

DIRECTORS' REPORT

Your Directors have pleasure in presenting the 56th Annual Report alongwith the Audited Statement of Accounts for the year ended 31st December, 2005.

PERFORMANCE DURING THE YEAR

Your company's performance during the year is summarized below:

	(Rupees in Million)	
	Year ended 31 st Dec. 2005	Year ended 31 st Dec. 2004
Gross Sales	4984.1	4539.1
Net Sales	4328.6	3940.2
Profit before Tax & Extraordinary Items	386.9	336.5
Extraordinary Items	8.0	-
Profit before Tax but after Extraordinary Items	378.9	336.5
Less: Provision for Tax	128.5	101.7
Provision for Deferred Tax	(29.7)	(6.3)
Provision for Fringe Benefits Tax	3.4	-
Profit after Tax	276.7	241.1
Add: balance of profit for earlier years	291.3	165.7
Profit available for appropriation	568.0	406.8
Provision for Dividend Tax on Dividends for earlier years	0.7	0.5
Transfer to General Reserve	27.7	30.0
Proposed Dividend on Equity Shares & Dividend Tax thereon	100.1	85.0
Balance Carried forward	439.5	291.3

During the year under review, the gross sales were Rs. 4984.1 million as compared to Rs. 4539.1 million in the previous year and the net sales were Rs. 4328.6 million as compared to Rs. 3940.2 million in the previous year. Profit before tax was Rs. 378.9 million as compared to Rs. 336.5 million in the previous year. After providing for income tax of Rs. 102.2 million, Profit after tax was Rs. 276.7 million. Further after transferring an amount of Rs. 0.7 million towards dividend tax on dividend for the year 2004 and Rs. 27.7 million to General Reserve the surplus available was Rs. 539.6 million including surplus brought forward of Rs. 291.3 million. Earning per Equity Share (EPS) was Rs. 22.07.

CORPORATE GOVERNANCE

Necessary measures have been adopted to comply with the requirements of the Listing Agreements with stock exchanges

wherein the company's shares are listed. A separate report on Corporate Governance measures adopted by the Company forms part of this report.

A Certificate from the Auditors of the Company regarding compliance of the conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement is attached to this report.

DIVIDEND

Your Directors recommend the payment of dividend @ 70% on the Equity Capital for the year ended 31st December, 2005. The said Equity dividend will absorb a sum of Rs. 100.1 million including the dividend distribution tax thereon.

FIXED DEPOSITS

Out of Fixed Deposits as on 31st December 2005 totalling to Rs. 2.54 million from public and shareholders, 6 matured deposits aggregating to Rs. 0.18 million have not been claimed since 4th September, 1999.

STATUTORY DISCLOSURES

The information relating to 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 the Report of Board of Directors) Rule, 1988 forms a part of this report.

Also Information as per Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 forms part of this report.

DIRECTORS

Mr. Ramesh K. Dhir and Mr. Vibhu Talwar retire by rotation and being eligible offer themselves for re-appointment. Necessary resolutions for their re-appointment form part of the Notice convening the Annual General Meeting.

In the Board Meeting held on 25th October, 2005, Mr. Sakari Ahdekivi was appointed as an Alternate Director to Mr. Heikki Takanen with immediate effect. Mr. H. R. Koekoek was appointed as a director to fill casual vacancy caused by withdrawal of nomination of Mr. Tony Combe as a director by Huhtamaki in the Board Meeting held on 31st January, 2006. The Board places on record its appreciation of the valuable services rendered by Mr. Combe during his tenure as member of the Board.

MANAGEMENT REVIEW AND OUTLOOK

The Management Review and Outlook is attached to the Annual Report for the year ended 31st December, 2005.

FLOODS AT THANE

Incessant heavy rains in Thane and Mumbai on 26th July, 2005 led to flooding in the Thane Plant premises. Consequently, operations of Thane Plant were impacted.

Detailed claim assessment and settlement process is going on. The operations of Thane Plant are recovering due to focused efforts.

