

A Paper Trail

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Beginnings

The paper trail in central Wisconsin began when a small group of investors decided to consolidate dams along the Wisconsin River near Wisconsin Rapids in 1894. The Consolidated Water Power Company was established and the paper trail began. It began because a new industry was taking shape and form. Spawned by the waters of the Wisconsin River, for the first time the potential of the papermaking industry was recognized. By 1904 a dam was built, a paper mill and a pulp mill complex was completed, and the world's first electrically powered paper machine was constructed.

The paper trail began with its share of risks. Floods, fire and the natural brownish color of the water in the Wisconsin River caused many to doubt that this water could be used for making paper. But George Whiting was familiar with some of these risks. In the late 1800s Whiting was involved with tests that demonstrated the water's suitability for pulpmaking, and a short time thereafter the Wisconsin River Pulp and Paper Company was born. And while they didn't call them mission statements at that time, they had a purpose and a vision. They were incorporated for "the manufacture and sale of paper, paper stock and pulp; the purchase, ownership and sale of lands and water power; the erection of a dam or dams;...and the creation of water power for hydraulic purposes."

Even then the industry had environmental issues to deal with. About the Whiting mill for example, the Stevens Point Journal reported that it was "too bad to spoil the picnic grounds" that was within the site of the mill. While progress took precedence over "a few jack pines and hemlocks," issues related to environmental stewardship continued throughout the development of the industry. Who would have believed then that environmental concerns would drive decision making in the industry 100 years later?

By the mid-30s, Consolidated Papers in Wisconsin Rapids had achieved a major breakthrough in the industry. They developed a process whereby coated paper was produced in a single, high-speed operation. This was an innovation that secured a leadership position for Consolidated in the coated paper industry that continues to the present.

Today, Consolidated Papers, Inc. is the largest North American producer of coated printing papers and a leading manufacturer of supercalendered printing papers for the printing and publishing industries. Through its Stevens Point Division, Consolidated is the nation's leading manufacturer of coated specialty papers used in consumer product packaging and labeling. Other products Consolidated manufacturers are recycled pulp made from printed wastepaper and postconsumer office wastepaper, paperboard, paperboard products, and corrugated packaging and point-of-purchase displays. Consolidated also produces Kraft pulp for our own use through use of an elemental chlorine-free process. The wood fiber used in our papers is generated from approximately 700,000 acres of renewable, company-owned forestland in Wisconsin, Michigan, Minnesota and Ontario, Canada, as well as from private and

public forests and sawmill byproducts. Consolidated has its corporate headquarters in Wisconsin Rapids, Wisconsin. It currently employs approximately 7,200 people, with pulp and papermaking facilities in Adams, Biron, Kimberly, Niagara, Stevens Point, Whiting and Wisconsin Rapids, Wisconsin as well as in Duluth, Minnesota. It ships approximately 2 million tons of coated paper per year. It has annual sales of about \$2 billion, and ranks among the nation's largest publicly held corporations.

Growth

The paper trail through central Wisconsin took a different turn in 1995 when Consolidated acquired Niagara of Wisconsin Paper Corporation from Pentair Inc., and also purchased the financial interest of Pentair and Minnesota Power in Lake Superior Paper Industries and Superior Recycled Fiber Industries. Consolidated paid approximately \$227 million in cash and extinguished \$52 million of debt associated with the acquired companies. It was a friendly acquisition and added approximately 1,000 employees to the employee rolls of the organization.

The acquisition was made, in the words of then CEO Pat Brennan, to "...expand our capability to meet customer demand for coated groundwood papers and broaden our grade line to include supercalendered papers." Further, the organization acquired the ability to produce high-quality recycled fiber from postconsumer wastepaper, a facet of the industry that was developing at the time.

It was the company's first major acquisition in 40 years and was a part of the company's long standing commitment to make a significant financial investment - millions of dollars - in current operations, to "...ensure that we keep pace with marketplace demand for our paper products." The same week when the acquisition was announced, the company broke ground for a \$166 million coated specialty paper machine at its Stevens Point Division which was to start up two years later.

