products that help customers compete more efficiently in their addressable markets;
- Add volumes, offer niche products that have less competition and drive higher margins with improvement in efficiencies;
- Upgrade performance of the supply chain;
- Strive to integrate quality in all business processes;
- Drive organizational change so that APPM works as one team;
- Control costs, enhance earnings and improve cash flow.

The Company seeks to grow revenue and bottom line and is striving to participate in the improving demand scenario for paper in the market by ensuring economies of scale, efficient usage of resources and value chain management. The investments that continue to be made in systems, processes, products and market are expected to enhance operational performance and meet stakeholder expectations.

Every business carries inherent risks and uncertainties that can affect financial conditions, results of operations and prospects. APPM has been conscious of its risk factors and has been taking proactive steps to mitigate/minimize them. The risk management goal is to identify and evaluate risks as early as possible and limit business losses by taking suitable measures. Overall, the Company aims to avoid risks that pose a threat to its sustainable growth.

The management of APPM understands that risks can negatively impact the attainment of both short term operational or long term strategic goals. Risk management is a part of the business planning and controlling process and is vital to ensure effectiveness in business success. Some of the industry specific risks need a review:

The following factors are considered for determining the materiality:

- Some events may not be material individually but may be found material collectively;
- Some events may have material impact qualitatively instead of quantitatively;
- Some events may not be material at present but may have material impact in future.

General economic factors

Continued adverse business developments in general could have an adverse effect on the demand for paper products, financial conditions and results of operation. Paper industry has a positive correlation to economic development and lower GDP growth could affect business fortunes.

Despite the global pressures, the Indian economy is expected to grow much higher than the global average and report a GDP growth of 8% in 2011-12. The Planning Commission of the Government of India has projected 9% annual average economic growth rate during 2012-17, in the approach document to the 12th Plan.

Paper industry would be a beneficiary of the stimulus packages and investment in education being made by the Union Government. Higher literacy and aspiration levels of the people are expected to further increase the growth rate of the paper industry.

Cyclicality of industry

Cyclical demand for paper could have adverse impact on sales. The reduction in sale prices will have adverse impact on the working of APPM. The cyclicality of the business could depress margins or growth.

The paper industry is cyclical in nature and its performance depends on the global pulp and paper demand-supply situation. APPM derives majority of its revenue from the sale of paper & pulp and has de-risked its business by being an integrated manufacturer which ensures that the production costs are low. More significant, APPM has continuously rationalized its costs, added to its scale of operations and stepped up its volume of value-enhancing products. Efforts are being made to lower the fixed costs per ton of product to protect margins and manage stressed out times.

Company growth momentum

A failure/inability to manage year-on-year growth could disrupt the business and reduce profitability.

Over the past few years, APPM has expanded its capacities and has grown in terms of sales. Consistent long term growth has been planned and the Company would continuously evolve and improve operational, financial and internal effectiveness across the organization.

APPM has organized its strategy and systems and has invested in assets that will fast track the Company with improved financials. Growth appears compelling for both the industry and all well managed players such as APPM. The Company strives for sustainable growth higher than industry average.

Increased competition in the industry

There is increased competition from manufacturers and addition to capacities by many of them will add to pressures in the market. It's a highly competitive field with several peers seeking to improve their market presence.

So far, the growth in paper industry has mirrored the growth in GDP and has grown on an average of 7.45% over the last few years. Looking forward, growth in paper consumption would continue to be correlated to the GDP. The Indian paper industry believes increase in consumption by one kg per capita would lead to an increase in demand of 1 million MT. Demand increase can benefit all industry participants, although there is no assurance that the gains will be shared by all the players equally.

APPM has become one of the most competitive producers of pulp and paper, and with its product development, investment in quality and branding, the Company retains significant competitive edge in the market. APPM has been recognized for the branding and quality of its grades and the newly introduced varieties have seen encouraging response in the market. Leadership positions in terms of product quality have been earned over the decades in some of the key segments. Andhra Paper is well known in segments such as copiers and high grade writing and printing papers and is rated amongst the top three in terms of quality in almost all the product segments that it competes in the industry.

Dependence on a few buyers

Dependence on few large institutional buyers and dealers could adversely affect the Company's operations, in case these buyers reduce their requirement or discontinue purchase of paper from APPM.

The Company sells its products through the retail trade and through industrial consumers. Save for market dynamics of prices, the demands from these sources is consistent and the Company has built up a healthy relationship with its large customers. The quality of APPM's products is part of the strong branding and recent product development initiatives are expected to improve the loyalty factor.

Pricing power

There is a near perfect competition in the industry and prices are a function of supply and demand. Domestic pricing is also influenced by global trends in both availability and price of pulp, paper and waste paper.

Since APPM is an integrated manufacturer with proximity to raw materials, often there are advantages to the Company whichever way the price moves. Pulp production buffers paper production cost in a falling market and improves margins in a rising market.

APPM has a marked presence in its addressable markets and differentiates itself in the segments by the value proposition offered to customers. Andhra has a brand value and the Company has the flexibility to price the products appropriately. Emphasis on quality has reduced the possibilities of commoditization. The Company recognized much earlier than its peers that the best mitigation would be ensured by high-end quality and lowering of production costs.

Product substitution

Paper enjoys a unique position with really no low cost substitution threat. However, electronic medium has reduced the archiving needs that were met by lower grades of paper which could impact demand pull within the Cream wove category.

India is a country with per capita consumption of 9.25 kgs of paper. This is low compared to global standards and can only grow as knowledge and literacy levels increase and aspiration and quality of life improves. Growth in demand and consumption of both lower and high grade writing and printing papers has outpaced the threats with higher usage in the copier and stationery segments. APPM sees no threat in the short and medium term within its product categories since all of them are growing, especially given the low base in usage.

Technology

The best in the industry use state-of-the-art technology and achieve multiple objectives including enhanced productivity, high end quality and compliance with the environmental norms. This initiative will remain the industry standard to stay globally competitive. Failure to keep pace with production technology can lower the competitive edge indigenously and globally.

APPM believes in conserving natural resources and benchmarks itself with the best in the global paper industry. Ongoing efforts will continue to enhance its processes and optimize on resources to meet the needs of the market. The Company is committed to consistently reduce its cost of production by adopting the latest in technology while improving its product quality.

Raw Materials

Paper industry requires a sustainable supply of wood to survive and flourish. Wood accounts for approximately 30% of the cost of production. Any threat in supplies would adversely affect the survival of the paper industry.

APPM has strived to keep raw material availability as its foremost priority. Every possible effort is made to encourage land owners in the vicinity of the mill to grow more than twice the number of trees than are required. They are also counseled on nurturing the trees so that availability is ensured.

Subabul and casuarina are the two varieties used by APPM as raw materials for paper production. Both are natural resources, and hence are not taken for granted. The quality of products and customers' acceptance depends on the quality of raw materials and APPM's ability to deliver in a timely manner and it is imperative that availability is ensured, in the required quantities, of the specified quality/standard/specification for uninterrupted production processes.

Almost the entire wood requirement is purchased from within Andhra Pradesh and a small quantity is procured from Orissa. The risk is being mitigated by encouraging environment friendly farm forestry practices and assisting land owners to cultivate trees on fallow wastelands.

APPM has taken the leadership role to enhance the generation of raw materials in its catchment area through farm/social forestry year after year for over two decades. The Company ensures conservation and regeneration of natural resources, helps farmers to create sustainable income streams and in the process protects adequate availability of quality raw materials for paper manufacture. These arrangements have been working satisfactorily in the past and APPM has been procuring the required raw material in sufficient quantity at competitive rates.

The Company's endeavor is to ensure raw material security while enabling the farmers to avail remunerative prices.

Utilities

The paper industry needs large quantities of power, fuel and water to operate. Lack of availability of any of these utilities can add to the cost sensitivities of the industry. Energy costs form about 15% of the net sales of paper companies.

APPM has minimized its risk perception by investing in a recovery boiler, a coal fired boiler and in a 34MW turbine that supplements the power drawdown from the grid. Availability and quality of coal supplies have been enhanced.

The Company salvages the residual lignin in wood in its pulping process to fire the boiler and hence uses every part of the wood. APPM has considerably reduced its need for fossil fuels and made adequate plans to protect its needs.

There is adequate availability of coal for APPM as the Company has ties with producers such as Singareni Collieries and Mahanadi Coalfields Limited for uninterrupted supplies.

Unit:APPM mill is adjacent to the River Godavari which has copious availability of water. Yet, the mill has invested in suitable processes to recycle water and strives to conserve use of precious natural resource. As far as possible, the Company recycles water and, more important, minimizes wastages. Over the years, APPM has been consistently reducing energy and water costs per MT of product manufactured.

Exchange rate

Currency exchange rates could undergo changes with the Indian rupee turning volatile for most part of the year. This could have a potential impact on the export earnings of the Company.

The Company is conscious of the impact of the volatile movements. Hedging is done wherever necessary and forward covers are taken to protect the Company's interests. The Company is also conservative in booking the unfavorable impact of exchange fluctuations as soon as the impact is determined. Prudential accounting norms are followed in line with the Accounting Standards.

Interest rate

The Company's operations are subject to high working capital requirements. Inability to obtain and/or maintain sufficient cash flow, credit facilities and other sources of funding, in a timely manner, could adversely affect operations, financial condition and profitability. Interest rate risk resulting from changes in prevailing market rates can cause an impact on the financials of the Company.

APPM's financial instruments comprise borrowings, cash and liquid resources and various items such as trade debtors and trade creditors that arise directly from operations. The principal risk arising from the Company's financial instruments is liquidity and interest rate risk. Risks from cash flow fluctuations are recognized in a timely manner as part of the liquidity planning.

Receivables from customers as at December 31, 2011 were under control at 15.4 days. The current ratio was 1.05:1 and the debt:equity ratio was 0.99 as at the balance sheet date on December 31, 2011.

On an on-going basis, the Company finances its operations through a mix of retained profits and borrowings from financial institutions and banks. Borrowings are at both fixed and floating rates of interest. The Company's operations are principally financed by floating rate borrowings whereas, significant investment are generally financed through fixed rate borrowings.

Although interest rates have hardened, APPM is conscious of the dynamics of the market, and has taken effective steps to not only reduce costs and improve margins but also be in a position to report higher post tax profits. Generating free cash flow will remain a priority.

Environment

The pulp and paper industry has a commitment to the environmental protection, and it would be essential to remain sensitive to the needs of the planet.

APPM has been a responsible corporate citizen and has hugely minimized the impact of mill operations by taking a proactive role. The Company encourages planting twice the number of trees than it harvests and reduces water consumption year after year.

The latest technology has been adopted for elemental chlorine free bleaching of pulp and recycling of water. Efficiency of the effluent treatment plant has been improved with diffused aeration system and by installing a cooling tower.

APPM installed a Non-Condensable Gases (NCG) system, both for the collection and incineration of high volume low concentration and low volume high concentration gases. This has made the mill and surrounding environment odor free. APPM also installed high efficiency ESPs to contain suspended particulate matter to less than 50 ppm.

Several such initiatives have been taken to ensure APPM meets standards much before the standards are laid down or implemented by all regulatory authorities.

Report on Corporate Governance

1. Company's philosophy on Corporate Governance

The Company strongly believes that practice of corporate governance should aim at meeting the aspirations of the stakeholders and the expectations of the society. In pursuance of this philosophy, the management adheres to transparency, professionalism and accountability in the performance of its role.

2. Board of Directors

i. The Board of Directors comprises of eight Non-Executive Directors and two Executive Directors as on December 31, 2011.

a. Executive Directors : Mr. Paul Brown, Chairman & CEO
Mr. P.K. Suri, Director (Operations)

b. Non-Executive Directors : Mr. Thomas G. Kadien
Mr. Brett Allen Mosley
Mr. Shreeyash Bangur

c. Independent Directors : Mr. M. S. Ramachandran
Mrs. Ranjana Kumar
Mr. M. K. Sharma
Mr. Milind Sarwate
Mr. Adhiraj Sarin

ii. During the nine month period from April 1, 2011 to December 31, 2011 (hereinafter referred to as "Financial Year"), six meetings of Board of Directors were held on May 4, 2011; August 8, 2011; October 13, 2011; October 14, 2011; November 13, 2011 and December 6, 2011.

iii. Attendance of each Director at the meetings of Board of Directors held during the financial year, last Annual General Meeting and the number of other boards and board committees in which he/she is a member or chairperson:

Name	Attendance Particulars		No. of other directorships[1]	No. of Board Committee(s) of which he/she is the	
	No. of Board Meetings	Last A.G.M.		Member	Chairman
Mr. Paul Brown[2]	5	Yes	–	–	–
Mr. P. K. Suri	5	Yes	–	–	–
Mr. Thomas G. Kadien[3]	1	NA	–	–	–
Mr. Brett Allen Mosley[3]	–	NA	–	–	–
Mr. Shreeyash Bangur[4]	5	Yes	1	–	–
Mr. L.N.Bangur[5]	4	Yes	13	3	2
Mr. M.K. Tara[5]	3	Yes	–	–	–
Ms. Sheetal Bangur[5]	1	No	3	–	–
Mrs. Alka Bangur[6]	1	NA	2	2	–
Mr. R.C. Sarin[7]	1	No	–	–	–
Mr. N. Srinivasan[8]	5	No	13	4	5
Mr. P.J.V. Sarma[8]	5	Yes	2	1	1
Mr. P.K. Paul[8]	2	Yes	–	–	–
Mr. Rajiv Kapasi[8]	3	No	–	–	–
Mr. P.R. Ramakrishnan[8]	3	No	1	–	1

[1] Excluding foreign companies, private limited companies, companies having license under Section 25 of the Companies Act, 1956 and alternate directorships.

[2] Appointed as Additional Director with effect from May 18, 2011.

[3] Appointed as Additional Directors with effect from October 14, 2011.

[4] Resigned as Director (Corporate) on October 14, 2011 and appointed as Additional Director with effect from October 14, 2011.

