

HINDUSTAN PAPER CORPORATION LIMITED

CHAIRMAN'S STATEMENT

I am immensely delighted to extend a warm welcome to you to the 39th Annual General Meeting of your Company. I feel honoured and privileged of addressing you for the ninth time in a row. The Directors' Report and the Audited Annual Accounts for the Financial Year 2008-09 have already been with you for sometime and with your kind permission, I would like to deem them as read.

The economic turbulence during FY 2008-09 found the world mired in a crisis that was unprecedented in its severity and global dimensions. The tremors of the turbulence originating in the United States engulfed the developing countries also and Indian economy was relatively less affected.

FY 2008-09 for your Company was beset with unprecedented adversities. The period saw the severe crisis of fibrous raw material for Cachar Paper Mill (CPM) as a result of the mass destruction of bamboo brought about by the gregarious flowering of *melocanna baccifera* (mulu) bamboo species. This bamboo species is the dominant species in CPM's major raw material catchment areas. The gregarious flowering has transformed the once verdant bamboo forests in these regions and the emerging bamboo shoots from post flowering regeneration is expected to start maturing only by 2011. The only viable alternative for CPM was to ameliorate the loss by procuring maximum quantity of bamboo from North Cachar Hills (N C Hills) area but the law and order situation in N C Hills took a turn for the worse with ethnic clashes among the dominating Dimasa tribe and other tribal communities leading into death, loss of property and displacement of villagers. Meanwhile, bamboo extraction activities in these areas almost came to a standstill due to apprehension among the villagers to venture into the bamboo extraction forest areas outside the fortification of their villages. Rail movement in N C Hills had to be suspended intermittently due to indiscriminate firing on the trains plying in this sector and killing of railway staff posted at various stations in this sector. This rail line is also the lifeline for states like Manipur, Mizoram

and Tripura for transportation of foodgrains and essential commodities. The sporadic rail movement left the bamboo transportation from N C Hills to CPM in a lurch due to limited availability of rail engines and wagons and preference being given for transportation of essential commodities. The progress of work for conversion from Metre gauge to Broad gauge and construction of East-West corridor in this infrastructure deficient region has been adversely affected by the insurgency activities which is an impediment for development of the economically backward area and needs to be tackled at all costs. The year also witnessed sharp fall in the price of newsprint caused by large scale inflow of imported material and demand for domestically produced newsprint in the market was muted. Despite all odds your Company performed to its expectations and continued the voyage on its growth path.

Unlike other private paper mills operating in the country HPC's paper producing units in Assam were set up with the objective of socio-economic development of the region and performing successfully over the years despite the adversities has been a challenge of its kind. Many a crisis, have threatened to throw your Company off course but the commitment of the employees to spare no effort to attain the goals of your Company has stood their ground on all such occasions.

Global Economy

Since 2008, much of the industrialized world entered into a recession, sparked by a financial crisis which was caused in part by the combination of a real estate bubble in the United States and the securitization and deregulation of real estate mortgages in a way which made the riskiness of mortgage backed securities difficult to assess. Sub-prime loan losses in 2007 exposed other risky loans and over-inflated asset prices. With the losses mounting, a panic developed in inter-bank lending. The precarious financial situation was made more difficult by a sharp increase in oil and food prices. The exorbitant rise in asset prices and associated boom in demand is considered a

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result of the extended period of easily available credit, inadequate regulation and oversight on increasing inequality. As share and housing prices declined, many large and well-established investment and commercial banks in the United States and Europe suffered huge losses and even faced bankruptcy. A global recession has resulted in a sharp drop in international trade and rising unemployment. In December '08, the National Bureau of Economic Research (NBER) declared that the United States had been in recession since Dec. '07, and several economists expressed their concern that there is no end in sight for the downturn and that recovery may not appear until as late as 2011. The recession is considered the worst since the Great Depression of the 1930s. The decade of the 2000s saw a global explosion in prices, focused especially in commodities and housing, marking an end to the commodity recession of 1980 - 2000. In 2008, the prices of many commodities, notably oil and food, rose so high as to cause genuine economic damage, threatening stagflation and a reversal of globalization.

In January '08, oil prices surpassed \$ 100 a barrel for the first time. In July '08, oil peaked at \$ 147.30 a barrel. These high prices caused a dramatic drop in demand and prices fell below \$ 35 a barrel at the end of 2008 and since then has increased moderately at a steady pace.

In February '08, global inflation was at historic levels, and domestic inflation was at 10 - 20 year high for many nations. This was attributed to excess money supply around the globe, monetary easing by the Federal Reserve (Fed) to tame financial crisis, growth surge supported by easy monetary policy in Asia, speculation in commodities, agricultural failure, rising costs of imports and rising demand of food and commodities in the fast growing emerging markets.

