

The Mead Corporation

MEAD

Strategies point the way... people deliver results

2000 Annual Report

mead

a forest products company with
\$4.4 billion in annual sales.

| Summary Data:

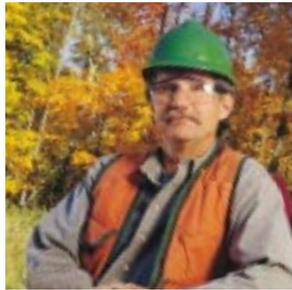
The Mead Corporation and Consolidated Subsidiaries

(all dollar amounts in millions, except per share amounts)	2000	1999
Operations		
Net sales	\$4,368.1	\$3,996.1
Net earnings	161.2	208.1
Per common share — assuming dilution		
Earnings from continuing operations, excluding special items	1.66	1.58
Net earnings	1.58	1.99
Cash dividends paid per common share	.68	.65
Shareowners' equity per common share	24.25	23.70
Selected Financial Data		
Return on average total capital —		
Net earnings*	6.3%	7.4%
Return on average equity —		
Net earnings	6.7%	8.9%
Capital expenditures	\$ 205.9	\$ 212.9
Depreciation, timber depletion and amortization of other assets	336.9	307.4
Working capital	269.0	229.7
Long-term debt	1,322.8	1,333.7
Shareowners' equity	2,397.8	2,430.8
Total assets	5,680.0	5,661.7
Other Information		
Number of employees at year-end (in thousands)	15.1	16.3
Number of registered shareowners at year-end (in thousands)	12.7	13.3
Common shares outstanding (in millions)	98.9	102.6

*Calculated by dividing earnings plus interest expense, net of taxes, by shareowners' equity plus long-term debt.



We have great **people** at Mead. Their **ideas** create success.



| Dear Shareowners:

For Mead, 2000 was a year of contrasts. Through the third quarter we enjoyed favorable results, compared to 1999. In the fourth quarter, sales and earnings declined significantly as the economy cooled, energy prices jumped and the fluctuation of foreign currency continued to impact our businesses. The weak year-end results somewhat dampened our satisfaction with what we accomplished in 2000. However, when we focus our attention on controllable factors, we can define a solid record of achievement.

Overall, results were favorable for 2000 — even with the year-end slowdown. We achieved a 9% sales increase, with approximately \$4.4 billion in 2000 versus \$4 billion in 1999. The acquisition of AT-A-GLANCE and improved prices for coated paper and corrugating medium resulted in higher sales for 2000. Excluding the impact of special items, earnings per share were \$1.66, up 5% from \$1.58 the previous year. Net earnings per share were \$1.58 in 2000 versus \$1.99 in 1999. The sale of Mead's interest in Northwood, Inc. in 1999 led to net earnings that year being higher than in 2000.

Other accomplishments in the past year involved each element of our strategy. Mead people did a great job on a wide variety of projects and initiatives.

To gain greater value from the company's resources, we continued successful implementation of Mead's new enterprise resource planning system. With improved technology and streamlined processes, we expect to achieve meaningful cost reductions, enhanced operating efficiencies and improved customer service. We have installed the infrastructure and are now building the systems structure to enable Mead's continued top-tier performance in the e-business arena. A worldwide study conducted by The Gartner Group indicates that we are leaders in providing a low-cost e-systems platform, with very high levels of user satisfaction. In addition, we joined the newly founded ForestExpress, a global business-to-business electronic marketplace that connects customers and suppliers in the forest products industry network.

By applying a world-class performance ethic, we've continued to add new tools, like Six Sigma, to our productivity tool kit. Since 1991 our productivity has improved by about 23%, with a 1.9% improvement in 2000.

To continue streamlining and strengthening our operations, we closed the Containerboard converting facility in Atlanta, Georgia, and consolidated the Consumer & Office Products facility in Kalamazoo, Michigan, with overlapping production and customer distribution centers in Missouri and Pennsylvania. We also have consolidated some of our carbonless copy paper production and acquired the carbonless coating operations of a major forms manufacturer, further strengthening our position in this important market.



To create value for our shareowners, we continued our program of buying back shares with approximately 4.1 million shares repurchased in 2000. Since 1994, we have reduced our outstanding shares by 18%, ending the year 2000 at 98.9 million shares. We have also rewarded shareowners through consistently increasing our dividend. Over the long term, we have paid out more than one-third of our earnings in the form of dividends to shareowners. Our annual dividend has increased each year since 1994 on a post-split basis, rising from 50 cents per share to 68 cents in 2000.

To maintain financial strength and flexibility, we used cash flow from operations to reduce our debt in 2000 compared to 1999. As a result, we have maintained a solid financial position that rates among the very best in our industry. Therefore, we remain financially positioned to respond to profitable growth opportunities in our four strategic areas of coated paper, specialty paper, packaging and paperboard, and consumer and office products.

Outlook

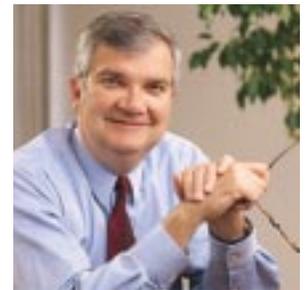
As we enter 2001, we expect the market conditions experienced at year-end to continue. With this outlook in mind, we began the year by strengthening our focus on the things we can control — productivity, customer satisfaction, capital spending, working capital and purchasing management. We have already taken several steps to cut expenses and challenged all employees to look for additional ways to reduce the company's discretionary spending. By applying our long-term strategy, we will succeed in dealing with the realities of the present economic situation without compromising our future. Our portfolio of businesses is focused and in good shape. We have an outstanding mix of value-added businesses that provide a base of earnings in periods of fluctuating business conditions:

- Specialty paper and carbonless paper
- Coated board and packaging systems
- Consumer and office products

We have core competencies, strong brand names and strong market positions in each of these businesses. Each of them offers opportunity for organic growth without the large capital investment required in more commodity-based, cyclical businesses.

In addition, we operate two world-class businesses that are more cyclical in nature — coated paper and containerboard. In coated paper, we manage three excellent mills with strong customer relationships, solid cost structures and world-class technological skill. Our containerboard business is founded on one of the world's lowest-cost corrugating medium production facilities.

Based on these strengths, we're confident about our future and our ability to deal with challenges; at the same time, we know that we cannot be complacent. It's a fast changing world. To remain competitive, we must be ready to adapt to changes in the marketplace. We have a sound strategy that points the way and, most importantly, a team of great people working toward common goals. I believe the Mead team will overcome our present challenges and deliver the type of results that deserve your continued support.



A handwritten signature in black ink that reads "Jerome F. Tatar". The signature is written in a cursive, flowing style.

