

HINDUSTAN PAPER CORPORATION LIMITED

CHAIRMAN'S STATEMENT

I am immensely delighted to extend a warm welcome to you to the 42nd Annual General Meeting of your Company. I feel honoured and privileged of addressing you on this occasion. The Directors' Report and the Audited Annual Accounts for the Financial Year 2011-12 have already been with you for sometime and with your kind permission, I would like to deem them as read.

HPC Performance during 2011-12

In spite of the inadequate fibre raw material availability for Cachar Paper Mill (CPM) persisting throughout FY 2011-12 the falling capacity utilization since the previous three years was arrested and 80% capacity utilization was achieved against the capacity utilization of 52% during the previous financial year. The effects of gregarious flowering of pre-dominant bamboo species viz *Melocanna baccifera* (Muli bamboo) in the major bamboo catchment areas of CPM resulted in reduced availability of fibrous raw material for CPM. However, the natural re-generation of the flowered species has started to show signs of maturity. However, during FY 2011-12, supply of bamboo from the major source i.e. Mizoram was totally suspended on account of restriction imposed by Govt of Mizoram on issue of permits for supply of bamboo to CPM. This source accounts for around 60% of the total fibre raw material requirement of CPM and thus there was no option but to opt for procurement of fibrous raw material from non-conventional sources to ensure continuity of mill operations.

The gregarious flowering also resulted in non-supply from other major sources like Lease forest areas of Barak Valley and Tripura. Procurement of bamboo from Dima Hasao Autonomous Council (DHAC) was limited in spite of availability on account of the logistical constraints. The road connecting bamboo bearing areas of DHAC to CPM remains to be unipliable for heavy traffic on account of poor road conditions and thus

road transportation from this important source was not possible. The century old metre gauge rail network connecting Dima Hasao to CPM witnessed frequent disruptions during this period on account of landslides. Moreover, the limited availability of wagons in this section prevented smooth and sustained supply of bamboo by rail from this source. Essential commodities like food grains are also required to be transported through this rail network and in such cases wagons are allotted preferentially and allotment of wagons for bamboo transport was adversely affected. The completion of East West corridor and conversion to BG rail connectivity will help in overcoming the logistical constraints faced by CPM.

The landlocked positioning of CPM in the highly infrastructurally deficient region makes it unviable to procure fibre raw material from alternative sources. The absence of feeder roads connecting the bamboo catchment areas makes it impossible for vehicles to access these areas and extract bamboo from the hilly and rough terrain and more so during the prolonged rainy season spanning from March to September. However, all possible non-conventional sources like procurement of imported pulp, procurement of pulpwood from outside states and transfer of fibrous raw material from NPM to CPM were explored and such initiatives only could arrest the downtrend and substantially increase capacity utilization during FY 2011-12.

HPC mills in Assam were set up in these industrially backward and infrastructurally deficient areas for the sole purpose of socio-economic development of this region and on the basis that the availability of fibre raw material at low costs would offset the numerous locational adversities. To add to the woes, the State Government has imposed Entry Tax on raw materials and Agriculture Cess on bamboo procured by the mills. Despite all odds, your company has left no stone unturned to face the challenges head on.

HINDUSTAN PAPER CORPORATION LIMITED

The figures below depict the performance of your Company during FY 2011-12, as a group along with its operating Subsidiary Hindustan Newsprint Ltd. (HNL):

Sl. No.		FY 2011-12
1	Production (tonnes)	282712
2	Sales (tonnes)	277874
3	Sales Turnover (₹ Cr.)	1041.38
4	PBT (₹ Cr.)	(-) 134.86
5	PAT (₹ Cr.)	(-) 88.31
6	Net Worth (₹ Cr.)	873.81

Performance of your company has been affected due to non-availability of the most vital input i.e. fibrous raw material from the major conventional sources.

Industrial Performance

Growth in statistical terms is meaningless unless it helps every individual and all sections of society, which is where the trickle-down theory has its genesis. If we have been able to withstand the pressure of the global meltdown, it is because of our resilience and our unique approach to the problem. It was not borrowed or taken from an eminent economist's textbook. We adopted what we considered best suited to our country, society and culture.