[5] Resigned from the Board of Directors with effect from October 14, 2011.

[6] Resigned from the Board of Directors with effect from May 17, 2011.

[7] Resigned from the Board of Directors with effect from August 8, 2011.

[8] Resigned from the Board of Directors with effect from December 6, 2011.

3. **Audit Committee**

i. The Company has adopted Clause 49 (2)(D) of the Listing Agreement as the terms of reference for the Audit Committee.

ii. As at April 1, 2011, the Audit Committee comprised of Mr. P. J. V. Sarma, Mr. N. Srinivasan and Mr. R.C. Sarin. All of them were Non-Executive and Independent Members.

The following changes took place in the composition of the Audit Committee during the financial year:

Mr. R.C. Sarin ceased to be a Member on the Committee consequent upon his resignation from the Board with effect from August 8, 2011.

Mr. Paul Brown was appointed a Member on the Audit Committee with effect from August 8, 2011.

Mr. P. J. V. Sarma and Mr. N. Srinivasan ceased to be Members of the Audit Committee consequent upon their resignation from the Board with effect from December 6, 2011.

The Board at their meeting held on December 6, 2011 reconstituted the Audit Committee and the newly constituted Committee as on December 31, 2011 comprised of:

Mr. Milind Sarwate, Chairman

Mr. M.K. Sharma, Member

Mr. Thomas G. Kadien, Member

All the above members are Non-Executive Directors. Mr. Milind Sarwate and Mr. M.K. Sharma are Independent Directors. All the members possess expert knowledge in the area of finance and accounting.

iii. During the financial year, the Audit Committee met on May 4, 2011; August 8, 2011 and October 13, 2011.

The following table gives attendance record:

Name	Number of Meetings held	Number of Meetings attended
Mr. P.J.V. Sarma	3	3
Mr. N. Srinivasan	3	3
Mr. R.C. Sarin[1]	2	2
Mr. Paul Brown[2]	1	1

[1] Ceased to be a member with effect from August 8, 2011.

[2] Appointed as a member with effect from August 8, 2011.

4. **Remuneration Committee**

As at April 1, 2011, the Remuneration Committee comprised of Mr. N. Srinivasan, Mr. P. J. V. Sarma and Mr. R.C. Sarin, all of whom were Independent Members.

The following changes took place in the composition of the Remuneration Committee during the financial year:

Mr. R.C. Sarin ceased to be a Member of the Committee consequent upon his resignation from the Board with effect from August 8, 2011.

Mr. P.K. Paul was appointed a Member of the Remuneration Committee with effect from August 8, 2011.

The Committee determines the remuneration package of Executive Directors. During the financial year, Remuneration Committee met on October 13, 2011 and was attended by Mr. P. J. V. Sarma and Mr. N. Srinivasan.

Mr. N. Srinivasan, Mr. P. J. V. Sarma and Mr. P.K. Paul ceased to be Members of the Remuneration Committee consequent upon their resignation from the Board with effect from December 6, 2011.

The Board at their meeting held on December 6, 2011 reconstituted the Remuneration Committee and appointed the following Directors as members:

Mr. M. S. Ramachandran, Chairman

Mr. M. K. Sharma, Member

Mr. Adhiraj Sarin, Member

i. Remuneration to Executive Directors

a. The details of remuneration paid to Mr. L.N. Bangur, former Executive Chairman, Mr. M.K. Tara, former Managing Director & CEO, Ms. Sheetal Bangur, former Director (Commercial), Mr. Shreeyash Bangur, former Director (Corporate) and Mr. P.K. Suri, Director (Operations) during the financial year ended December 31, 2011 are given below:

₹ Lakhs

Name	Salary & Allowances	Perquisites	Contribution to Provident Fund, Superannuation Fund and Gratuity	Total
Mr. L.N. Bangur	144.00	–	5.76	149.76*
Mr. M.K. Tara	146.88	0.75	5.73	153.36*
Ms. Sheetal Bangur	26.51	1.09	2.77	30.37*
Mr. Shreeyash Bangur	26.50	1.06	1.44	29.00*
Mr. P.K. Suri	39.62	5.84	8.04	53.50

* Employed for a part of the year

b. The contracts with Executive Directors are terminable by giving six months notice on either side.

ii. Payments to Non-Executive Directors & criteria for making payments

a. The Company pays sitting fees to all the Non-Executive Directors for attending the meetings of Board of Directors and Committees of Board in addition to commission on profits depending on the availability of profits. The sitting fees paid during the financial year ended December 31, 2011 to the Non-Executive Directors were as follows:

Name	₹ Lakhs
Mr. Paul Brown[1]	0.60
Mr. Thomas G. Kadien[2]	–
Mr. Brett Allen Mosley[2]	–
Mr. Shreeyash Bangur[3]	0.20
Mrs. Alka Bangur[4]	0.15
Mr. R.C. Sarin[5]	0.30
Mr. N. Srinivasan[6]	1.40
Mr. P.J.V. Sarma[6]	1.60
Mr. P.K. Paul[6]	0.30
Mr. Rajiv Kapasi[6]	0.45
Mr. P.R. Ramakrishnan[6]	0.45
TOTAL	5.45

[1] Fees paid was upto October 14, 2011 i.e. before he became Chairman & CEO.

[2] Appointed as additional directors with effect from October 14, 2011.

[3] Resigned as Director (Corporate) on October 14, 2011 and appointed as additional Director with effect from October 14, 2011.

[4] Resigned from the Board of Directors with effect from May 17, 2011.

[5] Resigned from the Board of Directors with effect from August 8, 2011.

[6] Resigned from the Board of Directors with effect from December 6, 2011.

b. **Shareholding of Non-Executive Directors**

None of the Non-Executive Directors hold equity shares of the Company.

5. Investors' Grievance Committee

As at April 1, 2011, the Investors' Grievance Committee comprised of Mr. P. J. V. Sarma, Mr. L. N. Bangur, Mr. M. K. Tara and Ms. Sheetal Bangur.

The following changes took place in the composition of the Committee during the financial year:

Mr. L. N. Bangur, Mr. M. K. Tara and Ms. Sheetal Bangur ceased to be Members on the Committee consequent upon their resignation from the Board with effect from October 14, 2011.

The Board at their meeting held on October 14, 2011 reconstituted Investors' Grievance Committee and appointed Mr. P. J. V. Sarma as Chairman, Mr. Paul Brown and Mr. P. K. Suri as members.

Mr. P. J. V. Sarma ceased to be a Member of the Committee consequent upon his resignation from the Board with effect from December 6, 2011.

The Board at their meeting held on December 6, 2011 again reconstituted the Committee with the following Directors as members and as on December 31, 2011 the Committee comprised of:

Mrs. Ranjana Kumar, Chairperson

Mr. Paul Brown, Member

Mr. P. K. Suri, Member

The Committee has been constituted to look into the redressal of shareholders and investors' complaints like non-receipt of share certificates sent for transfer, non-receipt of balance sheet, non-receipt of declared dividends etc. The Committee also approves issue of duplicate share certificates and oversees the matters connected with the transfer of securities. The Board designated Mr. C. Prabhakar, Sr. Vice President (Corporate Affairs) & Company Secretary as Compliance Officer.

The Committee met on August 8, 2011 and the meeting was attended by Mr. P. J. V. Sarma, Mr. L. N. Bangur and Mr. M. K. Tara. The Committee also met on November 13, 2011 and the meeting was attended by Mr. P. J. V. Sarma, Mr. Paul Brown and Mr. P. K. Suri. Four circular resolutions were passed during the financial year under review.

The details of the status of complaints received from the shareholders during the financial year ended December 31, 2011 are furnished below:

Pending as on April 1, 2011	Nil
Received during the financial year	17
Redressed during financial year	17
Pending as on December 31, 2011	Nil

6. General Body Meetings

i. The location and time of the last three Annual General Meetings held:

Year	Date and time	Venue
2008-09	September 25, 2009 at 3.00 p.m.	Sri Venkateswara Anam Kala Kendram, Rajahmundry - 533 104
2009-10	July 15, 2010 at 3.00 p.m.	Sri Venkateswara Anam Kala Kendram, Rajahmundry - 533 104
2010-11	September 10, 2011 at 3.00 p.m.	Sri Venkateswara Anam Kala Kendram, Rajahmundry - 533 104

ii. Special Resolutions passed in the previous three Annual General Meetings:

Date	Description of Special Resolutions passed
September 25, 2009	a. Amendment to Article 6 of Articles of Association consequent upon increase in the authorized capital from ₹35 crore to ₹45 crore. b. Issue of 70,18,242 equity shares of ₹10 each with a premium of ₹40 per share in the ratio of 3:11 on rights basis along with equivalent number of detachable warrants convertible into equity shares.
July 15, 2010	a. Payment of commission to Directors of the Company other than Managing/Wholetime Director(s) under the provisions of Section 309 (4) of the Companies Act, 1956. b. Re-appointment of Ms. Sheetal Bangur, Director (Commercial) for a further period of five years from April 1, 2010. c. Appointment of Mr. L.N. Bangur as Executive Chairman of the Company for a period of 5 years from May 27, 2010. d. Revision of remuneration payable to Mr. M.K. Tara, Managing Director of the Company. e. Revision of remuneration payable to Ms. Sheetal Bangur, Director (Commercial) of the Company. f. Revision of remuneration payable to Mr. Shreeyash Bangur, Director (Corporate) of the Company. g. Revision of remuneration payable to Mr. P.K. Suri, Director (Operations) of the Company.
September 10, 2011	Nil

iii. No special resolution was passed through postal ballot during the financial year ended December 31, 2011.

iv. At present no special resolution is proposed to be passed through postal ballot. The procedure laid down in Companies (Passing of Resolutions by Postal Ballot) Rules, 2001 would be followed as and when necessary.

7. Disclosure on materially significant related party transactions

During the financial year, there were no transactions of material nature with the Directors and management or relatives that had potential conflict with the interests of the Company.

8. Details of non-compliance by the Company

There were no penalties, strictures imposed on the Company by the stock exchanges or SEBI or any statutory authority on any matter related to capital markets during the last three years.

9. Code of Conduct for Directors and senior executives

The Company adopted a Code of Business Conduct and Ethics for its Directors and senior executives. The Code has also been posted on the Company's website. The Chairman & CEO has given a declaration that all the Directors and concerned executives have affirmed compliance with the Code of Conduct.

10. CEO/CFO certification

A certificate duly signed by the Chairman & CEO and the Sr. Vice President (Finance & Accounts) & CFO relating to financial statements and internal controls and internal control systems for financial reporting as per the format provided in Clause 49 of the Listing Agreement was placed before the Board and was taken on record.

11. Adoption of non-mandatory requirements

The Company adopted the following non-mandatory requirement stipulated under Clause 49.

Remuneration Committee: The Company has constituted a Remuneration Committee to determine the remuneration package of Executive Directors based on their performance.

12. Means of communication

Quarterly, half-yearly and annual financial results are usually published in Business Line (English Version) and vernacular regional newspaper viz. Andhra Prabha. Results are displayed on the Company's website: www.andhrapaper.com

Official news releases, detailed presentations are proposed to be made to media, analysts, institutional investors etc.

The Management Discussion and Analysis forms part of the Annual Report.

13. General shareholder information

	Date & time	Venue
48th Annual General Meeting	March 22, 2012 at 3.00 p.m.	Cherukuri Subbarao Gannemma Udyana Kalyanavedika, Jawaharlal Nehru Road, Rajahmundry - 533 103 East Godavari District, Andhra Pradesh

14. Financial calendar - (Tentative and subject to change)

Financial year: January 1, 2012 to December 31, 2012

		On or before
Unaudited/audited financial results for the quarter ending	March 31, 2012	May 15, 2012
Unaudited/audited financial results for the quarter ending	June 30, 2012	August 14, 2012
Unaudited/audited financial results for the quarter ending	September 30, 2012	November 14, 2012
Audited financial results for the year ending	December 31, 2012	March 1, 2013
Annual General Meeting for the year ending	December 31, 2012	June 30, 2013
Details of Book Closure	March 13, 2012 to March 22, 2012 (both days inclusive)	
Date of payment of equity dividend	Not applicable	

15. Listing on stock exchanges

Bombay Stock Exchange Limited (BSE) Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001	National Stock Exchange of India Limited (NSE) 'Exchange Plaza' Bandra-Kurla Complex Bandra (East), Mumbai - 400 051

The Company paid the annual listing fees for the financial year 2011-12 in April 2011 to BSE and NSE.

16. Stock code

Bombay Stock Exchange Limited	502330
National Stock Exchange of India Limited	Symbol: APPAPER Series: EQ
ISIN (for Dematerialisation)	INE435A01028

17. The details of monthly high and low quotations of the equity shares of the Company traded on the stock exchanges are given below:

a. Bombay Stock Exchange Limited

	Month	Share quotation ₹		BSE Sensex	
		High	Low	High	Low
2011	April	415.65	311.65	19811.14	18976.19
	May	375.00	350.00	19253.87	17786.13
	June	380.00	356.00	18873.39	17314.38
	July	382.65	366.00	19131.70	18131.86
	August	389.00	357.00	18440.07	15765.53
	September	374.80	214.00	17211.80	15801.01
	October	205.00	149.15	17908.13	15745.43
	November	199.00	161.55	17702.26	15478.69
	December	175.00	129.00	17003.71	15135.86

b. National Stock Exchange of India Limited

Month		Share quotation ₹		S & P CNX NIFTY	
		High	Low	High	Low
2011	April	415.00	312.80	5944.45	5693.25
	May	375.00	350.20	5775.25	5328.70
	June	376.95	356.00	5657.90	5195.90
	July	384.00	367.00	5740.40	5453.95
	August	388.65	350.00	5551.90	4720.00
	September	374.90	212.00	5169.25	4758.85
	October	213.95	149.15	5399.70	4728.30
	November	209.40	161.00	5326.45	4639.10
	December	174.00	129.40	5099.25	4531.15

18. Registrar and Transfer Agents

Karvy Computershare Private Limited
Plot No. 17 to 24, Vittal Rao Nagar,
Madhapur, Hyderabad - 500 081
Phone: +91 40 2342 0818 to 828
Fax No: +91 40 2342 0814
website: www.karvy.com

19. Share transfer system

The share transfers are being approved by the authorized persons as per the delegation of powers by the Board once in a fortnight. The average time taken for registering the share transfers is approximately 15 days from the date of receipt of request.