Jerome F. Tatar
Chairman, President and
Chief Executive Officer

| **Mead Overview:** The Mead Corporation is one of the leading North American producers of coated paper, coated paperboard, and consumer and office products; a world leader in multiple packaging and specialty paper; and a producer of high-quality corrugating medium. In management of the company's more than two million acres of forests, Mead is committed to practicing principled forest stewardship and using resources in a responsible and sustainable manner.

| **Mead Vision:** To become recognized by the results we achieve for customers, shareowners and employees. To act in ways consistent with a set of shared values: honesty, integrity and candor; customer focus; individual participation; results driven; and a learning organization. To use a common set of tools to achieve results: total customer satisfaction, total productivity improvement and a commitment to high performance.

| **Mead Strategy:** To capture the most value we can from all our assets, we ensure that our performance ethic underlies everything we do. We constantly address productivity and customer satisfaction and are disciplined in our use of capital.

We will continue to reshape our portfolio of businesses to focus on our four strategic growth areas — coated paper, specialty paper, packaging and paperboard, and consumer and office products.

We plan to return value directly to shareowners through dividends and share repurchases while maintaining our financial strength and flexibility to support our growth plans.

| **Mead Web Site:** Please visit us at www.mead.com

“We’re proud of the progress that’s been made and recognize the need to continue to focus on a strategy that capitalizes on the strengths of The Mead Corporation.”

“We brainstormed a lot of very positive ideas and felt we shouldn’t just stop with our group, but find a way to solicit ideas from everyone in the mill.”

“We were in agreement that proper management of environmental and social issues is much more than retaining permission to operate. It is another opportunity to create value for our customers and, in the end, value for our employees and investors.”

“
True **success** begins and ends with **people.**”

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| Paper

Mead holds a leading position in paper production with 1.8 million tons of annual capacity. Four divisions make up this business segment.

Mead Paper is a leading producer of coated textbook papers in North America; a producer of coated papers for premium periodicals, glossy magazines, catalogs and commercial printing; and a producer of carbonless papers for business forms, and papeteries for greeting cards.

Mead Specialty Paper manufactures saturating papers for decorative laminates used in applications such as flooring, furniture and countertops; and produces friction papers for automotive transmissions, filter papers for combustion engines, vacuum dust bags, tape base and many other technical papers.

Gilbert Paper produces high-quality communication papers, including stationery, text and cover papers and specialty papers; and is a leading manufacturer of watermarked cotton-content stationery.

Mead Pulp Sales acts as an international sales agent for market pulp produced by Mead divisions and for other pulp producers, and it supplies Mead's need for purchased pulp.

Mead 2000 Paper Sales

\$1,926.5 million

Paper Segment

(all dollar amounts in millions)	2000	1999
Sales	\$1,926.5	\$1,882.7
Earnings before income taxes and special items	181.9	165.0
Special items	—	(17.4)
Earnings before income taxes	\$ 181.9	\$ 147.6

Upgrading to world-class standards

Mead Paper's Michigan Operations boosted productivity on its E-4 coating machine with new on-line technology called OptiCoat Jet. With the new equipment, we have achieved a decrease in web breaks, reduced coating losses to sewers and coating streak marks on paper, and improved coater runnability. Coated paper from E-4 is used in college textbooks and high-quality catalogs.

LEFT TO RIGHT:
 PAUL DEHAAN, SUPERINTENDENT
 BILL DRAZE, TECHNICAL ASSISTANT
 MARC SUNDQUIST, COATER OPERATOR
 BRUCE COLLINS, ASSISTANT COATER OPERATOR

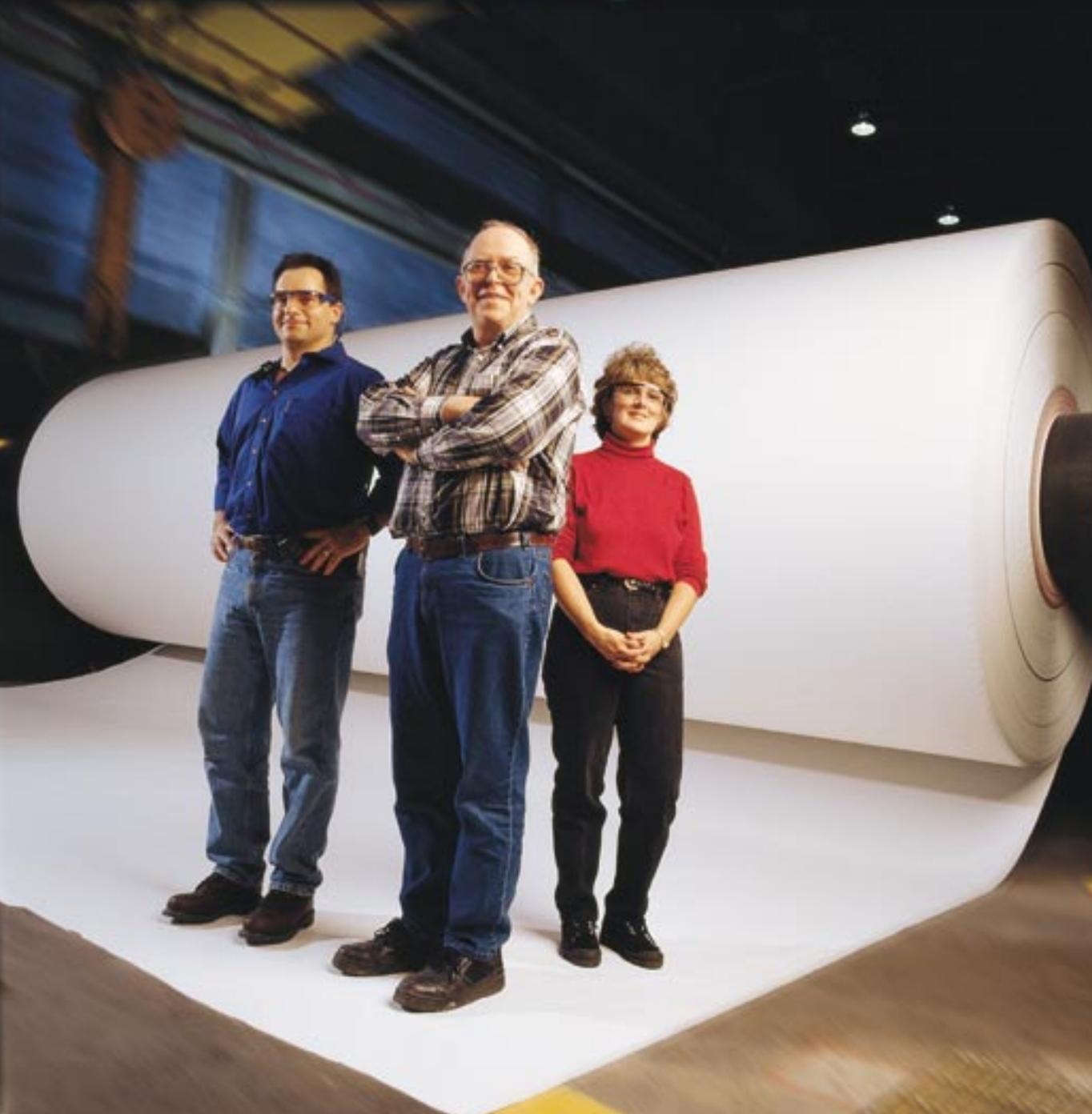




JOE LAWSON, MANAGER, FOREST SUSTAINABILITY,
MEAD CORPORATE WOODLANDS

Mead — distinguishing itself as an
industry leader in sustainable **forestry**

In 1999, Mead announced plans to voluntarily engage independent experts in a review of our forestry practices to ensure that they are in conformance with the American Forest and Paper Association's Sustainable Forestry Initiative (SFI)SM Standard. Mead Coated Board and Mead Paper have completed these third-party audits, and both were found to either meet or exceed SFI program standards. Early in 2001, we will complete this independent review of all company-owned timberlands.