The severity of the recession can be gauged from the fact that the Real Gross Domestic Product (GDP) began contracting in the third quarter of 2008, and by early 2009 was falling at an annualized pace not seen since the 1950s. Capital Investment, which was in decline year-on-year since the final quarter of 2006, matched the 1957 - 58 post war record in the first

quarter of 2009. The pace of collapse in residential investment picked up speed in the first quarter of 2009, dropping 23.2% year-on-year, nearly 4% points faster than in the previous quarter.

Effect of Recession on developing countries

The financial crisis originated in the developed world, but it spread quickly and inexorably to the developing world, sparing no country. The poor countries are especially vulnerable, as they lack the resources to respond with ameliorative actions. The triple jeopardy of the food, fuel and financial crisis is pushing many poor countries into the danger zone, imposing rising human costs and imperiling development prospects. Strong economic growth in developing countries in the past decade had aided poverty reduction but the triple punch of the food, fuel and financial crisis creates new risks. Experience suggests that growth collapses are costly for human development outcomes, which tend to deteriorate more quickly during growth decelerations than they improve during growth accelerations.

Low income countries will be affected through reductions in export volumes, commodity prices, remittances, tourism, foreign direct investment and even possible foreign aid. These shocks will in turn hurt public revenues, adding to the sizeable negative fiscal impact of the food and fuel crisis on many countries and putting further pressure on public expenditure programs. In addition, financial systems in low-income countries, even when relatively shielded from the international financial contagion because of less exposure to international financial markets, may be hit by second round effects as the economic downturn increases problem loans, limiting the availability of domestic financing to businesses.

The impact of the global financial crisis on developing countries is reflected in sharp reductions in their projected GDP growth to rates that are the lowest since the 1990s. Average projected GDP growth in developing countries in 2009 is now only about a quarter of what was expected before the financial turmoil intensified into a full-blown crisis in the later

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half of 2008 and a fifth of that achieved in the period of strong growth upto 2007. For developing countries as a whole, growth is now projected to fall to 1.6 percent in 2009, from an average of 8.1 percent in 2006-07. Countries in Eastern Europe and Central Asia that entered the global crisis with weaker macroeconomic fundamentals are most severely hit, with average growth in the region in 2009 now projected to be negative.

To counter the recession that the financial turmoil has triggered, the developed countries have responded with financial sector rehabilitation measures and fiscal stimulus packages. The challenge ahead is to ensure that the actions are commensurate with the scale and depth of crisis and are appropriately coordinated internationally. Action is also needed to deal with the flaws in financial sector regulation and supervision revealed by the crisis and to establish a more solid foundation for stability in a world of globalized financial markets. At the same time, strong and urgent actions are needed to counter the impact of the global crisis on poor countries and help them restore strong growth and recover lost ground in their progress path.

The crisis also increases the urgency of bolstering multilateral cooperation in trade. The ease of moving goods internationally has become an increasingly important determinant of competitiveness in the globalized marketplace. This will ease protectionist pressures, keep markets open and strengthen the rules-based multilateral trading system. It would also provide a much needed boost in confidence to the global economy at a time of high stress and uncertainty. There are concerns that government interventions in financial systems in advanced countries may be accompanied by pressures on financial institutions to curtail cross-border lending. A shift towards such financial mercantilism has to be resisted as it would hurt financial flows to developing countries which are already under increasing stress as a result of the financial contagion and the potential crowding out implications of the sharply increased borrowing requirements of advanced country governments.

Indian Economy

The Economic Survey 2008-09 presented to Parliament on July 02, 2009 by the Finance Minister Shri Pranab Mukherjee says, the speed at which the Indian Economy returns to the high growth path in the short term depends on the revival of the global economy, particularly the US economy and the Government's capacity to push some critical policy reforms in the coming months. It says, if the US economy bottoms up by Sept 09 there would be a good possibility for the Indian economy repeating its 2008-09 performance i.e. around 7.0 (+ / - 0.75%) in the fiscal 2009-10 (assuming a normal monsoon). However, in the event of a more prolonged external economic downturn, the revival of the global economy / US economy being delayed till 2010, the growth may moderate to the lower end of the range. The recovery is likely to be assisted by the likely developments in the external sectors. The declining trend in trade deficit suggests that with reasonable invisible amount surplus, which has been an attribute of Indian Economy for last several years, economy may end up with a current account surplus of 0.3 to 2.8% of GDP in 2009-10. The prospects of Indian economy are somewhat different from most other countries due to its large domestic market, resilient banking system and a policy of gradual liberalization of capital accounts.