20. Distribution of equity shareholding as on December 31, 2011

Nominal Value of Equity Shares ₹	Shareholders		Value	
	Number	%	₹	%
1 - 5000	9,766	90.10	9,958,410	2.50
5001 - 10000	506	4.67	3,771,250	0.95
10001 - 20000	236	2.18	3,425,570	0.86
20001 - 30000	98	0.90	2,451,210	0.62
30001 - 40000	45	0.42	1,616,500	0.41
40001 - 50000	36	0.33	1,662,970	0.42
50001 - 100000	49	0.45	3,401,170	0.85
100001 and above	103	0.95	371,413,310	93.39
TOTAL	10,839	100.00	397,700,390	100.00

Category of equity shareholders as on December 31, 2011

Category	No. of shares held	%
A. Foreign promoter	29,827,529	75.00
B. Public shareholdings:		
1. Institutional investors		
a. Mutual funds, financial institutions, Banks and insurance companies	1,273,830	3.20
b. Foreign institutional investors	457,546	1.15
c. Foreign financial institutions	287,800	0.73
d. Foreign banks	200	–
Sub-total	2,019,376	5.08
2. Non-institutions:		
a. Bodies corporate	4,168,920	10.48
b. Indian public	3,723,289	9.36
c. Non-resident indians	24,543	0.06
d. Trusts	6,382	0.02
Sub-total	7,923,134	19.92
Total public shareholding (1+2)	9,942,510	25.00
TOTAL (A+B)	39,770,039	100.00

21. Dematerialization of shares as on December 31, 2011

Depository name	No. of shares dematerialised	Percentage on equity share capital
National Securities Depository Limited	38,562,352	96.96
Central Depository Services (India) Limited	807,636	2.03
TOTAL	39,369,988	98.99

22. No GDRs, ADRs have been issued by the Company.

23. Transfer of unclaimed dividend to Investor Education and Protection Fund

A sum of ₹317,976 representing equity dividend of the Company for the year 2003-04 which remained unclaimed for seven years has been transferred in October 2011 to the Investor Education and Protection Fund established by Central Government pursuant to Section 205C of the Companies Act, 1956.

24. Equity shares in the Unclaimed Shares Demat Suspense Account

In terms of Clause 5A.II of the Listing agreement, the Company opened a demat account and dematerialized the unclaimed shares. The Company is maintaining the details of shareholding of each individual allottee whose shares are credited to the Unclaimed Shares Demat Suspense Account.

The particulars of shares in 'APPM - Unclaimed Shares Demat Suspense Account' as on December 31, 2011 are as follows:

	Number of shareholders	No. of equity shares
Aggregate number of shareholders and the outstanding shares lying in the Unclaimed Shares Demat Suspense Account at the beginning of the year	6	193
Number of shareholders who approached the issuer for transfer of shares from the Unclaimed Shares Demat Suspense Account during the year	1	72
Number of shareholders to whom shares were transferred from the Unclaimed Shares Demat Suspense Account during the year	1	72
Aggregate number of shareholders and the outstanding shares lying in the Unclaimed Shares Demat Suspense Account as on December 31, 2011	5	121

The voting rights on the shares outstanding in the suspense account shall remain frozen till the rightful owners of such shares claim the shares.

25. Plant locations

Unit:APPM	Unit:CP
Rajahmundry - 533 105 East Godavari District Andhra Pradesh	Industrial Area, M.R.Palem - 533 126 Near Kadiyam Railway Station, Kadiyam Mandalam, East Godavari District, Andhra Pradesh

26. Address for correspondence from shareholders

Karvy Computershare Private Limited Plot No. 17 to 24, Vittal Rao Nagar, Madhapur, Hyderabad - 500 081	or	Secretarial Department The Andhra Pradesh Paper Mills Limited Rajahmundry - 533 105 East Godavari District, Andhra Pradesh

27. E-mail ID for investor grievance redressal: sectrjy@andhrapaper.com

The Assistant Manager (Secretarial) will register the complaints and take necessary follow up action.

Declaration by the Managing Director & CEO

The Members of
The Andhra Pradesh Paper Mills Limited

In compliance with the requirements of Clause 49 of the Listing Agreement with the Stock Exchanges relating to Corporate Governance, I confirm that, on the basis of confirmations/declarations received, all the Directors and senior management personnel of the Company have complied with the Code of Business Conduct and Ethics framed by the Company for the financial period ended December 31, 2011.

Secunderabad
January 25, 2012

Paul Brown
Chairman & CEO

Auditors' Certificate on Corporate Governance

The Members of
The Andhra Pradesh Paper Mills Limited

We have examined the compliance of conditions of Corporate Governance by The Andhra Pradesh Paper Mills Limited, ('the Company') for the period ended on December 31, 2011, as stipulated in Clause 49 of the Listing Agreement of the Company with the Bombay Stock Exchange and the National Stock Exchange.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **B S R & Co.**
Chartered Accountants
Firm's Registration No. 101248W

Zubin Shekary
Partner
Membership No. 048814

Hyderabad
February 10, 2012

Independent Auditors' Report

The Members of
The Andhra Pradesh Paper Mills Limited,
Rajahmundry.

We have audited the accompanying financial statements of The Andhra Pradesh Paper Mills Limited ('the Company'), which comprise the Balance Sheet as at December 31, 2011, the Statement of Profit and Loss of the Company for the period from April 1, 2011 to December 31, 2011 ('the period'), the Cash Flow Statement of the Company for the period then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 ('the Act'). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Basis for Qualified Opinion

As more fully explained in Note 2.42 to the financial statements, during the period ended December 31, 2011, the Company has paid for managerial remuneration, which is in excess of the maximum limits specified in Schedule XIII to the Companies Act, 1956 to the extent of ₹194.64 lakhs. The Company is yet to apply to Central Government for obtaining approval for the excess as at the date of our report. Pending necessary approval from the Central Government, we are unable to quantify the extent of the excess payment, if any, of the amount paid over the amount which the Central Government would approve, when such application is made.

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

a. *in the case of the Balance Sheet, of the state of affairs of the Company as at December 31, 2011;*

b. *in the case of the Statement of Profit and Loss, of the loss for the period ended on that date; and*

c. *in the case of the Cash Flow Statement, of the cash flows for the period ended on that date.*

Emphasis of Matter

We draw attention to Note 2.4 to the financial statements, which states that the Company has since the inception of Accounting Standard 22 on Accounting for Taxes on Income, recognised the deferred tax expense, which arises primarily from depreciation on tangible fixed assets on the basis of the currently applicable enacted Minimum Alternate Tax rate rather than the regular tax rates as specified by paragraph 21 of Accounting Standard 22. The Company has challenged the provisions of Accounting Standard 22, in so far as it relates to the above matter and has accordingly filed a writ petition in June 2003 before the Hon'ble High Court of Andhra Pradesh. The case has been subsequently transferred to the Hon'ble Calcutta High Court. The writ petition has been admitted and is currently pending resolution.

The Company's current management is of the view that notwithstanding the writ petition and its ultimate outcome, the differential liability needs to be provided for in accordance with the provisions of AS 22 - Accounting for Taxes on Income and has accordingly quantified and recorded the deferred tax liability relating to earlier years up to March 31, 2011 of ₹8,046 lakhs. The cumulative amount of ₹8,046 lakhs pertaining to the period up to March 31, 2011 has been debited to the profit and loss account for the period ended December 31, 2011. Our opinion is not qualified in respect of this matter.

Further, we also draw attention to Note 2.40 to the financial statements, which states that the Company's current management has during the period carried out an internal technical assessment based on its global standards and methodologies, basis which assets with a net book value of ₹3,112.02 lakhs (net of expected net sale proceeds) have been identified as unsuitable for use considering the Company's future plans and have been held for disposal and accordingly is debited to the statement of profit and loss. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

As required by the Companies (Auditor's Report) Order, 2003, as amended ('the Order'), issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 ('the Act'), we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

As required by Section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

c. the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this report are in agreement with the books of account;

d. except for the effects of the matter described in the Basis for Qualified Opinion paragraph, in our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act;

e. on the basis of written representations received from the directors as at December 31, 2011, and taken on record by the Board of Directors, we report that none of the directors is disqualified as at December 31, 2011 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act; and

f. since the Central Government has not issued any notification as to the rate at which the cess is to be paid under Section 441A of the Act nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

For **B S R & Co.**
Chartered Accountants
Firm's Registration No. 101248W

Zubin Shekary
Partner
Membership No. 048814

Hyderabad
January 25, 2012

ANNEXURE TO THE INDEPENDENT AUDITORS' REPORT

The Annexure referred to in the independent auditors' report to the members of The Andhra Pradesh Paper Mills Limited ('the Company') on the financial statements for the nine months period ('the period') ended December 31, 2011, we report that:

i. a. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

b. The Company has a regular programme of physical verification of its fixed assets by which all the fixed assets are verified in a phased manner over a period of three years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.

c. During the period, the Company has discarded/ identified for disposal certain items of its fixed assets, which are no longer in use. In our opinion and according to the information and explanations given to us, the aforesaid disposal has not affected the going concern assumption.

ii. a. The inventories have been physically verified by the management during the period. In our opinion, the frequency of such verification is reasonable.

b. The procedures for the physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

c. The Company is maintaining proper records of inventory. The discrepancies noticed on verification between physical stocks and the book records were not material.

iii. a. The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act. Consequently, clauses 4(iii)(a) to 4(iii)(d) of the Order are not applicable to the Company.

b. The Company has taken deposit from one party covered in the register maintained under Section 301 of the Companies Act, 1956. The maximum amount outstanding during the year was ₹418,632 and the year-end balance of such deposit was ₹Nil.

c. In our opinion, the rate of interest and other terms and conditions on which deposit have been taken from other party listed in the register maintained under Section 301 of the Act are not, prima facie, prejudicial to the interest of the Company.

d. In the case of deposit taken from party listed in the register maintained under Section 301, the Company has been regular in repaying the principal amounts as stipulated and in the payment of interest.

iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventories and fixed assets and with regard to the sale of goods. The activities of the Company do not involve sale of services. We have not observed any major weakness in the internal control system during the course of the audit.

v. a. In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that Section.

b. In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of ₹5 lakhs with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

vi. In our opinion, and according to the information and explanations given to us, the Company has complied with the provisions of Section 58A and Section 58AA of the Act and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from public. Accordingly, there have been no proceedings before the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal in this matter and no order has been passed by any of the aforesaid authorities.

vii. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

viii. We have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government for maintenance of cost records under Section 209(1)(d) of the Act in respect of products sold by the Company and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the records.

ix. a. According to the information and explanations given to us and on the basis of the examination of the records of the Company, amounts deducted/ accrued in books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Customs duty, Excise duty, Investor Education and Protection Fund, Service tax, Cess and other material statutory dues have been regularly deposited during the year by the Company with the appropriate authorities.

There were no dues on account of Cess under Section 441A of the Act since the date from which the aforesaid Section comes into force has not yet been notified by the Central Government.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth tax, Customs duty, Excise duty, Investor Education and Protection Fund, Service tax, Cess and other material statutory dues which were in arrears as at December 31, 2011 for a period of more than six months from the date they became payable.

b. According to the information and explanations given to us, the dues set out in Appendix 1 in respect of Income tax, Sales-tax, Service tax, Municipal tax and Excise duty have not been deposited with the appropriate authorities on account of disputes. According to the information and explanations given to us, there are no dues of Customs duty and Wealth tax which have not been deposited with the appropriate authorities on account of any dispute.

x. The Company has accumulated losses aggregating to ₹3,750.68 lakhs at the end of the financial year. However, the accumulated losses as at the end of the financial year do not exceed 50% of its net worth. The Company has not incurred cash losses in the current financial year and in the immediately preceding financial year.

xi. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to its bankers or to any financial institutions. The Company did not have any outstanding debentures during the year.

xii. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

xiii. In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/mutual benefit fund/society.

xiv. According to the information and explanation given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.

xv. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.

xvi. In our opinion and according to the information and explanations given to us, the term loans taken by the Company have been applied for the purpose for which they were raised.

xvii. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that funds raised on short-term basis have not been used for long-term investment.

xviii. The Company has not made any preferential allotment of shares to companies/firms/parties covered in the register maintained under Section 301 of the Act.

xix. The Company did not have outstanding debentures during the year.

xx. The Company has not raised any money by public issues during the year.

xxi. According to the information and explanations given to us, no material fraud on or by the Company has been noticed or reported during the course of our audit.