LEFT TO RIGHT:
PETE CASTONGUAY, SHIFT SUPERVISOR R-15
DICK ST. CYR, PRODUCTION SCHEDULER
JOANNE PARENT, FINISHING OPERATOR
MEAD PAPER

Quality paper — on time

O, The Oprah Magazine, selected Mead's 45 lb. Dependoweb® brand as the coated paper stock of choice. The unprecedented success of the magazine created demand greater than expected, requiring the efforts of many people to accommodate its success. Mead's Maine Operations customer service, machine schedulers and production crews have met the challenge of providing increasingly higher volumes of paper on a timely basis throughout the year.

600 businesses selected a Mead Paper product

Each year hundreds of companies, graphic design firms and printers use Mead paper for annual reports. In the latest annual report season more than 600 businesses, including 20% of Fortune 500 corporations, selected a Mead Paper brand, and 200 companies used one or more grades of paper from Gilbert Paper (a Mead company).

LEFT TO RIGHT:

SHARON CHANDLER, NATIONAL SPECIFICATION SALES MANAGER, GILBERT PAPER

MONICA SORENSEN, WESTERN REGIONAL SPECIFICATION SALES MANAGER, MEAD PAPER



Most automotive transmissions
on the **road** today



When Mead started working with Borg Warner more than 40 years ago, we never dreamed of collectively developing a partnership at the strategic level. As their supplier of friction papers, we share information about quality, high performance raw materials, new product development and expenditures to deliver better products to the end user. We're proud of this strong relationship because Borg Warner is the world's largest supplier of automatic transmission friction plates to the automotive industry.

LEFT TO RIGHT:

DEWEY WYATT, PRODUCT

DEVELOPMENT ENGINEER

JIM SCOTT, TECHNICAL ACCOUNT MANAGER

LYNN WOOD, FRICTION QUALITY MANAGER

CHRIS MATHEWS, SUPERINTENDENT

MEAD SPECIALTY PAPER



WENDY L. PEPIN, INTERNAL CONSULTANT
BEHAVIOR-BASED SAFETY, MEAD PAPER

Training employees to recognize and reinforce **safe** behaviors

As a behavior-based safety consultant, Wendy Pepin trains Mead employees to recognize and reinforce safe behaviors and to change at-risk behaviors. She helps several Mead divisions integrate behavior-based safety with existing practices and leverages her time so others may reap the benefits of her knowledge.

| Packaging & Paperboard

Mead has the capacity to produce 1.8 million tons of paperboard annually. The company manufactures coated paperboard and corrugating medium and is a leader in the development of innovative containers and packages for a wide array of consumer products. Three divisions make up this business segment.

Mead Packaging is a leading worldwide supplier of multiple beverage packaging and innovative packaging systems.

Mead Coated Board manufactures coated unbleached kraft paperboard for use in multiple-packaging and folding cartons in North America and Europe as well as in Mead's worldwide beverage packaging business. It also produces dimensional lumber.

Mead Containerboard produces high-quality corrugating medium to create boxes, graphic packaging and displays. Its medium is also traded or sold to other container manufacturers.

Mead 2000 Packaging & Paperboard Sales

\$1,612.2 million

Packaging & Paperboard Segment

(all dollar amounts in millions)	2000	1999
Sales	\$1,612.2	\$1,582.5
Earnings before income taxes and special items	177.4	169.2
Special items	(3.4)	.8
Earnings before income taxes	\$ 174.0	\$ 170.0



LEFT TO RIGHT:
HAZEL LADNER, PAPER MACHINE TECHNICAL ASSISTANT
BOB SWINT, ENVIRONMENTAL SUPERVISOR
MEAD COATED BOARD

Preventing pollution before it is generated

Mead routinely evaluates methods to prevent pollution before it happens, improve resource effectiveness and produce less waste. A Mead Coated Board team has implemented measures to reduce fresh-water usage, decreasing fiber loss from an annual average of 78 tons per day to 59 tons, while sodium loss went from 23 tons per day to 21 tons. Fresh-water usage was reduced by approximately 15%. These changes led to more than \$2 million in savings. Because less fiber and sodium were treated, operational costs were reduced by another \$500,000. But there's more to the story: Less solid waste taken to the landfill has extended the need for a \$5 million expansion from two or three years away to eight or 10 years out.

Six Sigma **teams** create **productivity improvements**

Mead's total productivity improvement efforts are focused on using data to understand process capability and variables, analyze and improve it, control the process, save money and increase customer satisfaction. Six Sigma, one of the tools used in this effort, is a fact-based, data-driven methodology to permanently fix problems and eliminate defects in products and services. Mead's Six Sigma teams operate on the principle that less rework and fewer errors achieve higher productivity and better quality for our customers.

LEFT TO RIGHT:

TONY MURPHY (MEAD CONTAINERBOARD), ANGI PENNINGTON (MEAD PAPER), AND CHERYL MOLEBASH (MEAD PACKAGING) ARE "BLACK BELTS," DEVOTING THEIR FULL-TIME EFFORTS TO SIX SIGMA.



Changing our business processes starts and ends with people



MIKE BOGAN, SENIOR BUSINESS MANAGER, ACCOUNTING SERVICES, MEAD FINANCIAL SERVICES CENTER



LEFT TO RIGHT:
PAUL MOORMAN, SAP TECHNOLOGY DIRECTOR
JOHN LANGENBAHN, VICE PRESIDENT, INFORMATION RESOURCES
JIM MCGRANE, VICE PRESIDENT, BUSINESS PROCESS DEVELOPMENT
THERESA SCHNABEL, DIRECTOR, PROCESS INTEGRATION AND COMPETENCY CENTER
DAVE POOLE, DIRECTOR, E-BUSINESS STRATEGY

Teamwork and patience are keys to **SUCCESS**

Employees at the new Financial Services Center have been working diligently to leverage resources, integrate data and consolidate Mead's financial processes from accounting and credit services to billing and vendor disbursements into one system. Months of planning, design and training have allowed the center to complete integration for Mead's Coated Board, Paper, Containerboard and Specialty Paper divisions.

At Mead, it all begins with world-class computing infrastructure. The combination of hardware and software, coupled with applications and business processes, provide value through our enterprise resource planning project. It links our entire business from raw materials to the customer. Our e-business initiatives are designed to extend this integration through the entire supply chain, connecting Mead to our customers and suppliers through their systems and processes. As a result, we will be more efficient, have improved productivity and achieve higher customer satisfaction.