The global financial meltdown and economic recession in developed economy is the major factor in India's economic slowdown. The economic growth in 2008-09 decelerated to 6.7% compared to 9% in 2007-08 and 9.7% in 2006-07. The agricultural growth fell from 4.9% in 2007-08 to 1.6% in 2008-09. The growth in manufacturing sector for 2008-09 is 2.4% which can be attributed to fall in exports and a decline in domestic demand. Investment remains relatively buoyant, ratio of fixed investment to GDP increased to 32.2% in 2008-09 compared to 31.6% in 2007-08. Fiscal deficit to GDP ratio stands at 6.2%. Credit growth declined in the later part of 2008 - 09 reflecting slowdown of the economy in general and industrial sector in particular.

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Global Paper Industry

The global pulp and paper industry is dominated by North American (United States, Canada), Northern European (Finland, Sweden) and East Asian countries (such as Japan). Australia and Latin America also have significant presence. Both India and China are expected to be key players in the industry's growth over the next few years.

The Top 100 forest, paper and packaging companies from around the world saw net income tumble from positive 13.8 billion dollars in 2007 to record losses of 8.0 billion dollars in 2008, the first time this matrix has been negative since 1996. The sharp decline is mainly due to the impact of losses realized by major players in many of the mature markets as a result of low demand, goodwill and fixed asset impairments, restructuring and high operating costs.

Globally over 57% of the paper industry uses wood pulp as raw materials for paper production, 39% uses waste paper and 4% depend on agro residues. Augmenting wood pulp availability through organized and sustainable plantation is the key for development of the paper industry.

Indian Paper Industry

India has emerged as one of the fastest growing paper markets in the world, registering a growth of 10% in per capita consumption of paper over the last one year. Per capita paper consumption increased to 8.3 Kg. as of Dec 08 compared to 7.5 Kg. during 2007-08.

The Indian Paper Industry accounts for about 1.6% of the world's production of paper and paper board. The estimated turnover of the industry is Rs. 25,000 crore and its contribution to the exchequer is around Rs. 2918 crore. The industry provides employment to more than 1.2 lakh people directly and 3.4 lakh people indirectly. 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. The mills use a variety of raw material viz. wood, bamboo, recycled fibre, bagasse, wheat straw, rice husk, etc., approximately

35% are based on virgin fibre, 44% on recycled fibre and 21% on agro-residues. The installed capacity in the country is slated to grow to 11.2 million tons per annum by 2010 from the current level of 9 million tonne.

With added capacity of approx 0.8 million tons during 2007-08 the operating capacity of the industry currently stands at 9.3 million tons. So far, the growth in paper industry has mirrored the growth in GDP and has grown at an average 6-7% over the last few years. The paper consumption is poised for a big leap forward in sync with the economic growth and is estimated to touch 13.95 million tons by 2015-16. The futuristic view is that growth in paper consumption would be aligned to GDP growth and hence an increase in consumption by one Kg. per capita would lead to an increase in demand of 1 million tons. As per industry estimates, paper production is likely to grow at a CAGR of 8.4% while paper consumption will grow at a CAGR of 9% till 2012-13. The import of pulp and paper products is likely to show a growing trend.

To compete globally, the Indian Paper Industry needs to adopt state-of-the-art technology to reduce production cost, upgrade machinery to meet international standards & enhance capacity, upgrade process control instrumentation to minimize variations in output quality. Technical know-how is required to provide solutions in improved Bleaching and Chemical recovery process, reduction in fresh water consumption, adoption of modern pulping digesters, cost effective technology for utilization of agro residues, Deinked pulping of waste paper and improve energy efficiency.

Indian Paper Industry is handicapped by raw materials constraint too because paper manufacturers are not allowed to hold large tracts of land to raise plantations for pulpwood thereby adversely affecting the economies of scale. The Govt needs to assist in the provision of a supporting regulatory and economic environment so that investments in plantation can attain full potential.

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Fibre Security

With increased oil prices, fast emerging market growth, and rising concerns about climate change set to continue, there is expected to be increasing pressure on fibre resources. Regions with fibre deficits such as Asia are seeking fibre, both virgin and recovered from regions that are surplus. Competing demands for these same resources are beginning to arise from providers of renewable energy and fuels, often as a result of government policy designed to stimulate alternatives to fossil fuels. On the one hand, this is leading to the global trading of fibre at unprecedented levels; on the other, it is leading to localized fibre supply problems and more widespread increases in fibre costs. In this backdrop, the industry can expect to face challenges securing sustainable and reasonably priced fibre. Fibre alone accounts for nearly 30% to 35% of total cost of paper and Indian mills lose nearly \$ 120 per tonne of paper, being differential in cost of wood vis-à-vis Indonesia, Brazil, Chile and several other countries. The Industry desperately needs Govt. approval for raising pulp wood plantation on degraded forest lands (approx 33 million hectares). This will enable the industry to have a sustainable source of fibre raw material at reasonable cost.

