

Focused on customer solutions

In 2002, Caraustar focused on four key areas to maintain its leadership position within the recycled paperboard industry by: 1) continuing to develop innovative customer solutions, 2) increasing operating efficiencies and reducing manufacturing costs, 3) cost-effectively sourcing raw materials in a volatile fiber market and 4) making strategic use of its financial resources.

The 2002 annual report highlights Caraustar's achievements in these areas and reflects its positioning for a return to more favorable industrial market conditions. This is reinforced by the results of the company's investment in a variety of new products, processes and expansion strategies.

Focusing on the Customer

As one of the largest and most cost-effective manufacturers and converters of recycled paperboard and packaging products in the U.S., Caraustar maintains a mill system capable of producing a broad range of recycled paperboard grades to meet the specialized needs of a wide variety of customer applications. The company's converting operations participate in most segments of recycled paperboard and packaging converting. This combination of extensive paperboard manufacturing and diverse converting capabilities enhanced Caraustar's performance in the delivery of innovative customer solutions in 2002.

By identifying and meeting customer needs, Caraustar furthered the development of several innovative solutions, which allowed the company to move forward in maximizing its utilization of capabilities. Many of these solutions, which represent new products that are positioned in growth markets, were developed using Fourdrinier paperboard forming technology.

Some of these products include InverFreez[®], a recycled alternative for virgin substrates used in frozen and refrigerated food packaging; InverTop[®], a recycled, lightweight kraft top sheet used in high-graphic, mini-flute packaging for bulk-packaged products; and recycled, lightweight gypsum facing paper used in the production of gypsum wallboard.

InverFreez[®] serves as the packaging for products such as frozen pizza, frozen entrees, ice cream novelties and frozen bakery products and desserts.



Capitalizing on the Fourdrinier Process

Known for its rich history of providing high quality paperboard products and developing paperboard solutions for unique packaging applications, the Sprague mill in Versailles, CT maintains one of only four Fourdrinier machines in North America that produces coated recycled board (CRB).

The technology of the Fourdrinier papermaking process, combined with the machine's uniform drying capabilities and Sprague's use of a high-strength homogenous substrate, results in a recycled sheet that is more uniform and possesses the characteristics that maintain its shape and integrity in changing environments.



InverFreez utilizes Sprague's unique capabilities and effectively protects products during the refrigeration and freeze/thaw cycles typically encountered in the frozen food section of the retail

environment. This product protection is unusual for normal recycled paperboard grades and usually requires the customer to use a more expensive virgin material in their frozen food packaging applications.

InverTop® is providing superior solutions for customers who require strong, lightweight mini-flute materials for bulk-packaged products.

Using the Fourdrinier process, the Sprague mill also developed InverTop, a lightweight 100 percent recycled kraft top sheet that allows for extensive graphics on fluted packaging. This corrugated top sheet is ideal for bulk and club store packaged

products such as snack foods, beverage pouches and sporting goods. This lightweight sheet is also excellent when used as a stand-alone paperboard product for overnight mailer envelopes.



One Name Says it All

Reinforcing image and demonstrating a commitment

Caraustar's participation as an exhibitor at Pack Expo 2002, the largest packaging industry tradeshow in the U.S., reinforced its image and commitment as a one-source supplier of paperboard and packaging solutions for its customers.

All four operating business groups were represented at Caraustar's exhibition at Pack Expo, which was hosted by key managers and senior management. More than 1,500 exhibitors and 40,000 attendees were at the 2002 show. Over 750 professionals visited the company's custom-designed booth and more than 500 of these visitors requested follow-up information from one or more of Caraustar's four operating business groups.



Infinite Possibilities

In 2002, Caraustar's holiday gift can was distributed to approximately 10,000 customers, suppliers and industry analysts. It contained a set of four star-shaped coasters, a three-dimensional desktop calendar and a 100-piece jigsaw puzzle. The can also was sealed using a printed lid and was packaged in a corrugated mailer.

Caraustar designed its "Infinite Possibilities" marketing theme and produced the holiday gift can and its contents as a promotional vehicle to demonstrate the versatile capabilities and manufacturing diversity of 13 of its facilities.