For **B S R & Co.**
Chartered Accountants
Firm's Registration No. 101248W

Zubin Shekary
Partner
Membership No. 048814

Hyderabad
January 25, 2012

Appendix 1 as referred to in Para ix(b) of Annexure to the Independent Auditors' Report

Name of the statute	Nature of the dues	₹ Lakhs	Period to which the amount relates	Forum where dispute is pending
Income taxes				
Income Tax Act, 1961	Tax & interest	18.99	2009-10	Commissioner of Income Tax (Appeals), Rajahmundry
Income Tax Act, 1961	Tax & interest	9.66	2008-09	Commissioner of Income Tax (Appeals), Rajahmundry
Income Tax Act, 1961	Tax & interest	19.96	2009-10	Deputy Commissioner of Income Tax (TDS), Hyderabad
Income Tax Act, 1961	Tax & interest	335.01	2001-02	Income Tax Appellate Tribunal, Hyderabad
Income Tax Act, 1961	Tax & interest	756.44	2007-08, 2008-09 & 2009-10	Commissioner of Income Tax (Appeals), Hyderabad
Income Tax Act, 1961	Tax & interest	40.00	2008-09	Commissioner of Income Tax (Appeals), Hyderabad
Income Tax Act, 1961	Tax & interest	24.96	1979-80	High Court of Andhra Pradesh
Income Tax Act, 1961	Tax & interest	78.01	2001-02	Income Tax Appellate Tribunal, Hyderabad
Income Tax Act, 1961	Tax & interest	4.99	2002-03	High Court of Andhra Pradesh
Income Tax Act, 1961	Tax & interest	17.55	2009-10	Commissioner of Income Tax (Appeals), Hyderabad
Sales tax (Including central sales tax and local sales tax)				
APGST Act,1957	Tax	57.63	1991-96	Sales Tax Appellate Tribunal, Visakhapatnam
APGST Act,1957	Tax	10.82	1996-97	Sales Tax Appellate Tribunal, Hyderabad
APGST Act,1957	Tax	126.78	1990-99, 2000-01 to 2004-05	High Court of Andhra Pradesh
CST Act, 1956	Tax	5.70	1989-90 & 1991-92	High Court of Andhra Pradesh
APGST Act,1957	Tax	0.19	1987-88	High Court of Andhra Pradesh
CST Act, 1956	Tax	33.82	2005-06	Sales Tax Appellate Tribunal, Visakhapatnam
APGST Act,1957 & CST Act, 1956	Tax	27.41	1995-96 to 1999-2000	Sales Tax Appellate Tribunal, Visakhapatnam
CST Act, 1956	Tax	16.91	2006-07	Appellate Deputy Commissioner, Visakhapatnam
Value Added Tax Act, 2005	Tax	4.22	January, 2007 to March, 2009	Appellate Deputy Commissioner, Visakhapatnam
CST Act, 1956	Tax	5.13	2007-08	Appellate Deputy Commissioner, Visakhapatnam
Value Added Tax Act, 2005	Interest & Penalty	2.67	2007-09	Assistant Commissioner, LTU, Kakinada
Madhya Pradesh Value Added Tax Act	Tax	15.00	1997-98	High Court, Madhya Pradesh
Service tax				
Finance Act, 1994	Tax & Penalty	40.50	2004-05 & 2005-06	Customs, Excise & Service Tax Appellate Tribunal (CESTAT), Bangalore
Finance Act, 1994	Tax & Penalty	1.39	2004-05 & 2005-06	Customs, Excise & Service Tax Appellate Tribunal (CESTAT), Bangalore
Finance Act, 1994	Tax & Penalty	109.00	2005-06 to 2009-10	Commissioner of Customs & Central Excise (Appeals), Visakhapatnam
Finance Act, 1994	Tax & Penalty	5.42	2005-06	Commissioner of Customs & Central Excise (Appeals), Visakhapatnam
Finance Act, 1994	Tax & Penalty	41.77	2004-05 to 2009-10	Commissioner of Customs & Central Excise (Appeals), Visakhapatnam
Finance Act, 1994	Tax	91.40	2004-05 & 2005-06	High Court of Andhra Pradesh
Finance Act, 1994	Tax & Penalty	1.31	2007-08	CESTAT, Bangalore
Finance Act, 1994	Tax	34.90	2004-05 & 2005-06	High Court of Andhra Pradesh

Contd.

Excise duty				
Central Excise Act, 1944	Duty & Penalty	37.28	2008-09 & 2009-10	CESTAT, Bangalore
Central Excise Act, 1944	Duty	5.46	2007-08 & 2008-09	Commissioner of Central Excise (Appeals), Visakhapatnam
Central Excise Act, 1944	Duty	11.27	2007-08 to 2009-10	Commissioner of Central Excise (Appeals), Visakhapatnam
Central Excise Act, 1944	Duty & Penalty	3.91	2000-01 to 2004-05	CESTAT, Bangalore
Central Excise Act, 1944	Duty & Penalty	125.14	2004-05 to 2006-07	CESTAT, Bangalore
Central Excise Act, 1944	Duty & Penalty	149.29	1996-97 to 2006-07	CESTAT, Bangalore
Central Excise Act, 1944	Duty & Penalty	937.37	2008-09	CESTAT, Bangalore
Central Excise Act, 1944	Duty	37.02	1994-95	High Court of Andhra Pradesh
Central Excise Act, 1944	Duty	0.65	2006-07 to 2008-09	Commissioner of Central Excise (Appeals), Visakhapatnam
Central Excise Act, 1944	Duty	50.65	2001-02	High Court of Andhra Pradesh
Central Excise Act, 1944	Duty	90.90	1995-96 to 2000-01	Supreme Court
Central Excise Act, 1944	Duty & Penalty	43.28	2001-02 to 2010-11	Commissioner of Central Excise (Appeals), Visakhapatnam
Central Excise Act, 1944	Duty	0.31	2010-11	Commissioner of Central Excise (Appeals), Visakhapatnam
Central Excise Act, 1944	Duty	0.68	2009-10 & 2010-11	CESTAT, Bangalore
Central Excise Act, 1944	Duty	256.92	2000-01 to 2002-03	Supreme Court
Central Excise Act, 1944	Duty	45.39	2000-01 to 2006-07	Supreme Court
Central Excise Act, 1944	Duty	1.86	2008-09 & 2009-10	Commissioner of Central Excise (Appeals), Visakhapatnam
Central Excise Act, 1944	Duty	2.50	2002-03	CESTAT, Bangalore
Central Excise Act, 1944	Duty & Penalty	62.05	2004-05	CESTAT, Bangalore
Central Excise Act, 1944	Duty & Penalty	110.96	2005-06	High Court of Andhra Pradesh
Central Excise Act, 1944	Duty	4.04	2000-01 to 2006-07	High Court of Andhra Pradesh
Central Excise Act, 1944	Duty & Penalty	1.10	2005-06 & 2006-07	CESTAT, Bangalore
Central Excise Act, 1944	Duty	10.90	1996-97 & 1997-98	High Court of Andhra Pradesh
Central Excise Act, 1944	Duty & Penalty	5.29	2007-08 to 2009-10	CESTAT, Bangalore
Central Excise Act, 1944	Duty & Penalty	10.23	2002-03 & 2003-04	CESTAT, Bangalore
Central Excise Act, 1944	Duty	1,517.68	1994-95 to 2001-02	High Court of Andhra Pradesh
Central Excise Act, 1944	Duty	684.51	2003-04 & 2004-05	Supreme Court
Central Excise Act, 1944	Duty	0.10	2004-05	High Court of Andhra Pradesh
Central Excise Act, 1944	Duty & Penalty	0.87	2006-07 & 2007-08	CESTAT, Bangalore
Central Excise Act, 1944	Duty & Penalty	5.41	2003-04 to 2006-07	Supreme Court
Central Excise Act, 1944	Tax	5.41	2004-05 & 2005-06	CESTAT, Bangalore
Central Excise Act, 1944	Duty & Penalty	274.19	2004-05 & 2005-06	High Court of Andhra Pradesh
Central Excise Act, 1944	Duty & Penalty	1.51	2006-07 & 2007-08	High Court of Andhra Pradesh
Central Excise Act, 1944	Duty & Penalty	5.71	2007-08 & 2008-09	CESTAT, Bangalore
Municipal Taxes				
Hyderabad Municipal Corporation Act, 1955	Vacant land tax	357.39	2001-02 to December 2011	High Court of Andhra Pradesh

With reference to above amounts, the Company has paid as at December 31, 2011 ₹156.03 lakhs for excise matters, ₹73.22 lakhs for sales tax matters, and ₹174.34 lakhs for municipal tax matters.

Balance Sheet as at December 31, 2011

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

	Note	**As at December 31, 2011**	As at March 31, 2011
EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	2.1	3,977.00	3,977.00
Reserves and surplus	2.2	44,074.51	53,855.73
		48,051.51	57,832.73
Non-current liabilities			
Long-term borrowings	2.3	34,888.79	26,629.20
Deferred tax liabilities (net)	2.4	12,166.70	4,271.25
		47,055.49	30,900.45
Current liabilities			
Short-term borrowings	2.3	3,279.58	2,287.28
Trade payables	2.6	10,394.32	8,542.87
Other current liabilities	2.7	16,623.61	20,130.75
Short-term provisions	2.5	176.60	462.22
		30,474.11	31,423.12
TOTAL		125,581.11	120,156.30
ASSETS			
Non-current assets			
Fixed assets	2.8		
Tangible assets		80,660.59	85,827.68
Capital work-in-progress		6,121.36	3,009.49
Non-current investments	2.9	1,605.34	1,664.34
Long-term loans and advances	2.10	5,208.90	5,645.74
		93,596.19	96,147.25
Current assets			
Inventories	2.11	21,191.77	12,106.85
Trade receivable	2.12	3,525.95	5,629.36
Cash and cash equivalents	2.13	2,415.41	2,068.09
Short-term loans and advances	2.14	4,851.79	4,204.75
		31,984.92	24,009.05
TOTAL		125,581.11	120,156.30
Significant accounting policies and notes on accounts	1 & 2		

As per our report attached.

for The Andhra Pradesh Paper Mills Limited

For B S R & Co.
Chartered Accountants
Firm's Registration Number: 101248W

Zubin Shekary
Partner
Membership No. 048814

Paul Brown
Chairman & CEO

P.K. Suri
Director

E. Sai Ram
Sr. Vice President (Finance & Accounts) &
Chief Finance Officer

C. Prabhakar
Sr. Vice President (Corporate Affairs) &
Company Secretary

Secunderabad
January 25, 2012

ANDHRA®
THE FUTURE OF PAPER

Profit and Loss Account for the period ended December 31, 2011

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

	Note	**9 months ended December 31, 2011**	12 months ended March 31, 2011
INCOME			
Sale of paper and pulp		62,340.58	79,593.83
Less: Excise duty collected on sales		(3,484.57)	(2,943.37)
Net sales		58,856.01	76,650.46
Sale of surplus power		535.00	1,530.81
Other income	2.15	692.50	1,680.81
Total revenue		60,083.51	79,862.08
EXPENSES			
Cost of materials consumed	2.16	19,292.14	20,104.30
Changes in inventories of finished goods and work-in-progress	2.17	(7,991.61)	1,385.99
Manufacturing expenses	2.18	26,286.90	28,330.28
Employee benefits expense	2.19	6,566.08	7,976.24
Finance costs	2.20	4,400.49	3,988.43
Depreciation and amortization expense	2.8	5,062.13	6,696.72
Other expenses	2.21	4,671.61	5,593.78
Loss on discarded assets	2.40	3,112.02	77.74
Total expenses		61,399.76	74,153.48
Profit/(Loss) before tax		(1,316.25)	5,708.60
Current tax expense	2.22	568.47	17.27
Deferred tax expense/(credit)		(579.21)	1,196.00
Deferred tax for earlier years		8,474.66	–
Wealth tax		1.05	1.11
Profit/(Loss) for the period/year		(9,781.22)	4,494.22
Earnings per equity share Basic & Diluted - Par value ₹10 per share	2.24	(24.59)	12.82
Significant accounting policies and notes on accounts	1 & 2		

As per our report attached.

for The Andhra Pradesh Paper Mills Limited

For B S R & Co.
Chartered Accountants
Firm's Registration Number: 101248W

Zubin Shekary
Partner
Membership No. 048814

Secunderabad
January 25, 2012

Paul Brown
Chairman & CEO

P.K. Suri
Director

E. Sai Ram
Sr. Vice President (Finance & Accounts) &
Chief Finance Officer

C. Prabhakar
Sr. Vice President (Corporate Affairs) &
Company Secretary

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

	9 months ended December 31, 2011	12 months ended March 31, 2011
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	(1,316.25)	5,708.60
Adjustments for:		
Depreciation and amortization expense	5,062.13	6,696.72
Bad debts and advances written-off	19.07	3.81
Provision for advances and other assets	59.41	50.25
Provision for diminution in the value of investments	59.00	–
Loss on assets discarded	3,112.02	77.74
Profit on sale of fixed assets, net	(3.65)	(425.51)
Unrealised foreign exchange loss	596.22	1.48
Dividend income	(0.19)	(6.75)
Finance costs	4,400.49	3,988.43
Interest income	(105.02)	(158.79)
Operating profit before working capital changes	11,883.23	15,935.98
Sundry debtors	2,080.56	(986.90)
Loans and advances	(828.31)	(737.56)
Inventories	(9,084.92)	(519.65)
Current liabilities and provisions	4,221.82	120.57
Cash generated from operations	8,272.38	13,812.44
Income tax paid	(566.76)	(1,347.92)
Net cash from operating activities	7,705.62	12,464.52
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(3,997.80)	(5,879.42)
Sale of fixed assets	338.68	470.20
Income from investments	0.19	6.75
Interest received	136.20	160.61
Net cash used in investing activities	(3,522.73)	(5,241.86)
CASH FLOW FROM FINANCING ACTIVITIES		
Issue of share capital	–	3,506.19
Proceeds from borrowings	14,308.41	7,370.46
Repayment of borrowings	(13,105.42)	(13,035.80)
Interest paid	(4,574.72)	(3,990.25)
Dividends paid including tax on dividend	(463.84)	(381.81)
Net cash used in financing activities	(3,835.57)	(6,531.21)
Net increase in cash and cash equivalents	347.32	691.45
Cash and cash equivalents as at the beginning of the period	2,068.09	1,376.64
Cash and cash equivalents as at the end of the period	2,415.41	2,068.09

ANDHRA®
THE FUTURE OF PAPER

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

	9 months ended December 31, 2011	12 months ended March 31, 2011
Cash and cash equivalents		
Cash in hand	8.17	8.38
Cheques, drafts on hand	0.27	13.04
Balances with schedule banks		
in current accounts	1,433.72	1,387.69
in deposit accounts (Refer Note 1)	364.26	245.86
in exchange earner's foreign currency account	268.95	88.16
in unclaimed dividend account (Refer Note 1 and 2)	11.72	13.34
Others - Remittance in transit	328.32	311.62
	2,415.41	2,068.09
Deposit accounts with more than 12 months maturity	43.00	138.55

Notes:

1. Balance with scheduled banks include ₹253.20 lakhs (March 31, 2011: ₹182.20 lakhs) representng margin money for letters of credit and bank guarantees issued.