Fibre Scarcity

Wood prices stable for several years are going up due to farmer revolts over plantation land in South America, exorbitant export duty on wood by Russia, illegal forest cutting in Indonesia and forest environmental issues in Canada, US, Finland and Sweden. Wood is a key raw material for paper making and India is a wood deficient nation. Landed cost of wood has risen sharply in the last few years. India has all the necessary inputs for wood plantation like tropical climate, year long sunshine, good rainfall, huge degraded land and increasing number of unemployed youth but it has not harnessed these as done by Brazil, Chile, Argentina and Indonesia. Collectively the paper industry is the largest bulk buyer of wood, uniformly throughout the year, yet it has not been able to leverage these core strengths. The Industry has also developed disease resistant, high

yield, short duration clones of pulpwood species for farmers to get more realization per hectare through increased output.

Bamboo Resource - The Green Gold

India is one of the richest countries in bamboo population with 75 genera and 136 species out of the total 1250 species of bamboo found in the world. The North Eastern region hosts about 58 species belonging to 10 genera. Bamboo covers 8.96 million hectare of forest area equivalent to 12.8% of total forest cover of the country. The North Eastern states constitute 28% of the area. The growing stock in the country is estimated to be 80.4 million tones, two-thirds of it from North East. The North East is called the home of Bamboo and this wonder plant is intimately interwoven with the socio-cultural fabric of the population of the area with a plethora of uses.

Bamboos are a group of woody perennial evergreen plants belonging to the grass family Poaceae and the subfamily of Bambusoideae. Aerial culms of bamboo are hollow except at the nodes where lateral buds and leafy branches develop. Bamboo is monocotyledon while the common trees are dicotyledon. Monocot stems, such as bamboo do not have a vascular cambium and do not exhibit secondary growth by the production of concentric annual rings. They cannot increase in girth by adding lateral layers of cells as in conifers and woody dicots. Instead, they have scattered vascular bundles composed of xylem and phloem tissue, each bundle surrounded by a ring of cells called a bundle sheath. The maximum diameter of bamboo stems is predetermined at the time of sprouting.

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 in roughly three months, and reaching maturity

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after only three or four years. It also spreads rapidly (like a weed) across large areas like other plants in the grass family.

HPC's Fibre Raw Material Requirement

The genesis of HPC's units in the landlocked, remote and economically backward areas of N E region was conceived on the basis of availability of adequate and cheap fibre raw material in the form of Bamboo. This one big advantage was expected to offset other disadvantages brought upon by infrastructure deficient location. Long term agreements were drawn between Govt of Assam and HPC with regard to supply of bamboo from the lease areas under Karbi Anglong Autonomous Council (KAAC) and North Cachar Hills Autonomous Council (NCHAC) to NPM and CPM respectively. These bamboo sources were expected to meet the total fibre raw material requirement for both units.

Karbi Anglong accounts for 30% of raw material for NPM but supply of bamboo from this source to NPM had been totally suspended from 2004 onwards due to insurgency problems. Bamboo supply from this source resumed after 4 years from December 2008 after a supplementary agreement was signed between HPC and KAAC on 04.12.2008. Supply of bamboo from NC Hills has been marred by problems relating to extremist activities, worsening infrastructural bottlenecks and decisions taken by NCHAC with regard to supply of bamboo to CPM. NCHAC started by leasing out HPC's lease areas to private parties in contravention to the agreement and halting HPC's extraction activities from its lease areas on the grounds of violation of silvicultural norms. Thereafter, NCHAC decided to supply bamboo to HPC departmentally and accordingly a supplementary agreement was signed in October 2006. As per the agreement NCHAC committed to supply mutually agreed stipulated quantity of bamboo both by road and rail but failed miserably in their endeavor. After continuous follow up, NCHAC again entered into a supplementary agreement with HPC in Nov 08 with substantial hike in rate and committed supply both by road and rail as per the mutually agreed upon

monthly schedule from Nov 08 to Oct 09. NCHAC completely failed to supply bamboo by road and supply by rail which commenced in Dec 08 has been highly intermittent. Supply from NC Hills over the years has been able to meet only 9% of CPM's raw material requirement. On account of this CPM has been meeting its major fibre raw material requirement from the areas of Barak Valley and the States of Mizoram and Tripura. The pre-dominant bamboo specie in this area is *melocanna bacciferra* (muli bamboo). This specie of bamboo has undergone gregarious flowering during the period from 2005-2009 which has led to the acute crisis of fibre raw material and CPM could not register its full capacity utilization in FY 2008-09.

