

Speaking notes for Mr. Alain Lemaire  
President and Chief Executive Officer  
Cascades Inc.

To address the Board of Trade of Metropolitan Montreal

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Distinguished head table guests,  
Ladies and gentlemen,

I'm very pleased to be here with you today. Actually, these days, forums like this that speak positively about the pulp and paper industry are quite rare.

But don't worry. My presentation is not a detailed description of the many problems we have to deal with, because I don't want—in any way—to spoil your appetite!

However, I do want to take the opportunity this forum presents to talk to you about the challenges we face. Three years ago, the industry enjoyed favourable trade conditions, with a Canadian dollar at  $\pm$  65 cents and oil prices below 30 dollars US a barrel. Alas, times have changed. Many factors have changed, causing our profits to almost completely disappear, and forcing us to close plants and lay off employees.

And for a company like Cascades, whose reputation is synonymous with acquisitions and job creation, it's a complete turnaround of events.

Today, we face a new set of issues that have a highly negative impact on us: a dollar above 85 cents; the price of oil that's close to 70 dollars US—which means higher operating costs; high, non-competitive labour costs, the highest-priced woody materials in the world, a decreasing demand for most of our products, uncontrollable competition from emerging countries, and ongoing legal wrangling with the US administration over timber. In brief, nothing but “good news”. The fact is that the pulp and paper industry, which represents a significant portion of our national economy, is going through the worst crisis it's ever experienced—and this crisis is not cyclical but, rather, structural in nature!

So, it's critical that we act fast to correct those elements we control, consolidate the industry, regain the balance between supply and demand, and try to once again report an acceptable bottom line.

That's why I agreed to co-chair—with Mr. Claude Béchar, Québec Minister of Economic Development, Innovation and

Export Trade—the advisory group on the economic future of the forest industry, which includes all of the major leaders in our industry in Québec. We hope that together, we'll be able to find solutions to improve our competitiveness on the world level.

But in spite of this rather dark picture, my purpose here is to talk to you about a subject that is—should I say—“easier to swallow:” sustainable development!

What started as a very small family recycling business in the early 60s, today, Cascades is a multinational firm with close to 15,000 active employees in over one hundred plants on three continents, and sales of 3.5 billion dollars.

Cascades is also:

- ❖ The leading Canadian manufacturer of recycled boxboard (cereal boxes)
- ❖ The leading containerboard manufacturer in Canada and the seventh in America, through our association with Domtar in Norampac (corrugated packaging)

❖ The fourth largest producer of tissue paper in North America (bathroom tissue)...

and, of course, the largest waste paper recycling firm in Canada!

We were able to grow using YOUR waste as our raw material. Before Cascades, my brothers, Bernard and Laurent, along with my father, started a recycling company—*Drummond Pulp and Fiber*.

At the time, sustainable development wasn't one of our concerns. In fact, the term didn't even exist. We collected and recycled household waste for one vital reason: to earn a living.

Besides that, our dad thought it was shameful to send paper, metal, cardboard, glass and old rags to landfills when some companies were in need of it. It was just common sense, exactly like having to earn a living. (An interesting fact I'd like to mention: our family home was built during the war, almost entirely of recycled material.)

Although today recycling is seen in a positive light, and is even the object of a conference before the Montreal Board of Trade, in 1960, we were sometimes a bit ashamed of it.

Picking up garbage ourselves and going to the dump to gather our raw material was in no way distinguished, and gave us no sense of self-worth.

Needless to say that as far as my brothers and I are concerned, sustainable development is not a trend, a sales pitch or a concept developed by the industry to clear its conscience! It's a part of our family values, our ways of doing things, and our philosophy—and it's based on respect.

So what do we mean by sustainable development?

If you don't already have a definition in mind, here's one among many, a definition quoted from the Québec Ministry of Environment, inspired by the Bruntland Report:

“Sustainable development is a continuous process to improve living conditions and meet the needs of the present, without compromising the ability of future generations to meet their own needs, and which is based on the harmonious integration of the environmental, social and economic aspects of development.”

But we must ask ourselves: Besides the environmental benefits, what are the advantages of supporting sustainable development?

Insofar as business is concerned, what are the associated benefits? We believe there are many.

**1- For employees, for example,** it's an increasingly recognized issue that attracts and retains them. Working for an employer that shares these kinds of values gives them a sense of pride and increases their motivation.

(The *Bureau de la statistique* reveals that Canadians' greatest concern is the environment.)

**2- For communities,** needless to say that a corporate citizen concerned about sustainable development and community well-being will get better co-operation from society... and what's more natural than giving back to the places where we work?

**3- For financial partners and shareholders,** we believe they look favourably on companies that advocate this type of principle.

Similarly, socially responsible coalitions and investor groups also note whether or not these fundamental values are respected by companies before deciding to invest or encouraging mutual fund managers to invest.