Global management team creates industry solutions tailored to meet **customer needs**

Employees in the U.S., U.K., Australia, Holland and France have served companies like Anheuser-Busch, the largest brewer in the world and Mead Packaging's largest customer, with the most efficient and creative industry packaging solutions suited to their needs. Mead is committed to packaging-system innovation, integrating the best advanced technologies in carton design, packaging machine engineering and computer-control with ongoing improvements in paperboard performance and converting processes.

CORRINE CROTHERS, DIRECTOR, SALES
MEAD PACKAGING'S MIDWEST REGION



| Consumer & Office Products

Mead is a leading manufacturer and distributor of school and office supplies to the commercial office products and consumer markets. The division operates manufacturing plants and distribution centers across North America. The division produces more than 4,000 different items.

Mead Consumer & Office Products

include loose-leaf and wire-bound notebooks, folders, pads, portfolios, decorative wall and desk calendars, back-to-school and office supplies, stationery products, media storage accessories, time management and personal organizers.

Mead 2000 Consumer & Office Products Sales

\$829.4 million

Consumer & Office Products Segment

(all dollar amounts in millions)	2000	1999
Sales	\$829.4	\$530.9
Earnings before income taxes and special items	67.8	37.9
Special items	(6.1)	.1
Earnings before income taxes	\$ 61.7	\$ 38.0

Mead — the brand of choice in Mexico

Expanding our manufacturing capacity, creating distribution facilities and adding new equipment specifically for customers throughout Mexico and Latin America were strategic steps in broadening Mead's ability to be an international supplier. Five Star®, Cambridge® and the M&M's/Mars licensed products were successfully introduced in the Latin American market by providing superior product innovation, merchandising and service.

JAVIER DE PEDRO, ADMINISTRATIVE AND OPERATIONS DIRECTOR,
MEAD CORPORATIVO





KATHLEEN KOSTELEK DURKIN, VICE PRESIDENT, LICENSING AND DESIGN

Signing up the **biggest** names in **entertainment**

Mead Consumer & Office Products' licensing account management team is at the forefront of the licensing battle for the rights to Nike, Inc., M&M's/Mars, the TV show *Survivor*, Cartoon Network's *PowerPuff Girls* and Disney's *102 Dalmatians*. The division secured these licenses and was awarded rights for Harry Potter back-to-school mass-market products. Mead will be among the first licensees to ship Harry Potter products in June 2001.



JON WYANT, DIRECTOR, NEW PRODUCT DEVELOPMENT

A **winning** combination of **back-to-school** stuff

Mead Consumer & Office Products certainly had a winning combination of tradition and “kinda wow, kinda now” back-to-school products this year. Xpanz™, the newest member of the Five Star® family, features an additional “expanding” pocket on the front of each item. When unzipped, the pocket provides up to two inches of extra storage. The line includes a zipper binder, data-keeper, wire-bound notefolio and student planner.

Mead and AT-A-GLANCE freight carriers **reduce** transportation **costs**

Integrating Mead and AT-A-GLANCE freight carriers to reduce transportation costs and improve service for both organizations wasn't an easy task. Using the combined volume, we implemented single transportation agreements with two of the nation's largest carriers — Roadway and UPS — for a positive end result.

LEFT TO RIGHT:
JOHN KLIMA, TRAFFIC MANAGER
JOHN PURCELL, TRAFFIC SUPERVISOR
MEAD CONSUMER & OFFICE PRODUCTS



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Review of Operations

Five-Year Data on Results of Operations

(all dollar amounts in millions, except per share amounts)

Year Ended December 31	2000	1999	1998	1997	1996
Net sales	\$4,368.1	\$3,996.1	\$3,944.2	\$3,912.2	\$3,436.9
Earnings from continuing operations	163.6	208.1	140.1	163.0	183.8
Net earnings	161.2	208.1	119.7	150.1	195.3
Per common share — assuming dilution:					
Earnings from continuing operations	\$ 1.60	\$ 1.99	\$ 1.34	\$ 1.53	\$ 1.73
Discontinued operations			(.20)	(.12)	.11
Cumulative effect of change in accounting principle	(.02)				
Net earnings	\$ 1.58	\$ 1.99	\$ 1.14	\$ 1.41	\$ 1.84
Effective tax rate on earnings from continuing operations	35.1%	36.2%	37.1%	36.3%	36.8%
Return on average total capital:*					
Earnings from continuing operations	6.4%	7.4%	5.7%	6.2%	6.9%
Net earnings	6.3%	7.4%	5.1%	5.9%	7.3%
Return on average equity:					
Earnings from continuing operations	6.8%	8.9%	6.2%	7.2%	8.3%
Net earnings	6.7%	8.9%	5.3%	6.6%	8.9%

*Calculated by dividing earnings plus interest expense, net of taxes, by shareowners' equity plus long-term debt.

Management's Discussion and Analysis

Review of Operations

Overview of 2000

Sales revenue of \$4.4 billion in 2000 increased 9% from \$4.0 billion in 1999 primarily as a result of growth through acquisition in the Consumer and Office Products segment. Earnings from continuing operations were \$163.6 million in 2000 compared to \$208.1 million in 1999. In 1999, earnings from continuing operations included a \$52.7 million after-tax gain on the sale of Mead's ownership in a pulp and lumber operation. Excluding special items in both years, earnings from continuing operations of \$169.7 million or \$1.66 per share in 2000 increased slightly from 1999 earnings of \$165.6 million or \$1.58 per share. The increase was primarily a result of growth in Consumer and Office Products.

Within Mead's Paper segment, sales and earnings increased from the level of 1999 as higher sales volume and higher average selling prices for coated paper were partially offset by reduced sales of uncoated paper, a nonstrategic grade. At the end of 1999 and in the first half of 2000, the Paper division shut down some less-efficient production capacity for uncoated paper. Near the end of 2000, the division acquired a carbonless coating facility and took steps to consolidate the combined carbonless operations. Average selling prices for coated paper in 2000 were higher than in 1999, although prices declined after mid-year reflecting continued growth in supply from imports and weaker demand as the economy slowed near year-end. Inventories of coated paper were higher at year-end 2000 than year-end 1999.

In the Packaging and Paperboard segment, sales revenue and earnings increased slightly from the level of 1999 as higher selling prices for corrugating medium offset a decline in packaging revenues and weaker markets for the segment's wood products business. Shipments of medium were slightly lower than in 1999, reflecting weaker demand after mid-year, which led to market-related mill downtime. Mead Packaging division's sales and earnings declined from the prior year due to weaker foreign currencies, primarily in Europe.

In the Consumer and Office Products segment, sales and earnings increased over 1999 with the first full year of sales of time management products from AT-A-GLANCE, a business Mead acquired in late 1999. Sales of Mead's school supplies increased as a result of an expanded product line and growth in Mexico. Further growth was hindered by weaker overall sales reported by mass retailers and a decline in volume of commodity-based school products resulting from increased foreign competition. Integration following the major acquisition continued on schedule.