Flowering of bamboo is a botanical enigma and factors responsible for this are still not clearly established. The strange phenomenon of simultaneous flowering in bamboo clumps in vast areas is called gregarious flowering and causes ecological havoc. The bamboos die after flowering and it takes a few years for natural regeneration from the seeds. Bamboo extraction activities by CPM from the flowered areas is expected to commence from 2011. To meet the raw material deficit your Company is tapping new fibre raw material sources and also procuring indigenous and imported pulp.

Farm Forestry Initiative - Removing Fibre Dependency

To reduce the dependence on forests for fibre raw material and to make available raw material on sustained basis a massive Farm Forestry Scheme was launched in 2001-02 at HPC's units in Assam (NPM and CPM). This scheme envisaged plantation of quick growing and high yielding bamboo in unused lands of local farmers/ growers to create an alternate source of raw material to the mills on sustained basis and also provide an alternate source of income to the farmers. Active NGOs and Voluntary Organisations working in the periphery of the mills are selected and provided with bamboo seeds, technical know-how and financial assistance to raise nurseries. Seedlings from these nurseries are distributed to interested farmers

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for raising bamboo plantations. Training programmes on "Nursery Techniques and Commercial Cultivation of Bamboo" are organized by the mills for interested NGO's and farmers regularly with the assistance of reputed Institutions working in this field to disseminate latest technical know-how to people at the grass root level.

Sourcing of bamboo seeds of the desired species for the Farm Forestry programme is a major constraint due to the flowering cycle of bamboo. Bamboos flower only once in its life time which ranges mostly from 40 - 120 years depending upon the species. Also, bamboo seeds cannot be stored for long as their viability period is very low. To overcome the above constraint a Tissue Culture Lab has been set up at NPM.

Tissue Culture Lab – Initiative for Green Technology

Tissue Culture is a process that involves exposing plant tissues to a specific regimen of nutrients, hormones and light under sterile, in vitro conditions to produce many new plants, each a clone of the original mother plant, over a very short period of time. Tissue culture plants are characterized by disease free quick growth, higher yield and survival rate. This technique is effective because almost all plant cells are totipotent - each cell possesses the genetic information and cellular machinery necessary to generate an entire organism. Micropropagation, therefore, can be used to produce a large number of plants that are genetically identical to a parent plant, as well as to one another.

The state-of-the-art Tissue Culture Lab at NPM has a capacity to produce 2 million bamboo plantlets per year. T C plantlets produced in the lab are distributed to interested farmers at a subsidized rate under the Farm Forestry Scheme. Some portion of the T C plantlets are supplied to the State Forest Departments in the N E region for taking up plantation within their forest areas. The growth characteristics of the T C plantlets which have been planted in the last plantation season are found to be very encouraging and the local farmers are showing keen interest to raise bamboo plantations in their unused lands.

Projects on the Anvil :

Modernisation and Technological Upgradation Plan (MTUP)- Changes for the better

The Indian paper industry is poised to face the stiff challenges of global integration by upscaling production capacities, upgrading plant and equipment, migrating to higher levels of integrated process control and instrumentation sophistication, besides undertaking responsive and responsible stewardship of habitat and environment. To position itself as a leading player, HPC has embarked on a Rs.660 crore Modernization and Technological Upgradation Plan (MTUP) covering CPM and NPM with Mill modernization & Upgrades and Environmental Improvements as per CREP compliance and also 30% capacity expansion at NPM. Development Consultant Private Ltd (DCPL) has been appointed as the Project Management Consultant in July 2008. The major schemes covered under this includes ECF Bleaching, Chlorine Dioxide Plant, Membrane Cell Conversion of C&C Plant, Electrostatic Precipitator for Coal Fired Boilers, Paper Machine Upgrades and installation of new TG at NPM. Fluidized Bed Combustion Boiler and Lime Sludge Re-burning Plant under the MTUP scheme have already been installed at both the units.

Implementation of these schemes will minimize consumption of inputs, maximize recycling and minimize waste discharge by adopting cleaner production methods. The ECF bleaching plant will eliminate production of dioxins as by-product when chlorine is used as bleaching agent for the pulp. The FBC boilers will generate energy from present energy wastes like coal fines generated from screening of coal, unburnt coal in fly ash and effluent sludge. The LSRP will restrict the discharge of lime mud and at the same time re-generate lime for reuse in the production process.

NPPC - On the path of resurrection

The Board for Industrial and Financial Reconstruction (BIFR) sanctioned the rehabilitation scheme for revival of Nagaland Pulp & Paper Company Limited (NPPC)

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vide their order dated 27.06.2007. As per the sanctioned scheme of BIFR, the equity share capital of the Company had been reduced from Rs.12020 lakh to Rs.1202 lakh by way of reduction of the face value of existing equity shares from Rs.1000 per share to Rs.100 per share and simultaneously setting off the capital reduction fund of Rs.10818 lakh against the accumulated losses of Rs.24983 lakhs. Govt. of India, Ministry of Corporate Affairs approved the above reduction with Registrar of Companies, Shillong registering and notifying the capital reduction.