The global economy is under stress. Growth rates have slowed down everywhere. There is considerable uncertainty about the period over which growth will revive in the industrialised world.

The Indian economy has been affected by these developments. Our exports have shrunk and the fiscal deficit has gone up. Growth decelerated to 6.5% last year. This has dampened investor sentiment. Doubts are being raised in some quarters about the India growth story going astray.

Economies go through ups and downs and downturns

do dampen spirits. However, such downturns can have value if they make us focus on the weaknesses that are masked when times are good. India's slowdown is partly because of the global downturn, but it is partly also because of domestic constraints which have arisen.

We cannot do much about the global slowdown. Though we can certainly make a difference to the world if we do the right things at home to accelerate our own growth. But we can, and we must, correct our own weaknesses, and create new opportunities for economic growth and employment at home. This is the challenge before us. I assure you, this will now remain the focus of your Company in the months ahead.

Indian Paper Industry

Indian paper industry is poised to grow at the rate of 8% per annum. The per capita paper consumption increased to more than 9kg. Still, the figure is low compared to more than 42 kg in China and more than 350 kg in developed countries. India has emerged as one of the fastest growing markets when it comes to consumption.

Paper in India is made from 40 per cent of hardwood and bamboo fibre, 30 per cent from agro waste and 30 per cent from recycled fibre. Indian paper industry can be more competitive by adding improvements of key ports, roads and railways and communication facilities, revision of forest policy is required for wood and bamboo based paper industries so that plantation can be raised by the paper industry, cooperatives of farmers and state government. Degraded forest land should be made available to the industry for raising plantations. Duty free imports of new & second hand machinery/equipment should be allowed for technology up-gradation.

Major issues confronting India's pulp and paper industry are high cost of production caused by inadequate availability and high cost of raw materials. Energy cost has increased on account of inadequate

HINDUSTAN PAPER CORPORATION LIMITED

availability of coal thereby increasing imports. Non-availability of good-quality fibre, uneconomical plant size, technological obsolescence and environmental compliances are a big challenge. While issues related to technology, capacity and environment come directly under the purview of companies, raw material shortage is a disadvantage affecting all.

Essentially, there is a huge potential for automation and system integrators to work collaboratively with India's pulp and paper companies and help them acquire the competitive edge. This means paper mills in India have tremendous opportunity to improve their profit margin by increasing their investments in automation systems and enterprise solutions, and integrating them to achieve collaborative production management. With the country's economy showing a growth trend, the paper consumption in India is bound to expand, and the existing gap with Asian and World average is a good indicator of the industry's growth potential.

India is witnessing a significant growth in the paper production capacity at present. Existing facilities are going for capacity expansions to achieve economy of scale. The limited availability and rising cost of virgin fibre (like pulpwood and bamboo) for paper production is resulting in a shift towards alternate raw material like wheat straw, bagasse, re-cycled paper, etc. especially for new upcoming paper mills thereby controlling the spiralling production cost and become more competitive in the paper market. The domestic market is also showing tremendous growth potential for value added paper like Copier paper.

Bamboo - the green gold

HPC mills in Assam are inherently dependant on bamboo growing stock in the North Eastern region to meet its fibrous raw material requirement. India has 136 bamboo species out of the total 1250 species of bamboo found in the world and is one of the richest bamboo growing countries. The North Eastern region constitutes 28% of the total bamboo growing area of

the country. The total growing stock in the country is estimated to be 80.4 million tonnes, two thirds of it from North East. The North East is called the home of Bamboo and this natural resource is intimately interwoven with the socio-cultural fabric of the local populace.

Bamboos are some of the fastest growing plants in the world and are capable of growing 60 cm (24 in.) or more per day due to a unique rhizome-dependant system. However, the growth rate is dependant on local agro-climatic conditions. Bamboos are of notable economic and cultural significance in East Asia and South East Asia, being innumerable used for activities like building materials, as a food source and as a versatile raw product.