NORTH INDIA GREENFIELD PROJECT

Your Company has embarked on a major expansion plan of setting up a new Greenfield production facility for consumer packaging in North India. The project is scheduled to be implemented in a phased manner over two years at an estimated total investment of Rs. 650 million. The land has already been acquired and construction has just started. Commercial production of the initial phase is scheduled to commence around mid 2006.

DIRECTORS' RESPONSIBILITY

The Board of Directors hereby confirm that:

- i) In the preparation of the annual accounts for the year ended 31st December, 2005 the applicable accounting standards have been followed and there are no other material departures except the reporting of inter unit sales which is not in compliance with Accounting Standard 9 - Revenue Recognition.
- ii) Accounting policies have been selected and applied consistently and judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year ended 31st December, 2005 and of the profit or loss of the company for the year ended 31st December, 2005.
- iii) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- iv) Annual accounts for the year ended 31st December, 2005 have been prepared on a going concern basis.

AUDITORS' REPORT

Qualification regarding practice of accounting of inter unit sales has been accepted as the same has no impact on the profit for the year and the reserves and as same helps one to evaluate the operating profit ratio and asset turnover ratio more accurately.

AUDITORS

The statutory auditors of the Company shall hold office until the conclusion of the ensuing Annual General Meeting. The Company has been informed by them that if appointed their appointment would be within the prescribed limit under section 224(1- B) of the Companies Act, 1956. Your Directors recommend the appointment of M/s. BSR & Associates, Chartered Accountants, as the statutory auditors of the Company at the ensuing Annual General Meeting to hold office until the conclusion of next Annual General Meeting of the company on such remuneration and other terms and conditions as may be agreed upon by the Board of Directors.

INDUSTRIAL RELATIONS

Relations with the work force at all the units continued to be cordial.

Your Directors wish to express their grateful appreciation for the assistance and co-operation received from Banks, Government Authorities and Shareholders during the year under review. Your Directors also wish to place on record their appreciation for the services rendered by employees at all levels in the Company and for their contribution towards the success of the organisation.

By Order of the Board
For THE PAPER PRODUCTS LIMITED

Place: Mumbai
Date : 20th March, 2006

K. C. NARANG
Chairman

ANNEXURE TO DIRECTORS' REPORT

ANNEXURE - I

Particulars as required under section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975

A. Persons employed through out the year and were in receipt of remuneration in aggregate of not less than Rs. 200,000/- P.M.

Name	Designation/ Nature of duties	Remunera- tion received Rupees	Qualifications	Age Years including experience in previous concern, if any, Years	Experience Date of commencement of employment	Last employment held with designation	
1	2	3	4	5	6	7	
Mr. Suresh Gupta	Managing Director & President	9,043,790	B.A.(Hons). MBA	53	31	27.01.1988	Almana Group, Doha- Qatar 'Executive Director'
Mr. C.N. Murthy	Director Technical	3,473,137	B. Tech in Mechanical Engineering	55	33	02.01.1995	I T C Ltd. Branch Manager - PPD

B. Persons employed for part of the year and were in receipt of remuneration at a rate of not less than Rs. 200,000/- P.M.

Mr. H.L. Chopra	Director Technical	1,444,947	Diploma in Mech. Engineering, V.D.J. Institute.	74	47	01.01.1958	Firestone Tyre & Rubber Co. of India Ltd., 'Supervisor'
-----------------	--------------------	-----------	---	----	----	------------	--

Notes : "Remuneration Received" includes salary, commission, actual expenditure for provision of other benefits, house rent allowance, medical expenses, leave travel expenses, reimbursement of gas, electricity and water charges, contribution to provident fund and other perquisites calculated in accordance with the provisions of Income Tax Act, 1961 and the rules thereunder as applicable.