Efforts for implementation of the BIFR Sanctioned Scheme for revival and up-gradation of the Mill launched by the Company has been hamstrung with the wide variations in the price quoted by various bidders against the cost estimates as per the Scheme, necessitating complete updating of the Scheme itself with revised cost estimates.

The Detailed Project Report was updated by the Consultant who arrived at 89100 tpa as the viable production capacity of the Mill. As per the updated DPR, the total project cost works out to Rs.1157.09 crore and the cost of the Scheme works out to Rs.1241.80 crore. The re-tendering process for the feasibility study and pre-engineering of Paper Machine rebuilding has been embarked upon and for fund arrangements the Company is in dialog with various commercial banks to arrive at best competitive tie up(s).

Pursuant to Article 28(b) of the Articles of Association of NPPC as the total capital expenditure involved exceeds the present limit of Rs.1000 lakhs necessary steps are being taken by this Subsidiary to submit the same for consideration of DHI, the Administrative Ministry.

HNL - Leading the Newsprint Industry

During the first half of FY 2008-09, your company made outstanding financial performance and with great hopes the Directors declared an interim dividend of Rs.1000 lakh @ 10% on the paid up capital of the company which is the first time during the last decade. As the newsprint market took a down turn amidst

the global recession, sales of newsprint declined in the second half and especially in the last quarter.

HNL, however could record a Profit Before Tax of Rs.21.20 crore as against Rs.18.10 crore registered during the previous year. The sales during the year declined due to sharp fall in the transaction price of newsprint consequent upon the large scale inflow of imported material resulting in stock accumulation and production regulation.

During the year, a number of energy conservation schemes were implemented and your Company received the commendation for Kerala State Energy Conservation Award-2008, in the category of large-scale industries for excellent energy management system and for the continued efforts for energy conservation.

Project cost for the envisaged Expansion cum Diversification Project (EDP) with the objective to venture in the value added Printing & Writing Paper segment was originally estimated at Rs.718.80 crore. Subsequently, Axis Bank had prepared a Project Re-appraisal Memorandum reworking the financials and the Project Cost was re-estimated at Rs.1080 crore by considering benefits envisaged under the Export Promotion Capital Goods Scheme (EPCG). The project financials were reevaluated by M/s Poyry Forest Industry Consulting Oy and the project cost was revised to Rs.1789 crore with a capacity of 2.5 lakh tpa brown field paper plant with the option of own source of energy and Rs.1554 crore with outsourced energy option and is under consideration.

JPML - A massive Greenfield Project

To meet the growing demand of paper by increasing volume of production and becoming pan-Indian in operation a Greenfield paper mill project is envisaged to be set up at Jagdishpur, Dist. Sultanpur in Uttar Pradesh. Approval of UP Paper Mill Project with annual capacity of 3 Lakh MT and project outlay of Rs.2,742 crore was accorded by GoI 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

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was issued on 08.05.2008 by Registrar of Companies, Uttar Pradesh and Uttranchal. The project will be implemented in the form of a Subsidiary Company having 51% equity holding by HPC and shall raise balance 49% equity from the capital market at an appropriate premium through Initial Public Offer. This paper mill will have a single machine with capacity of 3 Lakh MT which will be the largest single paper machine in South Asia. Project activities could not commence yet since the land identified with UPSIDC for the plant facilities is yet to be handed over to your Company.

Climate Change - the defining challenge of our age

Warming of the climate is unequivocal as is evident from increase in global average air and ocean temperatures, widespread melting of snow and ice and rising global average sea level. 11 of the last 12 years are among the 12 warmest years ever recorded in terms of global surface temperature. Climate change has become the greatest environmental challenge for the 21st century. The global debate on climate change is focusing on energy and forests. When managed sustainably, forests can reduce atmospheric CO₂ levels, soil degradation and deforestation which all contribute to climate change. Governments around the world have started to impose rules and regulations to reduce carbon emissions. Regulation of carbon emissions and future cost implications will directly affect the global competitiveness and development of this sector.

According to the latest Intergovernmental Panel on Climate Change (IPCC) report, warming by 2100 is projected to be in the range of 1.1–6.4 degrees Celsius above the average in the 1980-99 period. Unabated, current increasing trends in emissions can be expected to raise Earth's temperature by 4-6 degrees Celsius above today's levels, if not more, by the end of this century. Significant number of "tipping points" - thresholds beyond which it would become difficult-to-impossible to reverse changes in the climate system could be approached if the planet warms more than 3 degree Celsius over the preindustrial level. However, a number of tipping points-including loss of the Greenland ice sheet could be approached at warming

levels over 1.5–2 degrees Celsius. Half of the carbon dioxide (CO₂) emitted today is expected to remain in the atmosphere a century from now, and much will remain even 10,000 years in the future. It is technically and economically feasible to reduce greenhouse gas emissions fast enough so that their atmospheric concentrations can be limited to around 400 parts per million of CO₂-equivalent, or lower in the longer term.