Bamboo is the fastest growing canopy for the re-greening of degraded lands, and its stands release 35% more oxygen than equivalent stands of trees. Some bamboo even sequester up to 12 tonnes of carbon dioxide per hectare. Bamboo can also lower light intensity and protects against ultraviolet rays. Traditional belief holds that being in a bamboo grove - the favorite dwelling place of Buddha - restores calmness to emotions and stimulates creativity. Bamboo is a mystical plant: a symbol of strength, flexibility, tenacity and endurance. Throughout Asia, bamboo has for centuries been integral to religious ceremonies, art, music and daily life. It can be found in the paper, the brush and the inspiration for poems and paintings. Some of the earliest historical records from the 2nd century B.C. were written on green bamboo strips.

Unlike wood, bamboo is much denser and grows faster making it an easily replenishable resource. Bamboo is a rapidly renewable resource because when harvested sustainably the plant re-grows from the same root stalk, maturing in just a few years unlike most trees which take far longer to grow and are incapable to re-growing of the same plant after harvesting. Bamboo thrives naturally, totally unassisted, without the use of any pesticides or fertilizer growing to its maximum height

HINDUSTAN PAPER CORPORATION LIMITED

in roughly three months, and reaching maturity after only three or four years. It also spreads rapidly across large areas like other plants in the grass family. Selective felling of bamboo as per silvi-cultural norms and care during the monsoon season when new stalks emerge goes a long way in sustainable harvesting on annual basis.

Fibre Raw Material Requirement

HPC mills in Assam were set up in the industrially backward areas on the premise of abundant availability of bamboo for meeting the entire fibrous raw material requirement for paper production. Nagaon Paper Mill (NPM) in Morigaon District was based on the rich bamboo stock in Karbi Anglong Autonomous Council areas and Cachar Paper Mill (CPM) on the bamboo abundantly available in Dima Hasao Autonomous Council (DHAC) areas and accordingly long term agreements were drawn among Govt. of Assam, HPC and the respective District Councils.

KAAC fulfils around 40% of the bamboo requirement for NPM and the balance requirement is met from other bamboo bearing areas within the State. Some bamboo is also procured from the State of Meghalaya. CPM on the other hand is unable to procure substantial quantity of bamboo from DHAC inspite of availability on account of poor road and deficient rail infrastructure connecting these areas. CPM has to depend on century old metre gauge rail network for transportation of bamboo from DHAC by rail which is prone to frequent disruptions and more so in the monsoon season as landslides block the rail tracks for days on end. Moreover, availability of rakes is limited and preference is given for transportation of food grains and other essential commodities to the logistically constrained north eastern states and after meeting such requirements wagons are allotted for transportation of bamboo.

CPM sources its requirement from Barak Valley Districts as well as from the neighbouring states of

Mizoram, Meghalaya and Tripura with Mizoram being the major source accounting for around 60% of CPM's fibrous raw material requirement. However, the decision taken by Govt of Mizoram to restrict issue of permits for bamboo transportation from Mizoram to CPM since 28.03.2011 is still persisting despite regular follow-up at all levels which has affected productivity of CPM.

The flowering of muli bamboo which is the predominant bamboo available in Barak Valley and the neighbouring states has resulted in the production shortfall since FY 2008-09. All out efforts are being made by CPM to procure bamboos of alternative species which have not been affected by gregarious flowering but the same is difficult on account of low availability and rough terrain in these regions. However, the post gregarious re-generation of new bamboo is successful in most areas and it is expected that fully mature muli bamboo will again be readily available in the flowered areas from 2013-14 onwards.

Farm Forestry - achieving fibre security

Your company's efforts to get unused and non-productive barren lands from the State Govt for raising large scale captive plantations has not yielded any positive response. Even though bamboo is renewable product and replenishes naturally, HPC is implementing a Farm Forestry Initiative wherein high yielding, quick growing and disease resistant superior quality bamboo plantlets grown in the state-of-the-art bamboo tissue culture lab at NPM is distributed to interested farmers/ growers as well as Govt agencies at subsidized rates for raising bamboo plantations. This scheme is being accepted whole-heartedly by the local farmers in the periphery of the mills.