EARNINGS PER SHARE ANALYSIS

	2000	1999	1998
Continuing operations before special items	\$1.66	\$1.58	\$1.55
Special items	(.06)	.41	(.21)
Continuing operations	1.60	1.99	1.34
Discontinued operations			(.20)
Change in accounting principle	(.02)		
Net earnings (assuming dilution)	\$1.58	\$1.99	\$1.14

Special Items, Accounting Principle Change and Discontinued Operations

In the second half of 2000, Mead shut down the Kalamazoo, Michigan, Consumer and Office Products converting plant and the Atlanta, Georgia, container plant of the Packaging and Paperboard segment. The cost of these two shutdowns amounted to 6 cents per share (\$9.5 million pretax) and included severance costs, asset write-offs and other related expenses. These charges (see Note K to the Financial Statements) were taken during the third and fourth quarters of 2000.

In late 1999, the Securities and Exchange Commission ("SEC") published Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*, requiring companies affected by its provisions to report the impact on any changes in sales, costs and related balance sheet amounts no later than the fourth quarter of 2000. This bulletin was amended twice in 2000. Mead's accounting practices for revenue recognition complied with the SEC's guidance in virtually all respects. In several minor areas, however, adjustments were required to comply with SEC guidance, the effect of which aggregated to 2 cents per share (\$2.4 million after tax) earnings reduction as of the beginning of 2000. This adjustment is reflected as the cumulative effect of a change in accounting principle.

During 1999, Mead sold several nonstrategic assets, including its 50% ownership of Northwood Inc. of Canada for \$240 million (Canadian) in cash and convertible debentures of \$77.5 million (Canadian). The assets of Northwood included a pulp mill and lumber and plywood facilities. Mead recorded an after-tax gain of 50 cents per share (\$82.3 million pretax) from the

sale. Special items in 1999 also included an after-tax charge of 11 cents per share (\$18.9 million pretax) for asset write-offs and severance costs related to the shutdown of four uncoated paper machines at the company's paper mill in Rumford, Maine. The company had a 2 cents per share (\$2.7 million pretax) gain in 1999 which represented a reversal of an original charge to selling and administrative expenses in 1998 (see below). These special items totaled 41 cents per share in 1999 (see table). These charges (see Note K to the Financial Statements) were taken during the second and fourth quarters of 1999.

Also, during 1999, the company completed the sale of the merchandising unit of its Packaging and Paperboard segment and a sawmill that was part of its Paper segment. Proceeds from these sales were approximately the same as the carrying values of the assets and, therefore, had no impact on earnings. Mead purchased a small paper mill in County Devon, England, in the third quarter of 1999 and a small school products business in Mexico late in the fourth quarter. In the fourth quarter, Mead purchased the AT-A-GLANCE group of Cullman Ventures, Inc. for approximately \$540 million, which has become a part of the Consumer and Office Products segment.

During 1998, Mead recorded a charge of 13 cents per share (\$22 million pretax) for an organizational change and work force reduction program that included plans to eliminate 318 positions (see Note K to the Financial Statements). As a result of lower severance outplacement costs, the company reversed 2 cents per share (\$2.7 million pretax) of the original charge to selling and administrative expenses in the third quarter of 1999.

Special items during 1998 included organizational changes and related work force reductions noted above, asset write-downs and asset sales. For asset write-downs, the company recorded charges of 25 cents per share (\$37.7 million pretax). Asset sales resulted in gains of 17 cents per share (\$28.3 million pretax). Special items in 1998 totaled 21 cents per share.

Also, during 1998 Mead undertook a number of initiatives that included the sale of its Distribution segment and related real estate for \$288 million, which resulted in a charge of 20 cents per share (\$20.4 million after tax) (see Note N to the Financial Statements). That charge is classified as "Discontinued Operations."

PAPER SEGMENT

(all dollar amounts in millions)	2000	1999	1998
Sales	\$1,926.5	\$1,882.7	\$1,880.4
Earnings before income taxes and special items	181.9	165.0	222.7
Special items		(17.4)	(16.4)
Earnings before income taxes	\$ 181.9	\$ 147.6	\$ 206.3

Sales revenue in the Paper segment increased slightly compared to 1999. Earnings before special items improved 10% from 1999 primarily as a result of higher average selling prices for coated paper.

Prices for coated paper fluctuated between 1998 and 2000 as a result of changes in market supply and demand. In 1998, rising imports of coated paper from Europe and Asia Pacific increased the overall supply in the U.S. market. Increased supply led to a decline in selling prices in coated paper by the second half of 1998 that continued through the first half of 1999. Mead took market-related downtime in the second half of 1998 and during the first three quarters of 1999 to better manage its inventory. Prices stabilized by the second half of 1999 and strengthened near year-end 1999 and first quarter of 2000. However, selling prices declined after mid-year 2000 as rising imports led to increased supply, and demand weakened with a slowing in the U.S. economy. For the year, average selling prices in 2000 were higher than in 1999, although prices at year-end 2000 fell below the level of year-end 1999.

In 1999, sales revenue in the Paper segment was essentially unchanged from 1998. Earnings before special items decreased from 1998 primarily as a result of lower selling prices for all major grades of paper.

Paper

Mead Paper division manufactures and sells coated paper for use by publishers of books, magazines, catalogs and advertising materials and by commercial printers. The division produces and sells carbonless copy paper for use in multi-part forms. It also sells uncoated papers and market pulp. The division has three mills located in Maine, Michigan and Ohio and carbonless coating facilities in Ohio.

Division sales revenue was slightly lower than in 1999 on lower sales volume of uncoated paper, a nonstrategic product line. Earnings improved over 1999 on higher average selling prices for coated paper and productivity improvements that partially offset higher costs for energy and raw materials. Shipment volume of coated paper increased 4% over 1999. Shipments of uncoated paper were much lower following the permanent shutdown of four older paper machines in the fourth quarter of

1999. Shipments of carbonless paper declined 4% from 1999, consistent with a gradual decline in the market for multi-part business forms. Average selling prices for carbonless paper were essentially unchanged from the prior year.

The inventory level of finished goods, primarily coated paper, was approximately 30% higher at year-end 2000 than at year-end 1999. The increase resulted from higher production levels of coated paper compared to 1999 when the division took market-related downtime. While inventories increased during the first half of 2000, the overall level began to decline after mid-year.

During the year, the division improved manufacturing efficiency across its three mills, rationalized product grade lines and completed the conversion of a former uncoated paper machine to a pulp dryer. One older paper machine, which produced base stock for carbonless paper, was permanently shut down, and another uncoated paper machine was idled indefinitely. Production of base stock for carbonless paper was moved to a larger, more efficient machine, displacing production of uncoated paper. In the fourth quarter of 2000, as part of an effort to consolidate carbonless paper operations, the division acquired the carbonless coating facilities of a major business forms printer and signed a multi-year sales agreement to supply the printer with carbonless paper. The agreement is expected to increase overall sales volume. As a result of the acquisition and consolidation of assets, Mead has increased its annual production capacity for carbonless paper by 25% to 290,000 annual tons while reducing the number of coaters, facilities and paper machines involved in producing carbonless products. By consolidating facilities, the division expects to improve the productivity of its operations and maintain sufficient production capacity to meet customer needs.