Land-use changes and fossil fuel burning are the two major sources of the increased CO₂ in the atmosphere that is changing the global climate. Overall, land use and land-use changes account for some 31 percent of human-induced greenhouse gas emissions. The process of tilling soil releases CO₂ into the atmosphere. Perennial crops store more carbon in the soil than annually planted ones. Livestock now account for 50 percent of emissions from agriculture and land-use change.

Buildings use about 40 percent of global energy and account for a comparable share of heat-trapping emissions. Today's electricity generation accounts for 41 percent of global primary energy use (from coal mining to appliances or other "end uses") and 44 percent of CO₂ emissions.

The Gangotri glacier in the Himalayas, which provides up to 70 percent of the water in the Ganges River, is retreating 35 meters yearly. Once the glacier disappears, the Ganges will become a seasonal river, depriving 400 million people of water. Renewables are among the lowest cost options for reducing CO₂ emissions and fossil fuel dependency, yet they currently meet only an insignificant portion of world demand.

Renewable Energy - the need of the hour

Despite high growth rates, renewable energy still represents only a small part of today's global energy picture. Geothermal, wind and solar electricity generation combined is estimated to account for approximately 1.5% of global electricity generation. Geothermal energy remained the slowest growing renewable energy in 2008. Geothermal energy grew by 4.2% in 2008 to reach 10.4 GW. The United States

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has the largest geothermal energy capacity which now stands at 3 GW. Solar power generating capacity grew by 69% in 2008 to reach 13.4 GW. Germany has the highest installed capacity of 5.5 GW. Wind power energy grew by 30% in 2008 to reach 122 GW. The United States has the largest wind power energy capacity which now stands at 25.2 GW.

India is the fifth largest consumer of energy in the world and it is projected to surpass Japan and Russia to become the world's third largest energy consumer by 2030. At the same time the country is facing an acute energy scarcity which is hampering its industrial growth and economic progress. India is trying to tackle the energy crisis through a judicious utilization of renewable energy resources such as biomass energy, solar energy, wind energy and geothermal energy. India has seen a 12% increase in investment in the renewable energy sector with an investment of \$3.7 billion in 2008. Your company is also exploring potential renewable energy initiative in the form of wind energy at its units in Assam and Nagaland with Centre for Wind Energy Technology, Chennai. Your company has installed 2 units of solar water heaters with 300 litre per day per unit capacity to replace the conventional geysers and a 2m³ bio-gas plant wherein disposable wastes generated from households are used for generation of bio gas in its township complex in Kolkata thereby reducing consumption of fossil fuel to the extent.

Forest - Functioning as Carbon Sink

There are many long term strategies for mitigating climate change, protecting forests is something we can do right now as protecting forests is among the quickest and most cost effective solutions to climate change. Protecting and restoring forests is an essential first response to climate change. According to the Intergovernmental Panel on Climate Change, halting deforestation and restoring already degraded areas while adopting more forest-friendly agriculture and management practices would prevent the emission of more than 300 billion tons of carbon dioxide over the next 40 years. That is more than total U.S. emissions over that same period, based on current

levels.

India ranks 10th in the list of most forested nations in the world with 76.87 million ha of forest and tree cover. India is one of the few developing countries in the world that is making a net addition to its forest and tree cover over the last two decades. The progressive national forestry legislations and policies in India aimed at conservation and sustainable management of forests have reversed deforestation and have transformed India's forests into a significant net sink of CO₂. Like other forests of the world, our forests also provide critical ecosystem goods and services. However, the significant role of forests in carbon storage and sequestration has increased their importance manifold and brought them to the centre-stage of climate change mitigation strategies. India's forest and tree cover accounts for about 23.4% of the total geographical area of the country. It is estimated that the continued carbon sequestration by the forests would still be able to offset 6.53% of our projected annual emissions in 2010. The forestry sector has significant emissions removal capability which can further be enhanced by operationalizing major afforestation and reforestation initiatives besides continued strengthening of the present protection regime of forests.

Fuel Security

The industrial sector in India is a major energy user, accounting for about 48% of commercial energy consumption. The sector has become increasingly energy-intensive over time, which is partly due to investments made in basic and energy intensive industries due to the emphasis laid in the past development plans on achieving self-reliance. Increase in energy cost is becoming a challenge for energy intensive industry like Paper in order to contain the production cost. Lowering costs by energy conservation measures in your Company has been badly affected due to continuous increase in the price of coal. The effect of drastic increase in price of coal by NECL during Dec 07 and March 08 has led to increase in price of Meghalaya coal which is one of the major sources of coal for both units in Assam.