Conceptual Design, Graphic Design and Prepress

Cleveland Digital Imaging Services

Composite Can Paperboard

Cincinnati Paperboard

Composite Can Manufacturing

Stevens Point Composite Container Plant

Puzzle Paperboard

Carotell Paperboard

Puzzle Manufacturing

Carolina Converting

Calendar Paperboard

Rittman Paperboard

Calendar and Coaster Cutting Dies

Grand Rapids Laser Die

Calendar Printing and Manufacturing

Versailles Carton Plant

Coaster Corrugated Top Sheet

Sprague Paperboard

Coaster Printing and Manufacturing

Mentor Carton Plant

Coaster UV Coating

Ashland Carton Plant

Corrugated Mailer Printing and Manufacturing

Hunt Valley Container and Carton Plant

Project Contract Packaging and Fulfillment

Palmer Contract Packaging Plant

Both InverFreez and InverTop provide the customer with cost-effective alternatives to virgin board and each has allowed Caraustar to enter into and effectively compete in two markets dominated by virgin paperboard.

Savings with Fourdrinier Technology

Premier Boxboard Limited (PBL), Caraustar's joint venture with Inland Paperboard, also utilizes the Fourdrinier process to manufacture a strong, lightweight, three-ply gypsum facing paper for the wallboard industry.

PBL, with a capacity exceeding 280 thousand tons per year, is the largest of four mills in the U.S. capable of producing gypsum facing paper using the Fourdrinier technology. Used in the production of gypsum wallboard paper for residential and commercial construction, PBL's lightweight paper provides wallboard manufacturers with significant

The Recycled Paperboard Challenge

Achieving growth in a commodity market troubled by an unstable economy

Caraustar's Mill Strategy

Providing customers with new uses and applications for recycled paperboard

Opportunity

Entering virgin substrate markets with innovative recycled product solutions, such as InverFreez and InverTop

Results

Sprague's business grew by 25 percent in 2002, with InverFreez and InverTop accounting for two-thirds of this growth

savings in energy, freight and improved production efficiency.

PBL's production of lightweight gypsum facing paper is allowing Caraustar to expand its share in the gypsum wallboard paper market. PBL increased its gypsum facing paper production by 44 percent in 2002 and is expected to double its facings production in 2003.

Exceeding Customer Expectations

Caraustar creates defensible market niches for many of its packaging

products by focusing on consumer use. The complete process of concept to finished package promotes customer confidence that Caraustar can be the single source for packaging solutions, including folding cartons; tubes, cores and composite cans; edge protectors and contract packaging. By analyzing

consumer markets and new product trends, Caraustar developed several new packaging solutions for current and new customers. These solutions included new material applications, structural designs, graphics services and functional paperboard inks and coatings. This consumer-driven approach to process and product development is aimed at creating customer value and differentiating Caraustar in the marketplace.

Enhancing this strategy was the development of the Packaging Services Operations division during 2002. This new division, with facilities that provide design, prototyping, prepress, laser die tooling and engineering services, supports the direct needs of customers and all of Caraustar's converting operations, some of which had previously been provided by third-party suppliers.

Marketing the Total Company and Serving the Total Customer

Caraustar's focused and centralized marketing approach for its diversified manufacturing operations promotes the capabilities of the entire company and is designed to serve the complete needs of the customer.

Caraustar has proactively marketed the integrated capabilities of all four operating business groups to its customers and is gaining greater recognition as a full-service organization that offers a wide range of packaging solutions and a broad array of services.

Because Caraustar's new product development process includes extensive functional testing at its mills, the company is able to present to the customer new products that are already tested and proven. In addition, Caraustar's design capabilities provide graphic prototyping for new product development and consumer market testing. Both factors shorten the cycle to market for customers' new product introductions.

By continuing with a proactive approach to its customers' packaging challenges and capitalizing on opportunities, Caraustar expects to bring more new and improved products to the marketplace while strengthening relationships with its customers as a result of the added service capabilities.

2002 Gold Award Winners

The National Paperboard Packaging Competition, sponsored by the

Paperboard Packaging Council (PPC), selects

the best in paperboard

packaging design and

production each year. An

independent panel of judges

reviews hundreds of entries to honor the few that best exemplify merit and achievement in packaging.



This year, Caraustar received **four Gold Awards** for packaging created for Carnation

(Nestle), Gerber, Hershey's and Pepperidge Farm.

Caraustar also received 11 Excellence Awards for

Accord Publishing, Aurora Foods, Bath & Body

Works, Eveready, Gerber, Hershey's, Kong Co.,

Lamaur Inc., Nestle, Spectrum (United Industries)

and Studio Montage.