In 1999, division sales volume was essentially unchanged from 1998 levels as higher shipment volume was offset by lower selling prices for all grades of paper. Earnings were lower as a result of lower prices, partially offset by higher volume and improvements in productivity that led to lower unit cost.

Specialty Paper

Mead Specialty Paper division manufactures a variety of decorative and overlay saturating papers for laminates used in furniture, flooring, countertops and cabinets. It also produces a variety of specialty grades, including tape papers and filter and friction papers for industrial and automotive applications. The division operates a total of four mills, two in Massachusetts and one mill each in New York and England.

Division sales increased over 1999 as a result of continued volume growth of several specialty grades including wear-resistant overlay papers, filter and décor papers. Earnings were slightly higher than in 1999 as a result of higher sales volume, partially offset by higher costs for purchased pulp and energy and costs associated with integrating the County Devon, England, mill acquired in 1999. Demand for wear-resistant overlay papers continued to grow in North America, Europe and Asia Pacific, despite increased competition. Overall, order backlogs slowed in the second half of the year. In response to higher inventories, the division took market-related downtime in the fourth quarter of 2000.

In 1999, division sales increased over 1998 as a result of higher shipments of several specialty grades including wear-resistant overlay papers, filter and friction papers and tape papers. Earnings were slightly higher in 1999 than in 1998 as a result of higher shipments.

Gilbert Paper

Gilbert Paper division produces premium business correspondence papers and premium text and cover papers at its mill in Wisconsin.

Division sales increased slightly over the level of 1999 as a result of higher prices and improved sales mix. Overall sales volume was unchanged from the level of 1999. The division's sales volume continued to grow in text and cover papers, while volume declined for premium correspondence papers reflecting a gradual decline in market demand for cotton-content papers. Results for the division were lower as an increase in average selling prices was offset by higher costs for energy, purchased pulp and other raw materials, more than offsetting cost-reduction efforts by the division. Inventory levels at year-end 2000 were slightly higher than the prior year. The division took market-related downtime to balance production with demand.

In 1999, the division's sales revenue declined from the level of 1998 as a result of lower shipments due to weak market conditions and a strategic decision to reduce production and sale of lower-margin products. Despite lower sales revenue, earnings improved over 1998 as a result of a more profitable sales mix, cost reductions and improved operating efficiencies.

PACKAGING AND PAPERBOARD SEGMENT

(all dollar amounts in millions)	2000	1999	1998
Sales	\$1,612.2	\$1,582.5	\$1,564.6
Earnings before income taxes and special items	177.4	169.2	153.8
Special items	(3.4)	.8	(11.3)
Earnings before income taxes	\$ 174.0	\$ 170.0	\$ 142.5

Sales and earnings in the Packaging and Paperboard segment increased compared to 1999 as higher selling prices for corrugating medium offset slightly lower sales revenue in coated paperboard and packaging.

Selling prices for corrugating medium, which had declined throughout 1998, strengthened from mid-year 1999 through mid-year 2000, before declining slightly in the second half of 2000. Mead's average selling price for corrugating medium in 2000 improved 28% over the average selling price in 1999. The industry experienced stable demand and a reduction in containerboard supply in domestic markets due to publicly announced permanent reductions in production capacity by several companies following industry consolidation.

In 1999, sales revenue was essentially unchanged from 1998 levels as higher sales volume and selling prices for corrugating medium offset lower sales revenue in Mead's coated paperboard and packaging businesses. Earnings before special items in 1999 increased 10% over 1998, primarily as a result of improved pricing for medium.

Containerboard

Mead Containerboard division produces corrugating medium at its mill in Alabama. It also produces shipping containers at seven corrugating container plants.

Division sales revenue and earnings increased in 2000 over 1999 as a result of higher selling prices for corrugating medium. Shipments of medium were slightly lower than in 1999, reflecting a weakening in demand in the second half of 2000. During the fourth quarter of 2000, the mill took 42,000 tons of market-related production downtime to better manage its inventory levels. The inventory of medium declined in the fourth quarter but ended the year higher than year-end 1999. The mill operated well throughout the year. Production volume was unchanged from the prior year level, despite downtime taken late in the year. Operating costs were higher in 2000, reflecting higher costs for energy, chemicals and some raw materials. Costs for purchased recycled fiber declined from prior year levels.

Prices for containers improved in 2000 over 1999 levels, while shipments of containers declined. During 2000, the company announced plans to close its container plant in Atlanta, Georgia, to improve profitability. The closing, which reduced the number of Mead container plants to seven, resulted in a pretax charge of \$3.4 million in 2000.

In 1999, division sales revenue increased over 1998 as a result of higher shipment volumes of corrugating medium. Earnings increased over 1998 as a result of higher shipment volume and an improvement in selling prices that began mid-year. Operating costs increased in 1999 over 1998 as a result of higher costs for purchased recycled fiber and operating difficulties related to the start-up of an expanded paper machine and chemical recovery system. The operating issues were substantially resolved by year-end.

Coated Board

Mead Coated Board division manufactures coated unbleached kraft paperboard for use in multiple beverage packaging and folding cartons. The coated paperboard is produced at the Mahrt mill near Phenix City, Alabama. Approximately 60% of the paperboard production is used by Mead Packaging division's worldwide beverage packaging business. The remainder is sold to folding carton manufacturers in North America and Europe. The division also has two sawmills that produce lumber products.

Sales volume of coated paperboard was essentially unchanged from 1999. Sales volume to external folding carton customers increased in North America and Europe, while volume sold to Mead's integrated packaging business declined slightly. Division sales revenue was similar to the 1999 level, as an increase in coated paperboard sales revenue offset a decline in both the pricing and sales volume of wood products at the division's sawmill operations. Earnings for the division declined from 1999 as a result of unfavorable foreign exchange rates for the division's European business, weaker demand for wood products and higher energy-related costs. Consolidation among folding carton customers and a growing supply of bleached, kraft and recycled paperboard for packaging led to competitive pressures on pricing in 2000. The Mahrt mill operated well

during the year and the mill's production of coated paperboard increased over 1999. The level of finished inventory was slightly higher than at year-end 1999.

In 1999, division sales revenue was essentially unchanged from 1998. Earnings increased slightly on higher sales volume of paperboard and higher selling prices for lumber at the division's sawmill operations, which offset slightly lower selling prices for coated paperboard.

Packaging

Mead Packaging division is a leading worldwide supplier of multiple packaging and packaging systems for the beverage and food markets. Customers include worldwide consumer products companies serving these markets. The division is a global packaging business with offices and facilities in more than 30 countries worldwide.