2. Section 205 of the Companies Act, 1956 mandates that companies transfer dividend that has been unclaimed for a period of seven years from unpaid dividend account to the Investor Education and Protection Fund (IEPF). Accordingly, if dividend is unclaimed for a period of seven years, it will be transferred to IEPF.

As per our report attached.

For B S R & Co.
Chartered Accountants
Firm's Registration Number: 101248W

Zubin Shekary
Partner
Membership No. 048814

Secunderabad
January 25, 2012

for The Andhra Pradesh Paper Mills Limited

Paul Brown
Chairman & CEO

P.K. Suri
Director

E. Sai Ram
Sr. Vice President (Finance & Accounts) &
Chief Finance Officer

C. Prabhakar
Sr. Vice President (Corporate Affairs) &
Company Secretary

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

		As at December 31, 2011	As at March 31, 2011
Note 2.1			
Share capital			
Authorised			
40,000,000	(March 31, 2011: 40,000,000) equity shares of ₹10 each	4,000.00	4,000.00
500,000	(March 31, 2011: 500,000) Redeemable cumulative		
	preference shares of ₹100 each	500.00	500.00
	TOTAL	4,500.00	4,500.00
Issued, subscribed and paid-up capital			
39,770,039	(March 31, 2011: 39,770,039) equity shares of ₹10 each,		
	fully paid-up	3,977.00	3,977.00

Notes:

Subscribed and paid-up share capital includes:

a. Equity shareholder holding more than 5% of equity shares along with the number of equity shares held is as given below:

Name of the shareholder	As at December 31, 2011		As at March 31, 2011	
	%	Number of shares	%	Number of shares
IP Holding Asia Singapore PTE. Limited	75.00	29,827,529	–	–
Digvijay Investments Limited	–	–	24.70	9,822,016
Maharaja Shree Umaid Mills Limited	–	–	21.65	8,609,164
Finnish Fund for Industrial Cooperation Limited	–	–	5.34	2,125,005

b. During the previous year ending March 31, 2011, the Company had issued and allotted 7,018,242 equity shares of ₹10 each at a premium of ₹40 per share, towards conversion of an equivalent number of detachable warrants. A sum of ₹2,807.30 lakhs collected on account of premium at ₹40 per share on 7,018,242 equity shares of ₹10 each allotted on conversion of warrants on December 2, 2010 was credited to securities premium account. Expenses of ₹2.92 lakhs related to the issue of shares was adjusted against the securities premium account. During the current year, no shares were alloted and there are no pending warrants for conversion as on December 31, 2011.

c. 7,018,242 equity shares of ₹10 each at a premium of ₹40 per share offered to the shareholders on rights basis were allotted on March 30, 2010. In terms of letter of offer dated February 22, 2010, 7,018,242 detachable warrants were also allotted on the same day which was to be converted into equivalent number of equity shares of ₹10 each on payment of warrant exercise price of ₹50 per warrant at any time before the expiry of 18 months from the date of allotment i.e. September 30, 2011.

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

	As at December 31, 2011	As at March 31, 2011
Note 2.2		
Reserves and surplus		
Capital redemption reserve		
Balance in capital redemption reserve	598.00	598.00
Securities premium reserve		
Balance at the beginning of the year	18,211.13	15,406.75
Add: Received during the year	–	2,807.30
Less: Share issue expenses	–	(2.92)
	18,211.13	18,211.13
General reserve		
Balance at the beginning of the year	29,016.06	24,016.06
Add: Transferred from surplus	–	5,000.00
	29,016.06	29,016.06
Surplus		
Opening balance	6,030.54	6,998.54
Add: Net profit/(loss) for the current period	(9,781.22)	4,494.22
Amount available for appropriation	(3,750.68)	11,492.76
Appropriations:		
Proposed dividend	–	462.22
Transfer to general reserve	–	5,000.00
Closing balance	(3,750.68)	6,030.54
TOTAL	44,074.51	53,855.73

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

	As at December 31, 2011	As at March 31, 2011
Note 2.3		
Borrowings		
Non current liabilities		
Long-term borrowings		
Secured		
Term loans from banks and financials institutions (Refer Note 1 and 5)		
Foreign currency loan	11,961.56	10,433.43
Rupee loan	12,402.81	13,108.40
	24,364.37	23,541.83
Unsecured		
Term loan from banks (Refer Note 7)	7,350.00	–
Deferred payment liabilities (Refer Note 4)	2,952.92	2,849.97
Deposits (Refer Note 6)	221.50	237.40
	10,524.42	3,087.37
	34,888.79	26,629.20
Current liabilities		
Short-term borrowing		
Secured		
Loan repayable on demand from banks [Refer Note 2(a) & (b)]	2,665.08	1,579.79
Unsecured		
Deposits (Refer Note 6)	614.50	707.49
TOTAL	3,279.58	2,287.28

Notes:

1. Term loans from the financial institutions viz. International Finance Corporation, Deutsche Investitions-und Entwicklungsgesellschaft mbH, State Bank of India, Axis Bank Limited and ICICI Bank Limited are secured by a pari passu first charge on all movable and immovable properties of the Company situated at Rajahmundry, Serinarasannapalem and Kadiyam, in accordance with respective loan agreements and subject to charge under Note No. 2. Further, term loans from Axis Bank Limited have a second charge on current assets of the Company. As of December 31, 2011, the Company is in the process of creating exclusive first charge on specific moveable fixed assets of the Company for the term loan of ₹1,900 lakhs taken from BNP Paribas.
2. a. Working capital facilities from State Bank of India and Canara Bank are secured by hypothecation of current assets along with a second charge on the fixed assets of the Company situated at Rajahmundry, Serinarasannapalem and Kadiyam.

   b. Working capital facilities from BNP Paribas are secured by first pari passu charge on the inventory and receivables of the Company and Letter of Comfort from International Paper Company, USA.
3. 1,499,330 equity shares of ₹10 each of the Company held by M/s. Digvijay Investments Limited were pledged in favour of IDBI Trusteeship Services Limited for the benefit of International Finance Corporation and Deutsche Investitions-und Entwicklungsgesellschaft mbH as on March 31, 2011. The pledge was released during the current year and no pledge was outstanding as on December 31, 2011.
4. Represents 14 years interest free sales tax deferment loan received from Government of Andhra Pradesh. Repayment commences from March 31, 2013 based on the deferment availed in the respective year.
5. Terms of repayments are given below :

   a. Loan taken from International Finance Corporation is repayable in half-yearly installments of ₹1,239.23 lakhs each.

   b. Loan taken from Deutsche Investitions-und Entwicklungsgesellschaft mbH is repayable in half-yearly installments of ₹663.88 lakhs each.

   c. Loan taken from State Bank of India is repayable in yearly installment of ₹800 lakhs each.

   d. Loan taken from Axis Bank is repayable in quarterly installments of ₹866.67 lakhs each.

   e. Loan taken from ICICI Bank are repayable in quarterly installments of ₹411.35 lakhs and half yearly instalments of ₹124.14 each.

   f. Loan taken from BNP Paribas Bank is repayable in quarterly installments of ₹118.75 lakhs each.
6. Public deposit aggregating to ₹614.50 lakhs is repayable within 1 year and ₹221.50 lakhs is repayable within next 2 years. Unclaimed public deposit ₹17.01 lakhs (March 31, 2011: ₹23.60 lakhs) is included under the head 'Unpaid matured deposits and interest accrued thereon'.
7. Term loan from banks has a maturity tenor of 15 months, renewable automatically for successive periods of 15 months, subject to consent of both parties.

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

	As at December 31, 2011	As at March 31, 2011
Note 2.4		
Deferred tax liabilities (net)		
Deferred tax liability comprises of following:		
Fixed assets	13,613.99	4,923.09
Disallowances as per Section 43B and Section 40(a) of the Income Tax Act, 1961	–	2.20
Others	66.96	2.78
	13,680.95	4,928.07
Deferred tax assets comprises of following:		
Disallowances as per Section 43B and Section 40(a) of the Income Tax Act, 1961	332.41	114.85
Unabsorbed depreciation	1,058.43	529.82
Others	123.41	12.15
	1,514.25	656.82
TOTAL	12,166.70	4,271.25

Note:

The Company has since the inception of Accounting Standard 22 on Accounting for Taxes on Income, recognized the deferred tax expense, which arises primarily from depreciation on tangible fixed assets on the basis of the currently applicable enacted Minimum Alternate Tax rate rather than the regular tax rates as specified by paragraph 21 of Accounting Standard 22. The Company has challenged the provisions of Accounting Standard 22, in so far as it relates to the above matter and has accordingly filed a writ petition in June 2003 before the Hon'ble High Court of Andhra Pradesh. The case has been subsequently transferred to the Hon'ble Calcutta High Court. The writ petition has been admitted and is currently pending resolution.

The management is of the view that notwithstanding the writ petition and its ultimate outcome, the differential liability needs to be provided for in accordance with the provisions of AS 22 - Accounting for Taxes on Income and has accordingly quantified and recorded the deferred tax liability relating to earlier years up to March 31, 2011 of ₹8,046 lakhs. The cumulative amount of ₹8,046 lakhs pertaining to the period up to March 31, 2011 has been debited to the profit and loss account for the period ended December 31, 2011 and has been disclosed separately.

	As at December 31, 2011	As at March 31, 2011
Note 2.5		
Provisions		
Short-term provisions		
Provisions for employee benefit		
Provision for gratuity (funded) (Refer Note 1)	117.58	–
Provision for compensated absences (funded) (Refer Note 1)	59.02	–
Proposed dividend (Refer Note 2)	–	397.70
Tax on dividend	–	64.52
TOTAL	176.60	462.22

Notes:

1. Both the gratuity and the compensated absences plans of the Company are funded. As of March 31, 2011, the Company had an overfunded position for both its gratuity and compensated absence benefit plans and accordingly, no provision existed as at March 31, 2011.
2. The Board of Directors have not recommended dividend for the period ended December 31, 2011. However, the Board of Directors had recommended ₹1 per share for the year ended March 31, 2011.

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

	As at December 31, 2011	As at March 31, 2011
Note 2.6		
Trade payable		
Trade payable	10,394.32	8,542.87
TOTAL	10,394.32	8,542.87

Note:

Out of the said amount, ₹143.50 lakhs (March 31, 2011: ₹24.84 lakhs) pertain to micro, small and medium enterprises as defined under Micro, Small, and Medium Enterprises Development Act, 2006 based on the information available with the Company. There is no interest payable to such parties as at December 31, 2011 (March 31, 2011: ₹Nil).

	As at December 31, 2011	As at March 31, 2011
Note 2.7		
Other current liabilities		
Capital creditors	825.16	1,002.03
Current maturities of long-term debts	9,313.42	14,656.64
Interest accrued but not due on borrowings	136.16	241.32
Interest accrued and due on borrowings (Refer Note)	183.55	252.62
Unpaid dividends	11.72	13.34
Unpaid matured deposits and interest accrued thereon	17.01	23.60
Foreign currency payable to banks	20.05	–
Accrued salaries and benefits	978.91	802.33
Other liabilities	5,137.63	3,138.87
TOTAL	16,623.61	20,130.75

Note:

An amount of ₹183.55 lakhs (March 31, 2011: ₹252.62 lakhs) was debited by the banks directly on Janauary 2, 2012 (April 2, 2011) from Company's current account.

Note 2.8

Fixed assets

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

Description	Gross Block				Accumulated Depreciation				Net Block	
	As at April 1, 2011	Additions	Sales/ Adjust-ments	As at December 31, 2011	As at April 1, 2011	Charge for the period	Sales/ Adjust-ments	As at December 31, 2011	As at December 31, 2011	As at March 31, 2011
Tangible										
Land – freehold	253.81	44.52	–	298.33	–	–	–	–	298.33	253.81
Roads and drainage	172.09	5.53	–	177.62	51.25	9.30	–	60.55	117.07	120.84
Buildings – freehold land	8,535.24	80.16	6.76	8,608.64	2,971.21	384.46	4.16	3,351.51	5,257.13	5,564.03
Buildings – leasehold land	3.94	–	–	3.94	3.84	0.01	–	3.85	0.09	0.10
Plant and machinery	116,667.53	2,999.90	9,425.12	110,242.31	39,111.67	4,377.91	6,030.07	37,459.51	72,782.80	77,555.86
Electrical equipment	3,307.51	101.94	–	3,409.45	1,300.71	215.71	–	1,516.42	1,893.03	2,006.80
Furniture, fixtures and office equipment	1,171.93	37.28	20.07	1,189.14	1,004.89	38.49	16.64	1,026.74	162.40	167.04
Vehicles	461.91	72.76	113.36	421.31	302.71	36.25	67.39	271.57	149.74	159.20
TOTAL	130,573.96	3,342.09	9,565.31	124,350.74	44,746.28	5,062.13	6,118.26	43,690.15	80,660.59	85,827.68
Intangible										
Goodwill (Note 1)	1,933.97	–	–	1,933.97	1,933.97	–	–	1,933.97	–	–
	1,933.97	–	–	1,933.97	1,933.97	–	–	1,933.97	–	–
TOTAL	132,507.93	3,342.09	9,565.31	126,284.71	46,680.25	5,062.13	6,118.26	45,624.12	80,660.59	85,827.68
Previous year	108,122.64	24,938.06	552.77	132,507.93	40,323.38	6,696.72	339.85	46,680.25	85,827.68	

Notes:

1. Represents goodwill arising on acquisition of Coastal Papers Limited and its subsequent amalgamation with the Company. The amount has been written off in earlier years.
2. During the current period, foreign exchange fluctuation loss amounting to ₹1,683.21 lakhs has been capitalized to the block of fixed assets pursuant to notification no G.S.R. 225 (E) dated March 31, 2009. The notification was valid upto March 31, 2011 and was subsequently extended upto March 31, 2012 based on notification no. G.S.R 378(E). During the previous period, sales/adjustments made to the block of fixed assets aggregated to ₹92.33 lakhs representing foreign exchange fluctuation gain decapitalized.
3. Depreciation for the period includes ₹134.78 lakhs (March 31, 2011: ₹33.89 lakhs) towards depreciation effect on foreign exchange fluctuations upto the end of the period ended December 31, 2011.
4. Sale/adjustment to the block of fixed assets includes ₹9,270.39 lakhs (March 31, 2011: ₹258.18 lakhs) towards fixed assets discarded. Accumulated depreciation on such asset discarded amounted to ₹6,034.02 lakhs (March 31, 2011: ₹180.44 lakhs) as at December 31, 2011 and balance ₹124.35 lakhs (March 31, 2011: Nil) has been shown under 'short-term loans and advances' as assets held for sale.
5. Depreciation for the period includes depreciation amounting to ₹4.07 lakhs (March 31, 2011: ₹5.03 lakhs) on assets used for research and development. During the period, the Company incurred ₹7 lakhs (March 31, 2011: ₹7.81 lakhs) towards capital expenditure for research and development.

