VICE CHAIRMAN AND MD'S MESSAGE

Dear Shareholders,

2004-05 has been a good year for India as well as for your Company. Despite less than normal monsoon in many parts of the country and almost stagnant growth of agricultural output, the Indian economy grew at a healthy 6.9 per cent — which was all the more impressive coming as it did on the back of a growth of 8.5 per cent in 2003-04. While it may still be a bit early to make a definitive call, it seems that the economy is set for over 7 per cent growth in the current year. All indicators suggest that the nation may well have transited to a higher growth path.

From your Company's point of view, 2004-05 has also been an excellent ye a r – the best witnessed in recent times. Revenue from paper grew by over 7 per cent to Rs.1,608 crore, and helped push total revenue up to Rs.1,800 crores. Profits before tax have increased by over 16 per cent to Rs.206 crores. And thanks to systematic de-leveraging of your Company, profits after tax have risen by over 25 per cent to Rs.168 crores.

These are commendable achievements which, I feel confident, will be bettered in the coming years.

Before sharing with you some key company-level matters, let me touch upon two broader economy level concerns which have bearing on the fortunes of the paper industry. Both have to do with the state of infrastructure – forestry and coal. Last year, I wrote, "The biggest challenge facing the paper industry today is the spectre of raw material unavailability." The situation is as bad today as it was a year ago. While we at BILT have developed a strong and geographically spread out farm forestry programme which now covers almost 38 million plants, very little governmental attention has been devoted to this subject. Indeed, the forestry policies of the states as well as the central government are regressive. In that they do not encourage the sustainable growth of commercially viable forest resources.

On the one hand, at 5 kgs per capita per year, we have one of the lowest rates of paper consumption in the world – which must increase significantly as the economy moves forward. Yet on the other, the country as a whole still needs to pay attention to systematically develop forest resources so that it can produce the raw material to feed this inevitably growing demand. The regulatory framework is inadequate for making long-term investments in forestry. In this context, it is important for the government to realise that one cannot hope to be a globally significant paper manufacturing nation only on the basis of imported pulp. Therefore, the need to develop and implement a rational, growth enhancing farm forestry programme has become more critical than ever before.

The other infrastructure problem faced by the paper industry has to do with the quality and availability of coal – the most important source of energy for the sector. To an extent, availability problems can be mitigated by having paper mills located close to pitheads. While that is the case for some – and your Company is relatively fortunate in that respect – it cannot be the panacea for all. Moreover, this does not address the issue of coal quality. Going forward, the government will need to develop a mechanism that ensures an adequate supply of quality coal for the industry at internationally competitive prices.

The chapter on Management Discussion and Analysis in this annual report details the performance of your Company during 2004-05. Instead of summarising or repeating what is written there, let me take this opportunity of sharing with you some strategic perspectives.

Your Company's vision is to be 'A leading creator of shareholder value in the paper industry'. We at BILT have translated this objective into four interactive components. These are:

- Driving greater efficiencies and higher productivity and better sweating the capital.
- Having a product mix that not only goes up the value and EBITDA chain but is also more immune to business cycles.
- Allocating capital to rapidly build larger and more efficient scales of production at competitive costs.
- Creating a capital structure that consistently de-risks the business and generates greater free cash to finance future growth.

Let me touch upon each of these.

The first task of your Company three years ago was to increase productivity and thereby bring down operational costs. We addressed this through the introduction of Total Quality Management (TQM) in each of our plants. Since 2003, over 450 TQM projects have been implemented and another 370 odd are currently in progress. TQM, coupled with other plant-level initiatives, have helped in bringing down both raw material and energy costs, and in reducing machine downtime. Moreover, by increasing capacity utilisation throughout all our plants, we have succeeded in steadily bringing down fixed costs.

In addition to TQM and other productivity enhancing measures, your Company has adopted the concept of Economic Value Added (EVA). Today, virtually all the process, departments and business units at BILT follow the EVA framework which aims to increase net operating profits for every rupee of capital employed. The organisation

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has become fully aligned to an EVA-driven way of looking at efficiency of capital. I am happy to inform you that this initiative alone has contributed Rs.40 crore to your Company's bottom line over the last two years.