Since I practice more than I preach, and so you can get a better understanding of what I mean, I'd like to go over a few concrete actions that affect the three areas of sustainable development at Cascades. They are: the environment, society and the economy.

Our actions stem from our environmental mission, which defines clear objectives, but mostly priorities.

1. Making maximum use of recyclable raw material
2. Reducing water consumption and greenhouse gas emissions
3. Converting waste
4. Optimizing energy consumption

Give credit where credit is due. Using recycled fibre, preferably bare fibre, optimizes the use of available resources and limits pressure on ecosystems.

By using more than 2.5 million tonnes of urban waste each year, Cascades saves 30 million trees annually—the equivalent of 30,000 hectares of forest or twice the size of the Island of Montreal.

And with your participation, we can do even more. In fact, Montreal is a “seed bed” with much potential since it enables us to offer all members of the community the opportunity to redevelop waste paper and cardboard and in turn supply tissue products, packaging boxes or printing paper with high recycled content that comes, to a great extent, from your waste products. This creates a logical and ecological cycle. As my father and a fellow named Lavoisier would say: Nothing is lost, nothing is created, everything is transformed!

In fact, it's thanks to these 100% recycled products that Cascades has obtained various recognized certifications such as Eco-Logo and FSC-Recycled, and that its products come highly recommended in the Greenpeace Shopper's Guide.

As regards water, optimizing consumption starts by reusing manufacturing process effluents in-house. In our plants, each litre of water is “recirculated” up to 40 times before being transferred to primary and secondary treatment stations, and returned to the effluent (often more purified than when it came in).

Too bad we can't say the same for how we use it at home, isn't it?

For example, to produce one tonne of paper, the Canadian industry uses an average of 65 cubic metres of water. At Cascades, we use less than 18 cubic metres of water per tonne produced. That's three times less! And in half of our plants, we're able to produce the same quantity of paper with less than 10 cubic metres of water. What's more, some don't even have any effluent discharge!

Water is not the only resource we reuse. Nearly two thirds of the waste generated by processing recycled paper and cardboard was

Since it's always best to teach by example, in 2002, we began an ambitious Multi-Material Waste Collection Program that allows us to recover 16 different categories of

hazardous waste, such as batteries, fluorescent bulbs, computer equipment, solvents, metals and used oil, just to name a few, all of which are recycled or eliminated without any danger to the environment. (The only waste left is from the cafeteria!) By the way, just as you all did this morning, I heard about the Québec government's intention to have the packaging industry pay to have its products recycled.

Two caveats immediately come to mind. First, consumers will end up paying the bill. The government should perhaps set the example and establish recycling programs within the different government bodies. In many departments and ministries, these programs are conspicuous by their absence.

As for our energy consumption, in 1989 at Kingsey Falls, Cascades inaugurated the first integrated natural gas cogeneration plant in Canada, for a production of 30 MW.

Boralex, a company we own 43% of, inaugurated the largest wind farm in France last October. At the same time, it became the Hexagon's largest wind energy producer, with nearly 20% of the market.

We are confident that our partnership with the Séminaire du Québec and Gaz Métro will enable us to win the Charest government's call for tenders and put the wind power expertise of Boralex to use in Québec.

In this same field, Cascades Fine Papers Group in Saint-Jérôme now meets most of its thermal energy needs using biogas generated by the decomposing residues of a nearby landfill.

This first in the pulp and paper industry called for investments of over \$10 million. This project alone will reduce the level of CO<sub>2</sub> in the atmosphere by 70,000 metric tonnes annually.

In fact, in 2005, owing to these examples and an exemplary energy-efficient management style, Cascades was honoured by the Canadian government, as part of the Canadian Industry Program for Energy Conservation, for its energy efficiency awareness and training program.

We also set up a group dedicated to reducing our energy consumption. The result: Twelve people have been working on this for the last three years, and we've reduced our consumption by +6%, for savings of close to 20 million

dollars. Our medium-term objective is to cut back another 7%.

As you know, Montreal recently hosted an international summit on climate changes. The scope of this United Nations meeting shows how important it is that we pay attention to this phenomenon. And Cascades is doing its part.

By promoting employee awareness on a daily basis, through stringent internal policies, significant investments and a wide range of projects, we're hoping to attain our ambitious objective of reducing our CO<sub>2</sub> emissions by 13%. As we hear so often these days, if this trend keeps up, we should reach our objectives under the Kyoto Protocol by 2007. (credit exchange)

Large projects yield high economic performances, but smaller projects are important as well.

For example, in 2004, we established a policy limiting the fuel consumption for our fleet of vehicles to 10 litres per 100 kilometres. In early 2006, this objective was reduced to 9 litres, which represents savings of some 100,000 dollars, and tonnes of CO<sub>2</sub> less in the atmosphere.

This program will even be reinforced in the future, as we'll be adding hybrid vehicles, turbo diesel vehicles, etc.