Division earnings increased during 2000 at exchange rates similar to those of 1999. However, due to a strong U.S. dollar, actual sales and earnings declined as the revenues from Mead's operations outside North America were translated from weaker foreign currencies into U.S. dollars for reporting purposes. The volume of cartons sold in Europe, Mexico, Australia and Asia continued to grow over prior years. That growth was offset by weaker volumes of soft-drink packaging in North America and a decrease in beverage packaging volume in Brazil. Customer consolidations, competitive pricing in some key markets and slower growth rates in carbonated drinks characterized market conditions for the Packaging business. Productivity improvements, combined with the reorganization of several operations during 1999, helped offset higher costs for labor and materials. The overall level of finished goods inventory was unchanged from year-end 1999. The division continued to make improvements in carton design and the placement of new packaging systems, primarily in markets outside North America.

In 1999, sales volume of ongoing operations increased from 1998. However, due to the sale of two small business units and a strong U.S. dollar, sales revenue at actual exchange rates declined compared to 1998. Earnings decreased from 1998 due to the strong U.S. dollar, costs for outsourcing of some manufacturing and costs related to reorganizations taken in Europe and Asia Pacific.

CONSUMER AND OFFICE PRODUCTS SEGMENT

(all dollar amounts in millions)	2000	1999	1998
Sales	\$829.4	\$530.9	\$499.2
Earnings before income taxes and special items	67.8	37.9	47.4
Special items	(6.1)	.1	(4.6)
Earnings before income taxes	\$ 61.7	\$ 38.0	\$ 42.8

Consumer and Office Products is a producer and distributor of school supplies, time management products such as planners and calendars, and office products and related items. Products are distributed through mass retailers, office superstores, commercial stationers and office products catalogs. The product line and distribution channels were expanded with the acquisition in November 1999 of AT-A-GLANCE and its portfolio of time management and office products.

Sales revenue and earnings for the segment increased over 1999 primarily as a result of the acquisition. In 1999, school products represented the majority of segment sales. Following the acquisition, the segment's product base became more diverse with school products making up less than half of segment sales. Sales revenue from school products in 2000 increased over 1999 as a result of higher selling prices, including an expanded line of value-added school products, licensed products and products proprietary to Mead, and sales growth in the Mexican market. Sales of commodity-based school products met increased pressure from foreign competition. Further improvement in sales revenue during the back-to-school selling season was hindered somewhat by lower overall sales reported by mass retailers in the second half of the year reflecting a slowing economy. The majority of sales of school products are sold through mass retailers in the back-to-school selling season during the second and third quarters of the year. Sales of time management products are made through office superstores, commercial stationers and catalogs and occur primarily in the third and fourth quarters of the year. Time management products include planners, organizers, appointment books and desk and wall calendars. Sales of time management products increased in 2000 as a result of a full year of sales of AT-A-GLANCE products. Costs increased in 2000 for uncoated paper, a primary raw material for some paper-based products such as tablets. The business was not able to pass all of the increase on to customers due to foreign competition of paper-based products.

During the year, the Consumer and Office Products segment completed the shutdown of a converting plant in Kalamazoo, Michigan, as part of ongoing efforts to improve overall productivity of its converting and distribution system. Inventory and equipment from the plant were moved to other facilities. The shutdown resulted in a \$6.1 million pretax charge in 2000. During the year, the integration of the AT-A-GLANCE acquisition continued on schedule. The segment formed a new management organization with members from both the former school and office products and AT-A-GLANCE organizations and consolidated some marketing functions. The segment sold some time management products through mass retail channels as a result of initial cross-marketing efforts.

In 1999, sales increased compared to 1998 as a result of the acquisition of AT-A-GLANCE late in the year. In 1999, the segment expanded its manufacturing and presence in the Mexican market by acquiring the assets of a distribution company that had sold Mead's school supplies in the country for more than 10 years.

Selling and Administrative Expenses

Selling and administrative expenses for 2000 of \$493 million increased over comparable amounts for 1999 and 1998. Of the increase, approximately \$89 million related to the results of the acquisitions in 1999. The acquisitions were included for only a portion of the year in 1999. The remainder of the increase in 2000 was a result of ongoing costs to implement an enterprise resource planning ("ERP") system and general inflationary pressures. Selling and administrative costs in both 1999 and 1998 were \$387 million. Included in 1998 expenses was a charge of \$22 million associated with certain organizational changes and a related reduction in Mead's work force. Excluding the effect of this charge, the increase in selling and administrative expenses was \$22 million in 1999 from 1998, of which the majority was November and December 1999 expenses from AT-A-GLANCE.

Other Revenues

Other revenues in 2000, 1999 and 1998 were \$11 million, \$97 million and \$34 million, respectively. The most significant component of other revenue in 1999 was a pretax gain of \$82 million on the sale of Mead's investment in Northwood Inc. Gains on the sale of nonstrategic assets were \$4 million in 1999 and \$28 million in 1998. Investment income was \$8 million, \$5 million and \$6 million in 2000, 1999 and 1998, respectively.

Interest and Debt Expense

Interest and debt expense for 2000 was \$121 million, an increase of \$16 million over the 1999 level of \$105 million. A higher level of total average borrowings was the primary driver of the increase. Expense levels for 1999 were lower than the \$109 million for 1998, despite the increase in the total amount of borrowings at year-end 1999. During most of 1999, average debt levels were lower than during 1998.

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Liquidity and Capital Resources

Mead's cash flows from operating activities were \$468 million in 2000, compared to \$485 million in 1999 and \$423 million in 1998. An overall increase in working capital was the primary reason for the decline in 2000.

During 2000, Mead continued its stock repurchase program, acquiring 4.1 million shares for \$108 million. Repurchases in 1999 were 1.2 million shares for \$43 million, and repurchases in 1998 were 2.6 million shares for \$83 million. Cash inflows from employee exercises of stock options in 2000 aggregated to \$8 million, down considerably from the \$48 million in 1999 and the \$13 million in 1998.

During 1999, Mead spent approximately \$570 million to purchase AT-A-GLANCE and two other much smaller entities. These acquisitions were financed with available funds and short-term borrowings. By the end of 1999, short-term borrowings were reduced by cash proceeds from the sale of Northwood Inc. and other subsequent cash flows from operations.

Mead's total debt (including notes payable and current maturities) at year-end 2000 was \$1,536 million, down slightly from \$1,555 million in 1999 and up from \$1,375 million in 1998. The acquisition of AT-A-GLANCE was the primary reason for the increase in debt levels between 1998 and 1999. Mead's total debt as a percentage of total capital was 39.0% at the end of 2000, compared with 39.0% for 1999 and 37.9% for 1998.

Additional financing capability is afforded by a \$300 million bank credit agreement that expires in November 2001 and a \$300 million credit agreement that expires in November 2005. The bank credit agreements support \$49 million of the company's capital lease obligations and \$61 million of its short-term borrowings, leaving \$490 million that can be borrowed.

At the end of 2000, Mead paid a fixed or capped rate on 69% of its debt and paid a floating rate on the remaining amount. A change of 1% in the floating rate, on an annual basis, would result in a change of 3 cents per share. The estimated market value of long-term debt was \$15.1 million less than book value at the end of 2000.