ANNEXURE TO DIRECTORS' REPORT

ANNEXURE - II

A. CONSERVATION OF ENERGY

Energy costs spiral upwards with the increase in fuel costs and tariffs. Availability of power has become an issue in all states. The quality of the power received at the plants leaves much to be desired. Given this reality it is important for us to focus on the availability and the use of energy in operations. Conservation of energy has been in focus during the year in all plants. Energy audits have been usefully employed to identify potential areas where consumption could be controlled. There were a few major investments in energy control and there were several smaller actions, simpler in nature that added to the saving in power and energy consumption. Some of the actions taken for conservation include the following:

1. Low power consumption tubelights were installed to reduce power consumption.
2. Fuse-based distribution board of electrical panels were replaced with switch fuse units to help reduce power contact leakages.
3. Transformer based power supply units were replaced with SMPS to reduce power consumption by reducing transformer losses.
4. The conventional chilling plant (shell & tube type) of the Cylinder Making Division was replaced with a modular package unit using a plate type heat exchanger.
5. A step down transformer was introduced to drop the supply voltage for factory lighting from 240V to 200V. This reduces the lighting energy consumption in the plants.
6. A power distribution panel was provided in the cylinder making operation area to overcome loose contacts and to reduce losses due to the uneven distribution of load.
7. Compressed air control system for compressed air peak demand management was installed and commissioned in the Hyderabad and Silvassa plants. The average saving post commissioning ranges from 7% to 10% of power consumed by air compressors.
8. The compressed air pressure in the plant was reduced to 6.5-7.0 from 7.3-7.8 kg/cm², there by reducing possible line losses.
9. A new forced air ventilation system with high end technology was installed in the Cylinder Making Division. Cellulose pads are used in this FAV system for air washing and for inducing moisture in the fresh air instead of using conventional water spray nozzles. This increases the water evaporation efficiency. The total connected load of the unit was reduced to 11HP from the earlier 20 HP.
10. Insulation of the cooling ring of the Blown Film line was carried out to prevent loss of chilling and to reduce the energy consumed by the chilling plant.
11. Auto set on- off switches were introduced for street lighting.

B. TECHNOLOGY ABSORPTION, ADAPTATION & INNOVATION

The company has its research and development center at Thane, which is recognized by the Department of Science and Technology, Government of India.

It is only by ensuring a focussed approach on innovation

and the development of new packaging solutions that the company has managed to survive and grow in a market where there are pressures of increasing raw material prices and competition that drives prices in a downward direction. The NASP (New Applications, Structures, Products & Processes) activity has been the key element that has helped us stay ahead in a competitive market. Joint efforts of the Technical and Business teams have resulted in a large number of innovations that have been converted into business during the year. High focus has been laid on developing packaging material that promotes consumer convenience. Easy to open lidding laminates were provided for plastics trays made of PP, HDPE and PET in the packaging of foods and other items required by both the domestic and export markets. Examples of developments include specialized lidding laminates developed to meet the requirements of transparency with high barrier, the combi-pack for shampoo and oil, laminates to pack machine and automobile spares, aesthetic and low cost laminates for spices and specialized ice cream packaging.

A large number of products were developed through extrusion coating/lamination technology. These include tube laminates with and without foil, flexible laminates for packaging of snack-foods and pharmaceutical products, mouth fresheners, condom packaging that uses low gauge aluminum foil to provide barrier. Other innovation include flexible laminate packaging for toothpaste which provides a low cost solution to help grow a market for the product. A new product stream of specialized pouches was put into stabilized operation at Hyderabad during the year for local and export markets. It includes zipper based and stand up pouches of all varieties and sizes with security features, bulk bags for processed foods, staples, cement etc. New specialized cartons were developed through the integration of reverse gravure printing, lamination and off-set printing for both sides printing, and gravure printed metalised cartons for high aesthetics.

Developments in the field of inks and coatings include matt, glossy metallic and pearl finishes, low cost heat seal lacquers for laminates and blister packs, release lacquers for image transfer technology, tattoos and wrap around label with strippable silver and heat resistant lacquers.

In appreciation of innovations during the year, PPL received four PFFCAStar awards, one AsiaStar award and one WorldStar award.

The expenditure on R&D during the year under report is as below.

a. Capital	Rs. 3.703 million
b. Recurring	Rs. 8.147 million
c. Total	Rs. 11.850 million

Percentage of R&D expenses to total turnover is 0.27% (Previous year is 0.26%)

C. FOREIGN EXCHANGE EARNINGS & OUTGO

a. Foreign exchange earnings from the exports of the company's products & services amounted to Rs. 654.812 million.

b. The outflow of foreign exchange during the year is disclosed in the notes to the accounts forming part of the Balance Sheet.