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To conserve energy your Company is adopting best environmental practices by efficient use of resources and effective recycling and reuse at all possible stages in its production process. Your Company is also exploring adoption of alternate and renewable sources of energy to become Carbon positive in the near future.

CDM Initiatives

The Bamboo Dust Gasification project is in the advanced stages of Validation by Designated Operational Entity (DOE). The Draft Validation Report sent by the Validator regarding clarifications on the project activity has been replied with all clarifications duly answered. Further, the Validator will be closing the clarifications / issues based on the responses provided and the project would be sent for Technical Review (TR). Post TR the project will be sent for Request for Registration (RFR) and is expected to generate about 10,000 Certified Emission Reduction (CERs) per annum.

Environment Friendly Approach

As a responsive and responsible corporate citizen, your Company has taken pro-active steps for combating environmental degradation. Your Company has installed appropriate systems for controlling and monitoring pollutants in the manufacturing units in accordance with the prescribed environmental standards and regulations. Action has been taken for conversion of existing Bleach Plant to Elemental Chlorine Free (ECF) Bleach Plant and also to convert existing mercury cell based Caustic & Chlorine Plant to membrane cell based plants to comply with CREP guidelines. Yours is already an ISO 9001:2000 QMS Certified Company and ISO 14001:2004 EMS Certification has also been obtained by NPM, CPM and HPC Township at Salt Lake, Kolkata.

Contribution to Government Exchequer

Your Company's contribution to the Govt.

exchequer during 2008-09 is given below :

Item	Rs. Cr.
Excise Duty	25.64
Sales Tax / VAT / CST	15.08
Entry Tax & Service Tax	9.03
Corporate Income Tax	15.35
Customs Duty	2.18
Redemption of Preference Share Capital	2.00
Dividend	12.96
Dividend Tax	0.50
Interest on GoI Loan	-
Total	82.74

Assistance from the Government

To compete with other private paper mills, full capacity utilization and appropriate costing of inputs is essential. 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. Some of the major roads connecting CPM to bamboo catchment areas are in deplorable state adversely affecting procurement of bamboo. The 20% freight concession offered by N F Railways last year on freight for bamboo loaded rakes going outside the NE region has led to diversion of bamboo from the State of Assam to paper mills outside NER. Also, extra impost is charged by Govt of Assam through Entry Tax on even Inter-District movement of inputs and Agricultural Cess on bamboo leading to rise in the cost of operations. The infrastructure deadlock will be offset only with the completion of BG Rail link in Lumding-Badarpur-Silchar section and Lumding-Haflong-Silchar section of the East - West corridor of NHAI. Removal of the Entry Tax and agricultural cess imposed by Govt of Assam on movement of inputs and discontinuation of the freight concession offered by Railways for bamboo being transported outside the NE region is essential to

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stabilize the raw material costs. Fiscal props are required for offsetting the locational and logistical disadvantages of North Eastern Region.

Corporate Social Responsibility

Blending passion for corporate performance with compassion for communities is central to your Company's corporate philosophy of peripheral area development and community development. Your Company as a socially responsible organization has been involved in Community outreach activities seeking to develop villages which are situated in the vicinity of the Mills and has been adopted for extension services where the Company provides basic amenities like drinking water, school facilities etc. and also improved the roads and bridges in the said villages. Under the Self-employment scheme, your Company has also provided professional handlooms with sheds to the womenfolk of nearby villages for their economic development. Your Company has organized Free Medical Health Camps in the nearby villages where free medicines were distributed. Your Company has also launched Prime Minister's 15 Point Path Pradarshan Awareness Programme amongst Minority students in several Higher Secondary Schools in the nearby villages around the Mills. Cachar Paper Mill has provided a plot of land measuring 23

bighas and 16 cottahs free of cost to the Public Works Department, Govt of Assam for construction of road under Prime Minister's Gramin Sadak Yojana (PMGSY) Scheme for giving connectivity through all-weather roads to all unconnected habitations.

The Road Ahead

The resilience and ardour shown by employees of your Company in their efforts have propelled the Company to its present shape. The cost of fibre and fuel have witnessed a tremendous increase in costs. To maintain cost of production efficient and effective use of available resources is the need of the hour. The customers have become more quality conscious and operational parameters have become stiffer. With the opening of markets the choice available to the customer has increased. The human resource of your Company is the source of all improvements and innovations which have occurred hitherto and will be the torch-bearer of your Company's foray into the uncharted areas for grappling with the challenges of change in the days ahead.

Delhi
14.09.2009

RAJI PHILIP
Chairman-cum-Managing Director