I could continue talking about our environmental initiatives until the next BTMM conference! But sustainable development isn't just about energy and the environment, there's also a human side.

In our social report, which has been an integral part of our annual report for almost 20 years now, we look at two main aspects of sustainable development:

- employee relations
- relationships with communities and society in general

In a nutshell, we simply want to reach a balance between being a model employer, a highly performing manager and a good corporate citizen.

Let me tell you about some of the important factors that set us apart, as well as some of the measures taken by Cascades to contribute to the well-being of its employees and the communities it's involved in.

For the third consecutive year, Cascades is on the list of the top 100 employers in Canada, according to Macleans

magazine, and ranks in the first 50 among the 150 most admired companies in Quebec. Why?

Among other things, because we're concerned about the well-being of our employees, both at work and outside work. We believe that a friendly management style that favours communication regardless of hierarchical level motivates staff more than a more conservative, traditional style of management. In everyday life, communication, honesty and respect translate into a true open-door policy where promotions are granted internally and where there is room for error.

This management style goes beyond the possibility for an employee to enter a manager's office and offer his or her point of view; it bears witness to the importance we give to listening, consultation, discussion and transparency.

Furthermore, profit sharing with all our employees is a formula we've believed in from the very beginning.

In 2002, during a record year, as part of our global wage policy, Cascades granted 50 million dollars to its employees, in profit sharing only.

But motivation is not just a question of financial recognition! What our employees appreciate more than anything else is the sharing of information. That's why we inform them, one department at a time, of the monthly financial results, which reflect the efforts made and give an idea of the challenges to come.

Cascades participates actively in the well-being of its neighbouring communities because the quality of life of its staff depends not only on healthy working conditions, but also on a community environment that's good to live in.

In 2005, in spite of unfavourable economic conditions, we still paid out close to 4 million dollars to some 400 organizations in Canada, the United States and Europe.

In Montreal, where we're known mostly for recycling waste paper and cardboard instead of being a producer, our financial commitment benefits the major university, hospital, museum and sports foundations. Our partnership with ProCURE Alliance (whose leaflets are right on your table) shows this commitment.

We've also formed a partnership with the STM and the Métro newspaper to put recycling bins in the subway stations! It

doesn't seem like a big deal, but it helps us recycle 400 tonnes of waste paper per year, in addition to improving the cleanliness of Montreal's subway. In keeping with this thought, we support the strategy of Mayor Tremblay who wants Montreal to set the example in terms of recycling, cleanliness and embellishment.

You all know that without the economic aspect, I wouldn't be here today to speak about sustainable development.

We have to be deeply convinced about the associated medium- and long-term benefits to invest in economic and social measures. We're certainly not doing this because of our current profitability, and it's not what justifies us in pursuing our commitment to sustainable development! Make no mistake: we produce the paper money is made of, but we don't print it! Well, not for now anyway!

All kidding aside, our dividend yield shows this strategy seems to be working.

Unfortunately, in 2005, it was a negative 25%. I'm disappointed in myself. But when I compare myself to others, I don't feel as bad because, on average, the industry's stock value decreased by 40% to 80% over the same period! And

since we began announcing our rationalization plan, our share value has increased by 40%.

Excluding companies selling construction materials, over the last five fiscal years, we've recorded one of the best average rates of return on capital employed in the entire North American industry.

For this same period, our cumulative cash flow from operations totalled more than 1 billion dollars.

This, among other things, helped us to continue acquiring companies and investing in capital assets in order to remain proactive, and perhaps even a leader as regards sustainable development. And let me assure you that it doesn't end there.

We don't ignore our shareholders, either. They've seen their dividends increase on two occasions over the last five years: first by 9% in 2001, and then by 33% in 2003. At Cascades, we firmly believe in the following principle: One share, one vote!

I'd like to finish by saying that it would've been difficult to talk about sustainable development without mentioning the thousands of projects we've carried out with that principle in mind. We're entrepreneurs and we're people of action, and I wanted to showcase the real steps we've taken in this direction to appeal to you on a personal level and demonstrate that all companies can make advances in sustainable development without mortgaging their bottom line. I also wanted to show you how Cascades can help improve your environmental performance by offering not only products that are environmentally friendly, but manufacturing processes that are too. Example: Wal-Mart)

I'll leave you with this quotation from one of our proud partners, Corinne Gendron, holder of the Sustainable Development Chair at UQAM: This is something to think about:

“To become more than just a slogan, sustainable development must be understood as a hierarchical assortment of economic, environmental and social factors where social development is the objective, economy is a means, and environmental integrity is a condition (...).”

Let me add one last thing. For a manufacturer, sustainable development is also a strong cohesive instrument that's an integral part of every issue because it gives meaning to what we do. Making paper, day after day, might seem to get boring. But making paper in a way that respects both people and the environment—that's value added.

Thank you all for your time.