Tissue Culture - the green technology

Plant tissue culture encompasses culturing of plant parts on an artificial medium. The basic key used in plant tissue culture is the totipotency of plant cells, meaning that each plant cell has the potential to

HINDUSTAN PAPER CORPORATION LIMITED

regenerate into a complete plant. With this characteristic, plant tissue culture is used to produce genetically identical plants (clones) in the absence of fertilization, pollination or seeds. In plant tissue culture, plants or explants are cultured in a specific plant medium, which contains essential plant nutrients and hormones. Other plant growth factors like light and temperature are maintained and regulated by using artificial conditions. All the procedures of plant tissue culture are conducted under sterile (aseptic) conditions. The explants then develop stem, roots and leaves. The generated plantlets are hardened before planting in outdoor conditions.

A state-of-the-art tissue culture lab with capacity of 2 million plantlets per annum was installed at NPM in collaboration with National Mission on Bamboo Application, an arm of Technology Information Forecasting Advisory Council, under Department of Biotechnology, Govt. of India with the objective to identify and raise superior bamboo genotypes for large scale plantation in North Eastern India, improve productivity of bamboo with high yielding varieties in shorter rotation, promote bamboo based agro-forestry systems and optimally utilize wastelands with bamboo TC planting material.

Commercial production of Tissue Culture Plantlets(TCP) was started on 06.10.2007 and the bamboo species currently being propagated are Bambusa balcooa, Bambusa tulda and Bambusa nutans. The species selection is based on agro-climatic suitability of the local region, availability of good quality explants for carrying out the initiation process, growth rate, yield, resistance to disease and demand of the prospective planters. The bamboo TCPs generated in the lab are also in high demand among local farmers/ growers as well as from the State Forest Departments of the NER for taking up scientific bamboo plantations on a large scale.

The first batch of TCPs planted by local bamboo growers/farmers and various State Forest Departments

in the NE region are now achieving full maturity, field trials and plantations taken up from these TCPs are showing positive and desired results.

Project Activities

HPC is trying to make a foray in the growing copier paper segment and accordingly the cut size sheeter with ream wrapping machine commissioned in Cachar Paper Mill in the month of January 2010 is operational. The installed capacity is 60 tpd. The machine has facilities for automatic ream wrapping of A-4 size paper. The machine is also equipped with A-3 size cutting facility with manual ream wrapping. This will help your company in making a foray into the copier paper market which is showing tremendous growth.

Hindustan Newsprint Limited (HNL)

During 2011-12 this Subsidiary of your Company achieved a production of 102450 MT which is 102.5% of the installed capacity and sold the entire production of 102450 MT of newsprint. HNL is planning to make a foray in the Writing and Printing paper segment with the objective to meet the demands in the Southern States as transportation cost of Writing and Printing paper from HPC mills in Assam is substantial.

NPPC

The Revival and Upgradation Scheme of NPPC, another Subsidiary of your Company was originally sanctioned by GoI/BIFR on 27.06.2007 for a production capacity of 66,000 tpa paper with a total project outlay of ₹552.44 crore. During the tendering process for the project, a very high cost escalation has been experienced by NPPC with regard to the sanctioned costs for Plant & Machinery. A revised cost estimate of ₹679 crore was formulated after reconfiguring the technical and financial options and was submitted to the approving authority seeking requisite approval and the same is awaited.

