



Message from the Managing Director

2005 was unusually interesting — the most challenging year of the last decade. Looking back, I can clearly see our people negotiating the challenges as if they were in the midst of an exciting expedition, facing unexpectedly scary obstacles, and finally “climbing over the mountain” to reach home.

In tribute to our people and their “esprit de corps”, this report showcases them at work, at learning, at play, and at winning awards.

During the record rains and consequent flooding on 26th July '05 in vast areas of Mumbai and Thane region, our Thane plant was also impacted by flood. The entire production floor including most of our high tech machinery and equipment was in dirty flood water 3 feet deep for 6-8 hours. The entire team of people, managers, staff, machine operators, worked tirelessly and non-stop such that a few machines were back in operation within a week. This was despite the fact that many of our people suffered flooding of their own homes and damage to their personal property. Simultaneously, our Silvassa and Hyderabad plants immediately took up the challenge of meeting the needs of Thane plant customers. This often involved them doing unfamiliar customer jobs in record turnaround times while meeting the delivery needs of their own customers. Going all out 24 hours, 7 days a week, they even exceeded production capacity and set new production records, without allowing quality to be compromised. Simultaneously, our headquarter people, and those in the field, were working tirelessly to tackle the enormous planning and logistics issue, and doing whatever was best possible to minimize customer dissatisfaction.

Every thundercloud has a silver lining. Overcoming this unexpected crisis has left us

“ It was a time for good men and women to come together...” ”



with a quiet confidence to face the uncertainties and challenges we face daily, and will face in the future. Our people set new records and we have new benchmarks. In a way, we have moved to a new level of capability as a group of people.

The previous year's report detailed the severe market adversities we suddenly faced from the start of the second half of 2004. Raw material prices unprecedentedly shot up by as much as 60%, driven by the rapid surge in crude oil pricing and therefore of petrochemical products. The refusal by customers to absorb the majority of the inflation, squeezed margins. We drew up a detailed crisis management action plan comprising innovation, cost efficiency, sourcing initiatives, new market development, and many more. Effective implementation of the plan at all levels, locations, and functional groups, saw good results with the first half of 2005 recording a sequential improvement in Profit before Tax of 25% over the second half of 2004. So the "ramp-up" was in place. We were expecting to continue the growth momentum in the second half of 2005, when suddenly the Thane plant was hit by flood... nevertheless...

2005 as a year, set a new record in Sales, EBDIT, EBIT, and Cash Earnings per share which almost touched Rs.42 per share. Sales growth for the year was almost 10% over 2004, and PAT almost 15%. EPS for 2005 was Rs.22.07 per share against Rs.19.23 the previous year.

Also, we did not lose sight of our strategic objectives. Construction of our new Greenfield North India plant was begun in full measure in the last quarter of the year, and we expect to be in production in Q3 2006. The renovation of Thane plant has been in full swing. Besides repair, new key equipment has been, and is being ordered. This is being done to replace damaged equipment which is not working, or is operating at below pre-flood capability with repair ineffective in restoring full capability. Various other strategic investments are being implemented during the course of 2006.

I must mention here two of our key 2005 successes in the market place. Exports grew by 38%. Our innovation program, termed NASP (New Application, Structures, Products & Processes), continued to yield great results in domestic markets helping us counter margin pressures.

The market remains challenging with firm raw material prices at high levels and customer pressures on selling prices. We remain committed to profitable growth through our various technical and market initiatives, underlined by focus on improved cost efficiency. We also look to the positives from our economy which is on a firm growth path and is driving the vast array of sectors we service from FMCG, including overall food processing, pharmaceuticals, to agrochemicals, and many more. So we proceed with determination and cautious optimism.

I take this opportunity to warmly thank our Shareholders, our Board of Directors, The Huhtamaki Group, Customers, Suppliers, and business associates for their kind support and encouragement.

Suresh Gupta

Managing Director & President

The Paper Products Ltd., India.

March 2006