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

	As at December 31, 2011	As at March 31, 2011
Note 2.9		
Non-current investments		
Long term at cost, unless otherwise specified		
Other investments (quoted) - Non trade		
Investments in equity instruments (fully paid-up)		
1,000 (March 31, 2011: 1,000) equity shares of ₹10 each of		
Tamilnadu Newsprint & Papers Limited	1.10	1.10
100 (March 31, 2011: 100) equity shares of ₹10 each of		
JK Paper Mills Limited	0.04	0.04
100 (March 31, 2011: 100) equity shares of ₹10 each of		
Seshasayee Paper and Boards Limited	0.08	0.08
100 (March 31, 2011: 100) equity shares of ₹10 each of		
The Sirpur Paper Mills Limited	0.09	0.09
100 (March 31, 2011: 100) equity shares of ₹10 each of		
Star Paper Mills Limited	0.03	0.03
25 (March 31, 2011: 25) equity shares of ₹10 each of		
Rama Newsprint & Papers Limited (Note 1)		
500 (March 31, 2011: 500) equity shares of ₹2 each of		
The West Coast Paper Mills Limited	0.18	0.18
300 (March 31, 2011: 300) equity shares of ₹2 each of		
Ballarpur Industries Limited	0.05	0.05
3,000 (March 31, 2011: 3,000) equity shares of ₹1 each of		
ITC Limited	1.09	1.09
1,000 (March 31, 2011: 1,000) equity shares of ₹1 each of		
Orient Paper and Industries Limited	0.04	0.04
(A)	2.70	2.70
Other investments (Unquoted) - Trade		
Investments in equity instrument (fully paid-up)		
1,340,000 (March 31, 2011: 1,340,000) equity shares of ₹10 each		
of Andhra Pradesh Gas Power Corporation Limited	1,538.37	1,538.37
(B)	1,538.37	1,538.37
Other investments (Unquoted) - Non trade		
a. Investments in equity instrument (fully paid-up)		
30,000 (March 31, 2011: 30,000) equity shares of ₹10 each of		
Somar Granites Private Limited	3.00	3.00
212,800 (March 31, 2011: 212,800) equity shares of ₹10 each of		
Kedia Distillery Limited	61.71	61.71
Less: Provision for decline, other than temporary, in the value of		
long term investments	(64.71)	(64.71)
(C)	–	–
b. Investments in mutual funds		
321,759.706 (March 31, 2011: 321,759.706) units of ₹10 each of		
UTI Services Industries Fund-Dividend Plan	183.27	183.27
Less: Provision for decline, other than temporary, in the value of		
long term investments	(119.00)	(60.00)
(D)	64.27	123.27
TOTAL investments, net (A+B+C+D)	1,605.34	1,664.34
Aggregate amount of quoted investments	2.70	2.70
Aggregate amount of unquoted investments	1,786.35	1,786.35
Aggregate market value of quoted investments	7.88	8.26
Aggregate provision for diminution in the value of investments	183.71	124.71

Note: The cost of the Company`s investment in Rama Newsprint & Papers Limited of ₹228 has been rounded off in ₹lakhs above.

ANDHRA® THE FUTURE OF PAPER

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

	As at December 31, 2011	As at March 31, 2011
Note 2.10		
Long-term loans and advances		
Unsecured, considered good		
Capital advances	138.35	668.51
Other loans and advances		
Advance income taxes (net of provisions)	728.34	153.04
Minimum alternate tax credit entitlement	2,719.69	3,286.97
Prepaid expenses	107.60	169.98
Loans and advances to employee	49.62	–
Deposits with government, public bodies and others	180.82	300.12
Electricity and other deposits	233.31	232.92
Rental deposits	97.36	64.09
Others	953.81	770.11
Unsecured, considered doubtful		
Capital advances	22.28	22.28
	5,231.18	5,668.02
Less: Provision for doubtful long-term loans and advances	(22.28)	(22.28)
TOTAL	5,208.90	5,645.74

	As at December 31, 2011	As at March 31, 2011
Note 2.11		
Inventories		
(at lower of cost or net realisable value)		
Raw material (Refer Note)	4,525.71	3,703.29
Work-in-progress	1,413.95	1,142.31
Finished goods	10,058.82	2,108.36
Stores, spares and chemicals	4,806.39	4,690.72
Packing material	386.90	462.17
TOTAL	21,191.77	12,106.85

Note:

Includes material-in-transit amounting to ₹2,529.48 lakhs (March 31, 2011: ₹190.81 lakhs).

	As at December 31, 2011	As at March 31, 2011
Note 2.12		
Trade receivable		
Debtors outstanding for a period exceeding six months		
Secured, considered good	1.08	35.03
Unsecured, considered good	9.09	71.03
Unsecured, considered doubtful	52.01	38.32
Less: Provision for bad and doubtful debts	(52.01)	(38.32)
	10.17	106.06
Other debts		
Secured, considered good	914.88	807.43
Unsecured, considered good	2,600.90	4,715.87
	3,515.78	5,523.30
TOTAL	3,525.95	5,629.36

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

	As at December 31, 2011	As at March 31, 2011
Note 2.13		
Cash and cash equivalents		
Cash in hand	8.17	8.38
Cheques, drafts on hand	0.27	13.04
Balances with scheduled banks		
in current accounts	1,433.72	1,387.69
in deposit accounts (Refer Note 1)	364.26	245.86
in exchange earner's foreign currency account	268.95	88.16
in unclaimed dividend account (Refer Note 2)	11.72	13.34
Others - remittance in transit	328.32	311.62
TOTAL	2,415.41	2,068.09
Deposit accounts with more than 12 months maturity	43.00	138.55

1. Balance with scheduled banks include ₹253.20 lakhs (March 31, 2011: ₹182.20 lakhs) representng margin money for letters of credit and bank guaranees issued.
2. Section 205 of the Companies Act, 1956 mandates that companies transfer dividend that has been unclaimed for a period of seven years from unpaid dividend account to the Investor Education and Protection Fund (IEPF). Accordingly, if dividend is unclaimed for a period of seven years, it will be transferred to IEPF.

	As at December 31, 2011	As at March 31, 2011
Note 2.14		
Short-term loans and advances		
Unsecured, considered good		
Advance to material supplier/contractors	2,681.42	2,361.19
Other loans and advances		
Interest accrued but not due	84.17	115.35
Prepaid expenses	177.60	121.67
Balance with customs, central excise etc	950.54	636.27
Deposits with government, public bodies and others	622.38	535.86
Loans and advances to employee	145.88	85.48
Others	189.80	348.93
Unsecured, considered doubtful		
Other loans and advances	64.48	27.77
	4,916.27	4,232.52
Less: Provision for doubtful other loans and advances	(64.48)	(27.77)
TOTAL	4,851.79	4,204.75

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

	9 months ended December 31, 2011	12 months ended March 31, 2011
Note 2.15		
Other Income		
Interest income	105.02	158.79
Dividend income	0.19	6.75
Scrap and other sales	371.04	657.04
Profit on sale of fixed assets, net	3.65	425.51
Insurance and other claims	40.39	187.46
Miscellaneous income	172.21	245.26
TOTAL	692.50	1,680.81
Note 2.16		
Cost of materials consumed		
Opening stock of raw material	3,512.48	2,659.20
Add: Purchases	17,775.89	20,957.58
	21,288.37	23,616.78
Less: Closing stock	(1,996.23)	(3,512.48)
TOTAL	19,292.14	20,104.30
Note 2.17		
Changes in inventories of finished goods and work-in-progress		
Opening work-in-progress	1,142.31	895.36
Opening finished goods	2,108.36	3,692.64
	3,250.67	4,588.00
Closing work-in-progress	1,413.95	1,142.31
Closing finished goods	10,058.82	2,108.36
	11,472.77	3,250.67
Adjustment for excise duty on stock	230.49	48.66
Net (increase)/decrease in stock	(7,991.61)	1,385.99

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

	9 months ended December 31, 2011	12 months ended March 31, 2011

Note 2.18
Manufacturing expenses

	9 months ended December 31, 2011	12 months ended March 31, 2011
Stores, spares and chemicals consumed	15,196.20	15,790.16
Packing material consumed	1,601.49	1,301.94
Power and fuel	7,783.64	9,402.62
Repairs and maintenance		
Buildings	158.50	209.80
Plant and machinery	1,244.09	1,341.43
Other manufacturing expenses	302.98	284.33
TOTAL	26,286.90	28,330.28

Note 2.19
Employee benefits expense

	9 months ended December 31, 2011	12 months ended March 31, 2011
Salaries, wages and bonus	5,270.77	6,501.96
Contribution to provident and other funds	795.66	791.36
Workmen and staff welfare expenses	499.65	682.92
TOTAL	6,566.08	7,976.24

Note 2.20
Finance costs

	9 months ended December 31, 2011	12 months ended March 31, 2011
Interest expense	3,384.63	3,762.06
Foreign exchange loss, net	790.15	11.74
Other borrowing cost	225.71	214.63
TOTAL	4,400.49	3,988.43

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

	9 months ended December 31, 2011	12 months ended March 31, 2011
Note 2.21		
Other expenses		
Commission and discount on sales	2,069.57	2,856.89
Forwarding, transportation and other sales expenses	623.33	684.85
Rates and taxes	517.18	295.57
Rent	170.33	192.64
Insurance	164.61	220.13
Repair and maintainence - others	162.92	177.31
Legal and professional	147.68	205.50
Research and development	117.93	162.52
Provision for dimunition in the value of investment	59.00	–
Provision for doubtful debt, advances and other assets	59.41	50.25
Bad debts and advances written-off	19.07	3.81
Auditor's remuneration		
for audit fees	12.00	13.00
for taxation matters	0.75	1.00
for others services	6.52	2.37
for out of pocket expenses	0.69	0.65
Cost auditor's remuneration	2.00	2.00
Directors’ sitting fees	5.45	7.35
Miscellaneous expenses	533.17	717.94
TOTAL	4,671.61	5,593.78

	9 months ended December 31, 2011	12 months ended March 31, 2011
Note 2.22		
Tax expenses		
Current tax expenses		
Current tax	–	1,138.00
Taxes for earlier years	(7.49)	17.27
Minimum alternate tax expense/(credit)	575.96	(1,138.00)
	568.47	17.27
Deferred tax (credit)/expense	(579.21)	1,196.00
Deferred tax expense for earlier years (Refer Note)	8,474.66	–
Wealth tax	1.05	1.11
TOTAL	8,464.97	1,214.38

Note:

Includes amount of ₹8,046 lakhs pertaining to differential deferred tax expense on account of accounting for deferred taxes based on enacted tax rate as compared to Minimum Alternate Tax rate as followed in earlier years.

1. Significant accounting policies

a. Basis of preparation

The financial statements of The Andhra Pradesh Paper Mills Limited ('APPM' or 'the Company') have been prepared and presented in accordance with Indian Generally Accepted Accounting Principles (GAAP) under the historical cost convention on the accrual basis. GAAP comprises accounting standards notified by the Central Government of India under Section 211 (3C) of the Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India, the provisions of Companies Act, 1956 and guidelines issued by Securities and Exchange Board of India. The financial statements are rounded off to the nearest Rupees lakhs.

The Company has prepared these financial statements as per the format prescribed by Revised Schedule VI to the Companies Act, 1956 ('the schedule') issued by Ministry of Corporate Affairs. Previous periods' figures have been recast/restated to conform to the classification required by the Revised Schedule VI.

b. Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in the current and future periods.

c. Fixed assets and depreciation

Fixed assets are carried at the cost of acquisition or construction less accumulated depreciation. The cost of fixed assets includes non-refundable taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalized.

Intangible assets are recorded at the consideration paid for acquisition.

Depreciation on plant and machinery of Units:APPM and CP and buildings of Unit:CP are charged under straight line method applying the rates worked out in accordance with Schedule XIV of the Companies Act, 1956. Depreciation on other fixed assets is charged under written down value method in accordance with Schedule XIV of the Companies Act, 1956.

Leasehold improvements are amortized over the primary period of lease or the estimated useful life of such assets, whichever is shorter. Freehold land is not depreciated.

Goodwill arising on amalgamation is amortized over a period of 10 years.

Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed. Individual assets costing less than ₹5,000 are depreciated in full in the year of acquisition.

d. Investments

Trade investments are the investments made to enhance the Company's interest. Investments are either classified as current or long term based on management's intention at the time of purchase.

Current investments are carried at the lower of cost and market value. The comparison of cost and market value is done separately in respect of each category of investment.

Long-term investments are carried at cost less any permanent diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist.

e. Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The methods of determining cost of various categories of inventories are as follows:

Raw materials	Weighted average method
Stores and spares and packing materials	Weighted average method
Work-in-process and finished goods (manufactured)	Weighted average method and including an appropriate share of production overheads

Raw material and packing material held for use in the production of inventories are not written down below cost if the finished goods in which they will be incorporated are expected to be sold at or above cost.

f. Employee benefits

Employee benefits in the form of employees state insurance fund and labour welfare fund are considered as defined contribution plans and the contributions are charged to the profit and loss account of the year when the contributions to the respective funds are due. The Company has no further obligations under the above plans beyond its contributions.