JPML

To diversify its product profile, achieve economy of

HINDUSTAN PAPER CORPORATION LIMITED

scale, cater to the increasing demand for value added paper and become pan-Indian in operations, HPC envisaged setting up of a Greenfield paper mill project with a capacity of 3 lakh tpa located close to the major demand centres. Extensive feasibility studies were carried out with the assistance of globally renowned consultant and a site at Jagdishpur in Sultanpur District in Uttar Pradesh was selected. Approval for this project was accorded by Govt. of India on 03.12.2007. A Company in the name and style of Jagdishpur Paper Mills Limited (JPML) with registered office at Lucknow was formed and Certificate of Incorporation was issued on 08.05.2008 by Registrar of Companies, Uttar Pradesh and Uttranchal. Project activities could not commence yet since the land identified by UPSIDC for the plant facilities is yet to be handed over to the Subsidiary. After vigorous follow-ups by your Company with Govt. of UP, M/s Uttar Pradesh State Industrial Development Corporation (UPSIDC) have agreed to hand over the 62.59 acres of land at the prevailing revised market rate at Utelwa Industrial Area. Your Company is making all out efforts through the good offices of the Administrative Ministry to get the land allotted at concessional rate to facilitate commencement of project activities and thereby taking your Company to the forefront in this highly competitive market.

Climate Change - Healing the future

Global warming has become perhaps the most complicated issue facing the world. On the one hand, warnings from the scientific community are becoming louder, as an increasing body of science points to rising dangers from the ongoing build up of human-related greenhouse gases - produced mainly by the burning of fossil fuels and forests. On the other, the technological, economic and political issues that have to be resolved before a concerted worldwide effort to reduce emissions can begin have gotten no simpler, particularly in the face of a global economic slowdown.

At the heart of this issue is a momentous tussle between rich and poor countries over who steps up

first and who pays most for changed energy menus. In the meantime, recent fluctuations in temperature have intensified the public debate over how urgently to respond. The recent combination of flooding, heat waves and droughts were taken by most researchers trained in climate analysis as evidence to show that weather extremes are getting worse. The long-term warming trend over the last century has been well-established, and scientists immersed in studying the climate are projecting substantial disruption in water supplies, agriculture, ecosystems and coastal communities.

Some years back, the idea of a national low-carbon growth strategy for India would have been hard to imagine as Low Carbon was seen to be at loggerheads with India's ambitious economic development agenda and was too controversial a concept to find a voice in domestic politics. Yet in January 2010, Prime Minister, Shri Manmohan Singh constituted a 26-member expert group to help develop a low-carbon growth strategy for India. This signifies a fundamental shift in thinking on the issue of climate change and development in India. The National Action Plan on Climate Change outlines long-term measures as India has committed to meet a reduction in national energy intensity of 25 percent by 2020 and needs to work out a strategy and various specific measures that will enable us to meet this.

Sustainable / Green business practices - the need of the hour

Sustainability derives its greatest power and effect in organizations when it is deeply embraced as a set of core values that genuinely integrate economic prosperity, environmental stewardship and social responsibility. Sustainable business, or green business, is an endeavour that has no negative impact on the global or local environment, community, society, or economy—a business that strives to meet the triple bottom line viz. profit, planet and people. Often, sustainable businesses have progressive environmental

HINDUSTAN PAPER CORPORATION LIMITED

and human rights policies. A Green business practice incorporates principles of sustainability into each business decision, supplies environment-friendly products or services that replace demand for non-green products & services, be greener than traditional competition and make an enduring commitment to environmental practices in its business operations.

Sustainability is a three-legged stool of people, planet, and profit. Sustainable businesses with the supply chain try to balance all these three through the triple-bottom-line concept using sustainable development and sustainable distribution to impact the environment, business growth and the society. It is a business that meets the needs of the present world without compromising the ability of the future generations to meet their own needs. Sustainable development within a business can create value for customers, investors and the environment. A sustainable business must meet customer needs, at the same time, treating the environment well.