The Niagara operation is another mill with a long and venerable history. It was founded in 1889, has three paper machines and the capability to produce 240,000 tons of paper per year.

Lake Superior manufactures supercalendered paper and produces 240,000 tons per year, but was a much younger operation. It came into existence in 1987. It was, and is, a company that was developed around a nonunion, team-based, continuous improvement model that was continued in the operation after Consolidated acquired it.

Acquired at the same time, Superior Recycled Fiber Industries is located immediately adjacent to the Lake Superior Paper Industries mill in Duluth. It produces more than 90,000 tons a year of high-quality pulp from post consumer wastepaper. They too work in a nonunion, team-based system.

In 1997, Consolidated acquired Repap USA, Inc., the wholly owned subsidiary of Repap Enterprises, Inc. Located in Kimberly, Wisconsin, roughly 90 miles from Consolidated's home offices, the company manufactures coated papers used for brochures, advertising inserts, annual reports, catalogs and magazines. Consolidated renamed the facility Inter Lake Papers, Inc., a Company of Consolidated Papers, Inc. That facility included approximately 1,000 employees with the capacity to produce over 500,000 tons of coated paper annually.

Thus, in a few short years, Consolidated has more than doubled its workforce, expanded into three different locations outside of central Wisconsin, and increased its capability to compete in what has become a very globally competitive industry. In 1996 the coated paper industry in the United States increased shipments 15%. Consolidated's increased 20%. In 1996 our market share of the more profitable No. 1 grades was under 24%. By the end of 1997 it was over 30%. Our market share of all printing grades Nos. 1-5 and supercalendered jumped from 15% to over 20% with the Inter Lake Papers acquisition, placing Consolidated in the position of being the No. 1 producer of coated printing papers in North America.

Responsibility

In all of this it should be understood that for Consolidated, safeguarding the environment is a top priority. It is a responsibility that is taken very seriously. We are committed to conserve and protect our water, air and land resources and to prevent pollution at its source. Consolidated has a strong environmental policy that has been in place since 1967. It is reviewed and modified annually as appropriate. It is a policy that guides us to our ultimate objective of having operating facilities that have a minimum impact on our environment.

In the last 20 years, air emissions have been dramatically reduced, along with water releases, odor and noise generated by our operations. Whenever possible, our environmental performance goes beyond compliance levels. Our comprehensive recycling efforts enable us to reduce our energy consumption and conserve landfill space. We generate more than 40% of our energy by recycling byproducts of the manufacturing process. In addition, biosolids from our wastewater treatment plants are used to enhance agricultural soil instead of filling landfills. A companywide recycling program further reduces our landfill use. Each year Consolidated invests about \$30 million in environmental equipment, technology and operating costs.

This outstanding environmental performance is made possible through comprehensive internal environmental audits, which enable the organization to meet and exceed the strictest standards and regulations. Consolidated has been recognized for its leadership in this area by the Wisconsin Department of Natural Resources, the U.S. Environmental Protection Agency, the American Forest & Paper Association, and the Wisconsin Environmental Working Group.

Recognizing that our nation's forests are important to wildlife, recreationalists and industry, Consolidated is dedicated to sustaining healthy and abundant woodlands. Consolidated forestry professionals effectively manage company-owned forestland to provide for timber products and to protect wildlife habitats. Proven reforestation practices enable Consolidated to renew harvested forestlands for the use and enjoyment of future generations.

It is a management program that has been in existence since 1930. Since then we have planted more than 75 million trees and caused the regeneration of thousands of acres of forestland. Consolidated actively supports a variety of programs to improve awareness and respect for our nation's forestlands, such as the Sustainable Forestry Initiative™, Wisconsin's Green Guarantee and Best Management Practices for water quality.

All of this describes a company that has a proud tradition, a company that has enjoyed profitability, a company that has done right by its people.

Recognition

Those characteristics of success were recently recognized by the Paper Industry Management Association (PIMA) when they named Consolidated as its 1998 "Company of the Year." Consolidated was recognized "...as a company that produced high quality product at a competitive price; as a company that ranked consistently among the nation's most profitable paper companies; as a company that implements an environmental policy second to none; as a company that was an industry leader in managing human and natural resources; and as a company that invests in leading-edge technology."