The Company's liabilities towards gratuity and compensated absences are determined based on actuarial valuation carried out by an independent actuary using the projected unit credit method as on the date of the balance sheet.

i. *Gratuity*

In accordance with the Payment of Gratuity Act, 1972, the Company provides for gratuity, a defined benefit retirement plan ('the Gratuity Plan') covering eligible employees. The Gratuity Plan provides a lump-sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment with the Company.

Liabilities with regard to the Gratuity Plan are determined by actuarial valuation at each Balance Sheet date using the projected unit credit method. The Company fully contributes all ascertained liabilities to the gratuity fund maintained with ICICI Prudential Life Insurance, Life Insurance Corporation of India and Birla Sun Life Insurance. The Company recognises the net obligation of the Gratuity Plan in the Balance Sheet as an asset or Liability, respectively in accordance with Accounting Standard (AS) 15, 'Employee Benefits.' The Company's overall expected long-term rate of return on asset has been determined based on consideration of available market information, current provisions of Indian law specifying the instruments in which investments can be made, and historical returns. The discount rate is based on the Government securities yield.

Actuarial gain or losses arising from experience adjustments and changes in actuarial assumptions are recognised in statement of profit and loss in the period in which they arise.

ii. *Superannuation*

Certain employees of the Company are also participants in the superannuation plan ('the Plan') which is a defined contribution plan. The Company fully contributes all ascertained liabilities to the superannuation fund maintained with Life Insurance Corporation of India.

iii. *Provident fund*

Eligible employees receive benefits from a provident fund, which is a defined benefit plan. Both the employee and the Company make monthly contributions to the provident fund plan equal to a specified percentage of the covered employee's salary. For Unit:APPM, the Company contributes the contributions to 'The Employee's Provident Fund of The Andhra Pradesh Paper Mills Limited' trust maintained by the Company and for Unit:CP, the Company contributes the fund to Regional Provident Fund Commissioner. The rate at which the annual interest is payable to the beneficiaries by the trust is being administered by the government. For Unit:APPM, the Company has an obligation to make good the shortfall, if any, between the return from the investments of the trust and the notified interest rate. However, in case of Unit:CP, the Company is not liable to contribute towards any shortfall.

iv. *Compensated absences*

The employees of the Company are entitled to compensated absences which are both accumulating and non-accumulating in nature. The Company fully contributes all ascertained liabilities to the superannuation fund maintained with Birla Sun Life Insurance. The expected cost of accumulating compensated absences is determined by actuarial valuation based on the additional amount expected to be paid as a result of the unused entitlement that has accumulated at the balance sheet date. Expense on non-accumulating compensated absences is recognised in the period in which the absences occur.

g. Foreign currency transactions and balances

Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the respective transactions. Exchange differences arising on foreign exchange transactions settled during the year are recognised in the profit and loss account of the year.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the exchange rate on the balance sheet date and resultant exchange differences are recognised in the profit and loss account.

Non-monetary items which are carried in terms of historical cost denominated in foreign currency are reported using the exchange rate at the date of the transaction.

As per the notification issued by the Ministry of Corporate Affairs vide notification dated March 31, 2009 and subsequent notification issued dated May 11, 2011, the Company has adjusted foreign exchange differences arising on long term foreign currency loans to the cost of the asset, where the long term foreign currency monetary items related to acquisition of a depreciable capital asset (whether purchased within or outside India) and has depreciated such foreign exchange gain / losses over the asset's balance useful life.

Forward contracts are entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date. The premium or discount on all such contracts is amortized as income or expense over the life of the contract. Any profit or loss arising on the cancellation or renewal of forward contracts is recognised as income or expense for the period.

In relation to the forward contracts entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange difference is calculated and recorded in accordance with AS-11 (revised). The exchange difference on such a forward exchange contract is calculated as the difference of the foreign currency amount of the contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period and the corresponding foreign currency amount translated at the later of the date of inception of the forward exchange contract and the last reporting date. Such exchange differences are recognised in the profit and loss account in the reporting period in which the exchange rates change.

h. Revenue recognition

Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of products are transferred to customers. Revenue from domestic sales is recognised on delivery of products to customers, from the factories and depots of the Company. Revenue from export sales is recognised when the significant risks and rewards of ownership of products are transferred to the customers, which is based upon the terms of the applicable contract. Revenue from sale of goods has been presented both gross and net of excise duty.

Revenue from product sales is stated exclusive of returns, sales tax and applicable trade discounts and allowances.

Dividend income is recognised when the unconditional right to receive the income is established. Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method based on underlying interest rates.

Export entitlements are recognised as income when the right to receive credit as per the terms of the scheme is established in respect of the exports made and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.

Insurance and other claims/refunds are accounted for as and when admitted by appropriate authorities.

Income from sale of Certified Emission Reduction points (CERs) granted by UNFCCC on energy efficient measures are accounted as and when sold to customers.

i. Income-tax expense

Income tax expense comprises current tax and deferred tax charge or credit.

Current tax

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

Deferred tax

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realized in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realization of such assets. Deferred tax assets are reviewed at each balance sheet date and written-down or written-up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realized. The break-up of the major components of the deferred tax assets and liabilities as at balance sheet date has been arrived at after setting off deferred tax assets and liabilities where the Company has a legally enforceable right to set-off assets against liabilities and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

Minimum alternate tax credit

MAT credit entitlement represents the amounts paid in a year under Section 115JB of the Income Tax Act 1961 ('IT Act') which is in excess of the tax payable, computed on the basis of normal provisions of the IT Act. Such excess amount can be carried forward for set off in future periods in accordance with the relevant provisions of the IT Act. Since such credit represents a resource controlled by the Company as a result of past events and there is evidence as at the reporting date that the Company will pay normal income tax during the specified period, when such credit would be adjusted, the same has been disclosed as 'MAT Credit entitlement', in the balance sheet with a corresponding credit to the profit and loss account, as a separate line item.

Such assets are reviewed at each balance sheet date and written down to reflect the amount that will not be available as a credit to be set off in future, based on the applicable taxation law then in force.

j. Earnings per share

The basic earnings per share ('EPS') is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, net profit after tax for the year and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. The dilutive potential equity shares are deemed converted as of the beginning of the period, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares).

k. Provisions and contingent liabilities

The Company creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Provisions for onerous contracts, i.e. contracts where the expected unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, are recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation as a result of an obligating event based on a reliable estimate of such obligation.

l. Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

m. Leases

Lease payments under operating lease are recognised as an expense in the profit and loss account on a straight line basis over the lease term.

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

2.23 Commitments and contingent liabilities

			As at December 31, 2011	As at March 31, 2011
i.	**Commitments/contingent liabilities**			
	a.	Guarantees issued by banks	687.39	684.36
	b.	Letters of credit outstanding	1,629.08	1,014.83
	c.	Corporate guarantee given to the Forest Department of Government of Andhra Pradesh	1,472.09	1,472.09
ii.	**Claims against the Company not acknowledged as debts in respect of**			
	a.	Income tax matters, pending decisions on various appeals made by the Company and by the Department	52.51	138.82
	b.	Excise matters, under dispute	1,510.99	1,647.02
	c.	Sales tax matters, under dispute	306.28	365.33
	d.	Other matters, under dispute	334.12	297.25
	e.	Vacant land tax	357.39	228.31
	f.	Demand raised by Eastern Power Distribution Corporation of Andhra Pradesh Limited for surplus power supplied by APGPCL disputed by the Company. An amount of ₹76.98 lakhs paid under protest (March 31, 2011: ₹76.98 lakhs) has been grouped under loans and advances. The appeal filed by APTRANSCO is pending before the Hon'ble High Court of Andhra Pradesh in which other companies similarly placed are made respondents.	87.66	87.66
iii.	Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)		1,043.89	2,136.94
iv.	Commitment under Export Promotion Capital Goods (EPCG) Scheme		51,360.62	57,613.38

2.24 Earnings per share (EPS)

The computation of EPS is set out below:

	9 months ended December 31, 2011	12 months ended March 31, 2011
Earnings	Basic and diluted EPS	Basic and diluted EPS
Net profit/(loss) for the period	(9,781.22)	4,494.22
Shares		
Number of shares at the beginning of the period	3,97,70,039	3,27,51,797
Add: Shares issued during the period	–	7,018,242
Total number of equity shares outstanding at the end of the period	3,97,70,039	3,97,70,039
Weighted average number of equity shares outstanding during the period		
- Basic & diluted	3,97,70,039	3,50,59,164
Earnings per share of par value ₹10 - Basic and diluted (₹)	(24.59)	12.82

2.25 Related party disclosures

a. Related parties where control exists or where significant influence exists and with whom transactions have taken place during the year:

Ultimate holding company

International Paper Company, USA

Holding company

IP Holding Asia Singapore PTE. Limited, Singapore

Enterprises where principal shareholders have control

Samay Books Limited (Up to October 14, 2011)

Enterprises where principal shareholders have significant influence (Up to October 14, 2011)

i. Digvijay Investments Limited
ii. Amalgamated Development Limited
iii. Apurva Export Private Limited
iv. MB Commercial Company Limited
v. Maharaja Shree Umaid Mills Limited
vi. Mugneeram Ramcoowar Bangur Charitable & Religious Company
vii. Placid Limited
viii. Shree Krishna Agency Limited
ix. The General Investment Company Limited
x. The Kishore Trading Company Limited
xi. The Peria Karamalai Tea & Produce Company Limited
xii. The Swadeshi Commercial Company Limited

Key Management Personnel represented on the Board

Mr. Paul Brown (from October 15, 2011)	Chairman and CEO
Mr. L.N. Bangur (upto October 14, 2011)	Executive Chairman
Mr. M.K. Tara (upto October 14, 2011)	Managing Director & CEO
Ms. Sheetal Bangur (upto October 14, 2011)	Director (Commercial)
Mr. Shreeyash Bangur (upto October 14, 2011)	Director (Corporate)
Mr. P.K. Suri	Director (Operations)

Non-Executive/Independent Directors on the Board

Mrs. Alka Bangur (upto May 17, 2011)
Mr. N. Srinivasan (upto December 6, 2011)
Mr. R.C. Sarin (upto August 8, 2011)
Mr. P.J.V. Sarma (upto December 6, 2011)
Mr. P.K. Paul (upto December 6, 2011)
Mr. Rajiv Kapasi (upto December 6, 2011)
Mr. P.R. Ramakrishnan (upto December 6, 2011)
Mr. Thomas G. Kadien (from October 14, 2011)
Mr. Brett A. Mosley (from October 14, 2011)
Mr. Shreeyash Bangur (from October 14, 2011)
Mr. M. S. Ramachandran (from December 6, 2011)
Mrs. Ranjana Kumar (from December 6, 2011)
Mr. M.K. Sharma (from December 6, 2011)
Mr. M. Adhiraj Sarin (from December 6, 2011)
Mr. Milind Sarwate (from December 6, 2011)

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

Related party disclosures (Contd.)

b. The following is a summary of significant related party transactions

	Particulars	9 months ended December 31, 2011	12 months ended March 31, 2011
i.	Sales to		
	The Swadeshi Commercial Company Limited	129.34	281.56
ii.	Purchases from		
	Samay Books Limited	347.28	460.00
iii.	Rent paid to		
	MB Commercial Company Limited	1.54	2.85
iv.	Executive directors remuneration	415.99	770.84
	[including arrears of Nil (March 31, 2011: ₹162.29 lakhs) pertaining		
	to earlier years was paid during the current period]		
v.	Interest on public deposit		
	Managerial personnel	0.02	0.43
	[Tax deducted at source: ₹Nil (March 31, 2011: ₹0.04 lakhs)]		
vi.	Directors' sitting fee	5.45	7.35
vii.	Sale of miscellaneous items		
	Key managerial personnel	18.02	–
viii.	Sale of fixed assets		
	Key managerial personnel	46.87	–
ix.	Issue of share capital		
	Digvijay Investments Limited	–	86.99
	MB Commercial Company Limited	–	4.10
	Maharaja Shree Umaid Mills Limited	–	245.46
	Amalgamated Development Limited	–	0.31
	Apurva Export Private Limited	–	4.74
	Mugneeram Ramcoowar Bangur Charitable & Religious Company	–	0.31
	Placid Limited	–	2.87
	Samay Books Limited	–	2.02
	Shree Krishna Agency Limited	–	0.05
	The General Investment Company Limited	–	0.07
	The Kishore Trading Company Limited	–	0.14
	The Peria Karamalai Tea & Produce Company Limited.	–	25.70
	The Swadeshi Commercial Company Limited	–	0.34
	Key Management Personnel	–	30.09

c. The Company has the following amounts due to/from related parties:

	Particulars	As at December 31, 2011	As at March 31, 2011
i.	Due from related parties		
	The Swadeshi Commercial Company Limited	–	7.61
	MB Commercial Company Limited	–	0.97
ii.	Due to related parties		
	Samay Books Limited	–	16.91
iii.	Public deposit from key managerial personnel	–	4.17

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

2.26 Raw materials consumed during the year

Raw materials	9 months ended December 31, 2011	12 months ended March 31, 2011
Hardwood	13,810.89	15,205.25
Waste paper cuttings, wood pulp, etc.	5,292.32	4,752.96
Others	188.93	146.09
TOTAL	19,292.14	20,104.30

Others include items which do not individually exceed 10% of total consumption.