Contribution to Govt. Exchequer

Your Company's contribution to the Govt. exchequer during 2011-12 is given below:

Items of Revenue	[₹ Cr.] 2011-12
Excise Duty	18.75
Sales Tax/ VAT/ CST	22.35
Entry Tax & Service Tax	7.45
Corporate Income Tax	-
Customs Duty	7.38
Redemption of Preference Share Capital	-
Dividend	-
Dividend Tax	-
Interest on GoI Loan	-
Total	55.93

Assistance Required

HPC mills operating in the infrastructurally deficient locations in the North Eastern region have to compete

with other paper mills in the country which enjoy industry friendly facilities. The only advantage in the form of adequate availability of fibrous raw material at reasonable costs no longer stands on account of the gregarious flowering of the pre-dominant bamboo species in the major bamboo catchment areas. CPM is still connected by the 105 year old MG track which entails trans-shipment for all incoming and outgoing materials from BG to MG or vice-versa at Lumding. In addition to this the Railways have restricted direct booking to CPM since October 2008 which entails multiple handling of goods due to unloading and further loading on trucks for road transportation resulting in high transportation costs. Road infrastructure for transportation of raw material and other inputs is in a deplorable condition. As trucks cannot ply on the road connecting DHAC (the major bamboo source for CPM) to CPM, transportation of bamboo by rail from this source is the only available alternative. In spite of availability of adequate good quality bamboo nearby to the mill site, CPM is unable to source this material due to transportation problems. To compete with paper mills operating in other parts of the country the BG Rail link in Lumding-Badarpur-Silchar section and Lumding-Haflong-Silchar section of the East - West corridor of NHAI is the only probable solution but work on both fronts have been delayed mainly on account of law and order problems in the NE Region. To effectively compete with other paper mills on a level playing field HPC mills warrant transport subsidy to compensate for the extra costs incurred on account of inability of the Govt to provide suitable transportation facilities.

HPC mills are also being subjected to Entry tax on raw materials and other inputs sourced from outside whereas there is no entry tax on import of paper into the State. In addition to this GoA is charging Agricultural cess on bamboo procured by the mills even though bamboo is not an agricultural product. Such unjustified levies on the already disadvantaged mills need to be reviewed immediately. Fiscal props are

HINDUSTAN PAPER CORPORATION LIMITED

required for offsetting the locational and logistical disadvantages of North Eastern Region (NER) in the pattern of such concessions given to Oil Refineries in the NER.

Corporate Social Responsibility

Your Company as a responsible corporate citizen has been taking up all possible steps to ensure the socio-economic development of the community residing in the peripheral region for a wholesome development of this economically backward region. Our efforts range from initiatives taken for development of villages in the vicinity of the mills by providing basic amenities like providing safe drinking water, setting up of educational institutions to boost the literacy levels in the region, development of roads and bridges in a bid to improve the basic infrastructure, etc. Under the self employment schemes your company also provides sustainable employment opportunities by aiding formation of small scale industries at the village level. Your company is also highly concerned with the health facilities available to the families residing around the mills and frequently conducts free medical camps and distribute medicines to the local populace free of cost on such occasions. Your Company has also implemented Prime Minister's 15 Point Path Pradarshan Awareness Programme in several Higher Secondary Schools in the nearby villages around the Mills targeted to reach out to the minority students. Your company has also provided substantial land free of cost to the Public Works Department, Govt of Assam for construction of road under Prime Minister's

Gramin Sadak Yojana (PMGSY) Scheme to improve infrastructure and provide connectivity to the local people.

Road Ahead - our foray into the future

The rapid and substantial increase in the cost of fibre and fuel and other necessary inputs required for paper making coupled with low capacity utilization due to gregarious flowering of bamboo has led to significant increase of the production costs. The competing paper mills are going for large scale capacity expansions and improved latest technologies. Your company is also striving hard to keep pace with the competition and implemented cost cutting measures to combat the financial effect of under capacity utilization at CPM due to acute scarcity of fibre raw material caused by the gregarious flowering of the pre dominant bamboo species in the region. This fibre raw material problem is expected to plague us for some more time but the employees of your company have taken up this challenge and are making all out efforts to combat this present crisis period with a firm belief to come out victorious and effectively compete with our competitors.

M. V. NARASIMHA RAO
Chairman-cum-Managing Director

Delhi
September 28, 2012