Change

While we are proud of our traditions and we take pride in recognition, we recognize that the world is changing.

The American paper industry, like all industries, faces many challenges - environmental issues, profitability issues, competitive issues and financial issues. There is the whole array of employment issues and concerns related to total quality, community relationships and image. The industry, and Consolidated along with it, ends up with a very full plate.

Papermaking is a craft that goes back over 2000 years to the Middle Kingdom of China. It is fair to predict however, that the paper industry will see more change in the next 100 years than in all the years preceding this. Paper industry leaders have identified several areas where this change will take place.

For the first time in its history global competition and global financial conditions are a reality that must be faced. Earlier this year, "Buck" Evans the CEO of Consolidated, in speaking to our annual shareholders meeting pointed out, "we are in a price war - not caused by domestic overcapacity or reduced demand, but driven by foreign producers who covet our market."

At a recent labor management meeting Evans pointed out the reality that with decreased demand in their own country as a result of economic upheaval, paper producers in Korea, Indonesia, Brazil, and a variety of others, dying to do business in the United States, ship their paper here without paying the tariffs one will find in other countries. Once here, those producers can get low-cost warehousing, excellent transportation (both truck and rail), paper distributors eager to sell their product, printers eager to buy the product, and advertisers delighted that the cost of advertising is going down. To Consolidated that means that we must leverage our strengths and streamline the way that we do business.

Evans went on to comment, "...this global competition means that as a stockholder in an American mill you can expect your investment to shrink. As a worker in a mill you might expect fewer hours of employment as incremental downtime is taken in recent months at

International Paper, Georgia-Pacific, Union Camp and Consolidated Papers to name a few.”

To address these issues at Consolidated we are seeking ways to become more cost effective. Our No. 61 machine at the Wisconsin River Division in Whiting was placed on stand-by status. This will allow machines at Niagara and Inter Lake Papers, that are more efficient, to run more tons and take less downtime.

Consolidated is working hard to reduce the cost of redundancy. We have one of the world’s largest converting plants in Wisconsin Rapids. What is the point of having another in Kimberly? Thus, the sheeting operation has been shifted from Inter Lake Papers to Wisconsin Rapids.

The company is placing a focus on product sales and customer needs. Recently, one of our sheet grade products got a complete makeover. It was upgraded and changed to compete with foreign grades that are offered by some of our global competitors.

We are becoming a more aggressive sales organization by putting more sales people and printing technicians out in the field. We believe we already have some of the best customer support in the industry. We believe we can defend our marketplace and meet customer needs at the same time.

Recently, selling prices were reduced in an effort to defend our market share.

Finally, we are changing the way we do business. We are taking advantage of our corporate size by aggressively pursuing volume discounts. We are reducing our stores inventory, and looking at every facet of our business seeking opportunities for cost savings.

And all of this is being done while we continue to invest in our company, seek to be good stewards of the environment, provide for the safety of our employees, and improve communications both internally and externally.

There is a sense of urgency now that hasn’t always been there as we travel down the paper trail. There is recognition that life in our industry is changing and that we are changing with it. Nowhere was this more obvious than in Buck Evans’ comments to last year’s shareholders meeting. He said it best when he commented, “...when the pace of change is greater outside the organization than inside, the end of the organization is near.” This reality helps the people of Consolidated to focus on building a stronger company for the 21st century. And in that 21st century we will continue to dedicate ourselves through the words in our mission statement to the production of quality products, satisfaction of customer needs, providing secure employment and increasing shareholder value.

Consolidated is an organization that recognizes where it must go. It is establishing a pathway - a trail - to get there. It is an organization that is up to the challenge.

Mission

As specialists in coated papers, we continuously improve and reinvest to responsibly produce quality products, satisfy customer needs, provide secure employment and increase company value.

Vision

Build for the 21st century through continuous improvement and growth.

More information is available about Consolidated Papers by contacting their web site at:
<http://www.consolidatedpapers.com>.