2.27 Details of imported and indigenous raw materials, spares and packing materials consumed

Particulars	9 months ended December 31, 2011		12 months ended March 31, 2011	
	₹ Lakhs	% of total consumption	₹ Lakhs	% of total consumption
Raw materials				
Imported	3,694.81	19.15	3,964.60	19.72
Indigenous	15,597.33	80.85	16,139.70	80.28
	19,292.14	100.00	20,104.30	100.00
Stores, chemicals, spares and packing materials				
Imported	1,813.38	10.80	1,857.89	10.87
Indigenous	14,984.31	89.20	15,234.21	89.13
	16,797.69	100.00	17,092.10	100.00

2.28 CIF value of imports

Particulars	9 months ended December 31, 2011	12 months ended March 31, 2011
Raw materials	3,395.51	2,812.72
Stores and spares	1,708.42	2,169.25
Capital goods	643.79	647.21
	5,747.72	5,629.18

2.29 Earnings in foreign currency

Particulars	9 months ended December 31, 2011	12 months ended March 31, 2011
Exports on FOB basis	2,139.32	4,474.79
	2,139.32	4,474.79

2.30 Expenditure in foreign currency

Particulars	9 months ended December 31, 2011	12 months ended March 31, 2011
Travelling	13.93	10.73
Interest	541.96	425.46
Membership subscriptions	0.48	1.23
	556.37	437.42

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

2.31 Superannuation

The Company contributed ₹54.35 lakhs (March 31, 2011: ₹94.79 lakhs) to the superannuation fund maintained with Life Insurance Corporation of India during the period ended December 31, 2011.

2.32 Provident fund

The Company contributed ₹277.81 lakhs (March 31, 2011: ₹310.16 lakhs) to the Provident Fund trust maintained by the Company and ₹92.09 lakhs (March 31, 2011: ₹104.76 lakhs) to Regional Provident Fund Commissioner during the period ended December 31, 2011.

The Guidance on Implementing AS 15, Employee Benefits (revised 2005) issued by Accounting Standards Board (ASB) states that benefits involving employer established provident funds, which require interest shortfalls to be recompensed by the Company. Accordingly, the Company has provided ₹28.40 lakhs (March 31, 2011: ₹Nil) as shortfall to the provident fund trust.

2.33 Employee benefit plans

The following table sets out the status of the gratuity plan as required under AS-15 (Revised):

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

Particulars	For the period ended				
	December 31, 2011	Mar 31, 2011	Mar 31, 2010	Mar 31, 2009	Mar 31, 2008
Opening defined benefit obligation	1,915.64	1,824.64	1,870.77	1,789.14	1,709.17
Current service cost	67.27	80.74	90.81	88.83	275.59
Interest cost	71.62	145.97	127.72	139.49	136.73
Benefits paid	(245.99)	(326.67)	(284.09)	(101.25)	(328.28)
Actuarial losses/(gain)	246.48	190.96	19.43	(45.44)	(4.07)
Obligations at the end of the period	2,055.02	1,915.64	1,824.64	1,870.77	1,789.14

Change in plan assets

Particulars	For the period ended				
	December 31, 2011	Mar 31, 2011	Mar 31, 2010	Mar 31, 2009	Mar 31, 2008
Opening fair value of plan assets	2,142.50	2,081.10	1,836.32	1,796.37	1715.86
Expected return on plan assets	201.25	197.70	141.99	101.40	137.27
Actuarial gain/(losses)	(185.32)	(60.01)	265.33	(282.65)	99.78
Contributions by employer	25.00	250.38	121.55	322.45	171.74
Benefits paid	(245.99)	(326.67)	(284.09)	(101.25)	(328.28)
Closing fair value of plan assets	1,937.44	2,142.50	2,081.10	1,836.32	1,796.37

Amount recognized in Balance Sheet

Particulars	For the period ended				
	December 31, 2011	Mar 31, 2011	Mar 31, 2010	Mar 31, 2009	Mar 31, 2008
Present value of funded obligations	2,055.02	1,915.64	1,824.64	1,870.77	1,789.14
Fair value of plan assets	1,937.44	2,142.50	2,081.10	1,836.32	1,796.37
Net asset/(liability)	(117.58)	226.86	256.46	(34.45)	7.23

(All amounts in Rupees lakhs, except share data and unless otherwise stated)

Expense recognised in statement of Profit and Loss Account

Particulars	For the period ended				
	December 31, 2011	Mar 31, 2011	Mar 31, 2010	Mar 31, 2009	Mar 31, 2008
Current service cost	67.27	80.74	90.81	88.83	275.59
Interest on defined benefit obligation	71.62	145.97	127.72	139.49	136.73
Expected return on plan assets	(201.25)	(197.70)	(141.99)	(101.40)	(137.27)
Net actuarial losses/(gains) recognized	431.80	250.97	(245.90)	237.21	(103.85)
Amount included in 'Employee benefit expense'	369.44	279.98	(169.36)	364.13	171.20

Summary of actuarial assumptions

Financial assumptions at the valuation date:

Assumptions

Particulars		For the period ended				
		December 31, 2011	Mar 31, 2011	Mar 31, 2010	Mar 31, 2009	Mar 31, 2008
Discount rate	%	8.35	8.00	7.50	8.00	8.00
Estimated rate of return on plan assets	%	7.50	9.50	8.00	8.00	8.00
Salary escalation rate	%	5.00	5.00	5.00	6.00	6.00

Discount rate: The discount rate is based on the prevailing market yields of Indian government securities as at the balance sheet date for the estimated term of the obligations.

Expected rate of return on plan assets: This is based on the expectation of the average long term rate of return expected on investments of the fund during the estimated term of the obligations.

Salary escalation rate: The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors.

2.34 Dividend remittance in foreign currency

Particulars	**9 months ended December 31, 2011**	12 months ended March 31, 2011
Number of non-resident shareholders	–	1
Number of shares held by them on which dividends were paid	–	17,50,004
Amounts remitted, net of tax	–	17,50,004
Period to which dividend payment relates	–	Year ended March 31, 2010

2.35 Segment information

The Company is in the business of manufacture and sale of pulp, paper and paper board. Considering the core activities of the Company, management is of the view that manufacture and sale of pulp, paper and paper boards is a single reportable business segment and hence information relating to primary segment is not required to be disclosed.

Information relating to secondary segments i.e. geographical segments - Domestic and Overseas based on location of customer is as follows:

Particulars	Domestic		Overseas		Total	
	9 months ended December 31, 2011	12 months ended March 31, 2011	**9 months ended December 31, 2011**	12 months ended March 31, 2011	**9 months ended December 31, 2011**	12 months ended March 31, 2011
Segment revenue*	56,454.56	72,987.47	6,421.02	8,137.17	62,875.58	81,124.64
Segment assets	125,101.97	119,402.67	479.14	753.63	125,581.11	120,156.30

* includes Sale of paper and pulp and Sale of surplus power (Gross of excise duty)

2.36 Leases

The Company is obligated under non-cancellable operating lease agreements. Total rental expense under non-cancellable operating leases for the current period is ₹23.50 lakhs (March 31, 2011: ₹31.33 lakhs). The total rental expense under cancellable operating leases for the current period amounts to ₹146.83 lakhs (March 31, 2011: ₹161.31 lakhs). The future minimum lease payments under non-cancellable operating leases are as follows:

Particulars	**As at December 31, 2011**	As at March 31, 2011
Not later than 1 year	31.33	31.33
Later than 1 year and not later than 5 years	177.03	172.32
More than 5 years	542.04	570.24

2.37 Clean Development Mechanism (CDM) Emission Reductions

On account of energy efficiency measures undertaken by the Company during the period from June 2000 to December 2006, UNFCCC (in accordance with the regulations of United Nations body on environment) has approved the project and accorded Certified Emission Reduction (CERs) points to the Company, which have been sold during the previous period. Income from such sales has been credited to the profit and loss account and has been disclosed under other income.

2.38 Hedging and derivatives

The following are the outstanding forward exchange contracts entered into by the Company as at December 31, 2011

Category	Currency	Cross currency	Amount	Buy/Sell	Purpose
Forward contract	USD	INR	12,392,497	Buy	Hedging
Forward contract	USD	INR	4,593,378	Buy	Hedging

There were no forward contracts entered by the Company as at March 31, 2011.

Unhedged foreign currency exposure

The Company has the following un-hedged exposure in foreign currency at the year end:

Particulars	**As at December 31, 2011 (All figures in Lakhs)**			As at March 31, 2011 (All figures in Lakhs)		
	USD	**Euro**	**₹**	USD	Euro	₹
Sundry debtors	2.69	–	143.05	2.07	–	92.50
Sundry creditors	10.69	0.001	567.15	2.49	0.07	115.96
Advance received from customer	1.56	–	82.88	0.64	–	28.72
Bank balance	5.06	–	268.96	1.98	–	88.16
Secured loans	198.55	–	10,544.89	339.46	–	15,140.08

2.39 The Promoters of the Company, LN Bangur Group informed the Company on March 29, 2011 that they had entered into an agreement to sell their entire shareholding of 21,260,008 equity shares of ₹10 each held by them in the Company to IP Holding Asia Singapore PTE. Limited (Acquirer), a subsidiary of International Paper Company, USA. The Acquirer is an unlisted company incorporated under the Laws of Singapore. International Paper Company, USA is a global paper and packaging company and is listed on the New York Stock Exchange.

Lazard India Private Limited, Manager to the Open Offer appointed by the Acquirer had given a certificate dated October 11, 2011 to the Company confirming that the Acquirer along with International Paper Company complied with all applicable provisions of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations and completed their obligations in relation to the Open Offer made in accordance with the Interim Order dated August 11, 2011 to Securities Appellate Tribunal. They have also confirmed that despatch of payment consideration to the shareholders whose equity shares have been accepted in the Open Offer was completed by October 8, 2011. The Board approved transfer of 35,762 equity shares of ₹10 each in physical form to the Acquirer and noted the acquisition of 8,531,759 equity shares in electronic form from public shareholders by the Acquirer.

Pursuant to such Open Offer and above mentioned share sale agreement, 29,827,529 shares of the Company were acquired by the Acquirer on October 14, 2011 being the effective date of the change in the ownership. Pursuant to such acquisition, the Acquirer became the holding company of the Company, with International Paper Company being the ultimate holding company.

2.40 During the period, the Company carried out an internal technical assessment based on its global standards and methodologies whereby assets with a net book value of ₹3,112.02 lakhs have been identified as unsuitable for future use and accordingly was debited to the profit and loss account.

2.41 Addition to fixed assets include an amount of ₹227.91 lakhs (March 31, 2011: ₹222.69 lakhs) on account of capitalisation of interest cost as stipulated under Accounting Standard -16 (Borrowing cost).

2.42 During the period ended December 31, 2011, the Company has accrued for managerial remuneration in excess of the maximum limits specified in Schedule XIII to the Companies Act, 1956 to the extent of ₹194.64 lakhs. The Company proposes to apply to the Central Government for necessary approval.

2.43 The Company in its Board meeting held on December 6, 2011 approved the change of financial year from March 31 to December 31, every year. Pursuant to such change, the Company has closed its accounts for the nine months period ended December 31, 2011.

2.44 Comparative figures

The current period figures are for nine months period and hence not comparable to the previous period figures for the year ended March 31, 2011.

As per our report attached.

For B S R & Co.
Chartered Accountants
Firm's Registration Number: 101248W

Zubin Shekary
Partner
Membership No. 048814

Secunderabad
January 25, 2012

for The Andhra Pradesh Paper Mills Limited

Paul Brown
Chairman & CEO

P.K. Suri
Director

E. Sai Ram
Sr. Vice President (Finance & Accounts) &
Chief Finance Officer

C. Prabhakar
Sr. Vice President (Corporate Affairs) &
Company Secretary

Forward looking statements

In this Annual Report, we have disclosed forward looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make, contain forward looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward looking statements will be realized, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward looking statements, whether as a result of new information, future events or otherwise.

ANDHRA®
THE FUTURE OF PAPER

THE ANDHRA PRADESH PAPER MILLS LIMITED

Registered Office: Rajahmundry - 533 105, East Godavari District, Andhra Pradesh

Mr./Ms. ....

....

....

....

MEMBER ☐ PROXY ☐

(Please tick as applicable)

No. of Shares

Note: 1. Only Members of the Company or their proxies will be allowed to attend the Meeting ON PRODUCTION OF ATTENDANCE SLIP duly completed and signed.

2. Members are requested to bring their copies of Annual Report with them.

3. Members who hold shares in dematerialised form are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the Meeting.

ATTENDANCE SLIP

Day	Thursday
Date	March 22, 2012
Time	3.00 p.m.
Venue	Cherukuri Subbarao Gannemma Udyana Kalyanavedika, Jawaharlal Nehru Road, Rajahmundry - 533 103

Folio No.

Demat Particulars
DP ID No.

Client ID No.

I hereby record my presence at the 48th ANNUAL GENERAL MEETING of the Company

. . . .
Signature of the Member or Proxy

Tear Here

ANDHRA®
THE FUTURE OF PAPER

THE ANDHRA PRADESH PAPER MILLS LIMITED

Registered Office: Rajahmundry - 533 105, East Godavari District, Andhra Pradesh

FORM OF PROXY

Folio No.

Demat Particulars
DP ID No.

Client ID No.

No. of Shares

I/We ....
(Name of Member)

of ....
(Address)

being Member(s) of THE ANDHRA PRADESH PAPER MILLS LIMITED hereby appoint..
(Name of proxy)

of .... or failing him/her
(Address of proxy)

....
(Name of alternate proxy)

of ....
(Address of alternate proxy)

as my/our proxy to vote for me/us on my/our behalf at the 48th ANNUAL GENERAL MEETING of the Company to be held **at 3.00 p.m. on Thursday, the March 22, 2012** and at any adjournment thereof.

Date.......................... Signature...

Affix a
15 paise
Revenue
Stamp

Note: The Proxy in order to be effective should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the aforesaid Meeting. The Proxy need not be a member of the Company.

BOOK POST

PRINTED MATTER

If undelivered, please return to:

The Andhra Pradesh Paper Mills Limited

www.andhrapaper.com

Corporate Office:

501 - 509, Swapnalok Complex, 5th Floor
92/93, S.D. Road, Secunderabad - 500 003, India