As output increased, we simultaneously altered our product mix to focus more on high value added products. Thus, over the years we have concentrated more on coated wood-free paper – and within it the even higher value added blade coated paper; on hi bright paper in the uncoated wood-free category; on the fast growing branded copier paper segment; and more recently, on the attractive business stationery segment. This change in product mix has been motivated by an offensive as well as a defensive strategy. The former has to do with capturing dominant market shares in higher value added segments; and the latter has to do with creating a product portfolio which are at different points of the business cycle – so that a downturn in one will be more than compensated by the upswing in the others.

In creating this product mix, we have consciously decided to aggressively enter the branded retail space. There is a large unmet urban demand for high quality paper based stationery – which we have begun to address with a host of premium products. I am particularly delighted by how well the retail markets have accepted your Company's premium stationery such as the BILT Matrix products and different offerings under the broad category of Royal Executive Bond. The scope of this market is vast; the margins are very attractive, and we want to establish our brand equity by being the leader in this business. Within a year our retail offerings have done much better than anticipated. And I feel confident that these will be growth and value drivers of the future.

Enhancing productivity and creating a better product mix were necessary, but not sufficient. We needed to add on to these the third building block – an investment programme for growing the scale of operation. The Board of Directors of your Company has approved investments to the tune of Rs.1,200 crores or approximately US$279 million at current exchange rates. This will be used over the next few years to modernise each of our plants, significantly increase paper making capacity, and systematically substitute older machinery for more productive newer ones. Keeping the objective of shareholder value in mind, we will be carefully dovetailing this expansion programme so that each round of capacity expansion starts generating additional output before the next round comes into being. In that manner, we would hopefully be able to grow capacities without affecting the return on operating capital employed.

A key challenge for your Company will be in flawlessly executing this capacity expansion plan within the next three years. That will involve commissioning project ahead of schedule, minimising the so-called plant stabilisation period and delivering saleable output as quickly as possible. We shall be monitoring this very carefully.

We do not look at capital expansion only in terms of physical capacities. Given the importance of the new retail space, your Company has decided to allocate substantial funds into advertising, brand building and distribution. In addition to our retail play through BILT Matrix and Royal Executive Bond, you will soon see two other initiatives. The first involves retailing of well manufactured stationery for students. The second will be our foray in the branding and distribution of high quality tissues, which will be in the market by October this year.

All of this requires focusing on the fourth building block – creating a financial capital structure that de-risks the company and helps in generating greater free cash for further growth. We have done so in large measure. Last year our debt-equity ratio was 0.94. At the end of 2004-05, it had been reduced to 0.78. In addition, your Company has taken full advantage of a relatively benign interest rate regime to systematically swap its shorter term debts to longer tenor and also reduce interest costs in the process. This capital restructuring will continue in the years to come.

Let me end with a few words on your Company's commitment on corporate social responsibility. We have always thought of ourselves as an entity that must share, in addition to profits to shareholders, social and economic benefits to the stakeholders and communities from whom we derive our very existence. There is much that I could say about BILT's initiatives in corporate social responsibility (CSR), and there is a detailed chapter on CSR in this report . Let me just share with you three indicators that are dear to me. As on 31 March 2005, your Company had formed 210 self help groups (SHG) of women; these SHG members leveraged bank loans worth over Rs.2.5 million and earned interest in excess of Rs.3 lakh; they played a key role in educating over 44,000 children; and raised over 130,000 saplings in their nurseries. This makes me feel both proud and humbled.

I believe that 2005-06 will be an even better year for your Company. Paper prices look to be firm; the gains from our higher value added product mix are kicking in; and we will have considerably larger capacities to leverage higher sales and profits.

Let me take this opportunity to thank all our employees for their dedication to growing the business of your Company. And my sincerest thanks to all of you for the faith and confidence that you have shown in BILT.

GAUTAM THAPAR