Working capital at the end of 2000 was \$269 million, compared to \$230 million for 1999 and \$407 million for 1998. The increase from 1999 was primarily attributable to a \$72 million increase in inventory, offset by increases in accounts payable and accrued liabilities. The reduction from 1998 to 1999 was due to a \$213 million increase in notes payable and current maturities and a \$46 million reduction in cash, offset by approximately \$69 million of working capital from the AT-A-GLANCE acquisition. Mead's current ratios at the end of 2000, 1999 and 1998 were 1.3, 1.2 and 1.6, respectively. The replacement values of inventories exceeded their last-in, first-out ("LIFO") values by \$183 million at the end of 2000. Adjusted for LIFO, Mead's current ratio would be 1.4 at year-end.

Capital Spending

Mead's level of capital spending in 2000 of \$206 million was below the level of depreciation. Comparable amounts for 1999 and 1998 were \$213 million and \$384 million, respectively. A large portion of the 1998 spending related to completion of the \$224 million expansion and upgrade of the Stevenson, Alabama, corrugating medium mill. That project added virgin pulp-making capabilities, a wood fuel boiler and additional dryer capacity, increasing the mill's annual capacity to 840,000 tons from 640,000 tons.

Capital spending projects in 2000 included completion of a pulp dryer at the Maine paper mill and various equipment upgrades. In 1999, upgrade projects were completed at the specialty paper mill in New York, the Ohio paper mill and the coated paperboard mill in Alabama.

Effects of Inflation

The rate of general inflation remains at a low level and is not expected to have a significant effect on results in 2001 except for energy-related costs. Costs for energy, including natural gas, oil and electricity, and costs for certain raw materials, such as purchased pulp, increased significantly in 2000. The increase in these costs affected many of the company's businesses. Rising oil prices affect costs for transportation, fuel oil and some petroleum-derived raw materials.

Environmental Proceedings

Mead has been notified by the United States Environmental Protection Agency ("USEPA") or by various state or local governments that it may be liable under federal environmental laws or under applicable state or local laws with respect to the cleanup of hazardous substances at six sites currently operated or used by Mead. Mead is also currently named a Potentially Responsible Party ("PRP"), or has received third-party requests for contributions under federal, state or local laws with respect to at least 20 sites sold by Mead over many years or owned by contractors used by Mead for disposal purposes. Some of the proceedings are described in more detail in Part I, Item 3, "Legal Proceedings" of Form 10-K. There are other former Mead facilities and those of contractors that may contain contamination or may have contributed to potential Superfund sites for which Mead has not received any notice or claim. Mead's potential liability for all these sites will depend upon several factors, including the extent of contamination, the method of remediation, insurance coverage and contribution by other PRPs. Although the costs that Mead may be required to pay for remediation of all these owned and unowned sites is not certain at this time, Mead has reserves of approximately \$40 million related to current environmental litigation and proceedings that it believes are probable and reasonably estimable. These reserves were established after considering the number of other PRPs, their ability to pay their portion of the costs, the volumetric amount, if any, of Mead's contribution, and other factors. Expenses to be charged to this reserve are not included in the anticipated capital expenditures for the next three years stated in Part I, Item 1, "Business — Environmental Laws and Regulations" of Form 10-K. Mead believes that it is reasonably possible that costs associated with these sites may exceed current reserves by an amount that could range from an insignificant amount to as much as \$40 million. The estimate of this range is less certain than the estimates upon which the reserves are based.

In April 1998, USEPA promulgated regulations under the Clean Air Act and Clean Water Act (the "Cluster Rules") designed to reduce air and water discharges of specific substances from U.S. pulp and paper mills. All three of Mead's

bleached paper mills have eliminated elemental chlorine from their bleaching operations and are in compliance with effluent requirements of the pulp and paper Cluster Rules well in advance of regulatory deadlines.

Various states bordering the Great Lakes in 1997, including Michigan and Ohio, adopted state regulations consistent with the Federal Great Lakes Initiative (“GLI”). These state regulations have been approved in large part by USEPA, although some elements of each state’s program have been disapproved and are subject to change. However, Mead does not expect any significant additional capital expenditures (beyond those previously stated in Part I, Item 1, “Business — Environmental Laws and Regulations” of Form 10-K) will be necessary to comply with these regulations.

To reduce ozone-causing pollutants from large utility and industrial sources in the Midwest and South, USEPA has issued a call for certain states, including Alabama, Michigan and Ohio, to adopt more stringent emission controls on all or some of the sources within their boundaries (the “NOx SIP Call”). Although legal challenges to the NOx SIP Call have been filed, Alabama, Michigan and Ohio have proposed new regulatory programs intended to satisfy the NOx SIP Call. As proposed, a total allowable emissions level would be specified for each affected facility, which could be satisfied through a variety of actions, ranging from curtailing use of equipment to installing additional emissions control systems. Alternatively, additional emissions allowances could be acquired through a form of emissions trading with other emission sources. These state programs are not final, and Mead has not determined what actions it will want or need to take to assure compliance with these new programs. No new emission limitations or standards are expected to take effect before 2004. Mead, at this time, does not expect that any significant capital expenditures (beyond those previously stated in Part I, Item 1, “Business — Environmental Laws and Regulations” of Form 10-K) will be necessary in the next three years to comply with these regulations.

Derivative Disclosure

Mead is exposed to market risk from changes in interest rates, foreign currency exchange rates and commodity prices. To manage these market risk exposures, the company enters into various hedging transactions governed by corporate policies and procedures that are approved and regularly reviewed by the Finance Committee of the Board of Directors. Mead does not use financial instruments for trading purposes.

Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, requires derivatives to be recorded on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in fair value of the derivatives are recorded depending upon whether the instruments meet the criteria for hedge accounting. This Statement will be adopted effective January 1, 2001, and will result in a cumulative after-tax reduction in net earnings of approximately \$10.4 million and a reduction in other comprehensive loss of \$10.3 million in the first quarter of 2001 (see Note A to the Financial Statements).

Interest Rates

Mead’s objective is to reduce its interest expense through a blend of fixed and floating interest rate instruments. The company primarily funds itself with long-term debt having final maturities ranging from five to 50 years at date of issue, a portion of which has variable interest rates, and with variable interest rate commercial paper. The company uses interest rate swaps and caps in managing its mix of fixed and floating rate debt.

Mead assesses its interest rate risk by estimating the potential increase in fair market value of its debt that would result from a hypothetical parallel downward shift of the yield curve. Using the portfolio valuation models available from Bloomberg™ which use theoretical values as well as market prices for instruments with similar characteristics, including the theoretical value of any embedded options (e.g., puts or calls), a hypothetical 100 basis point parallel downward shift of the yield curve would increase the fair market value of Mead’s debt by approximately \$82 million and \$81 million at December 31, 2000 and 1999, respectively.

Foreign Currency

Mead has foreign-based operations, primarily in Canada, Mexico and Western Europe, which accounted for approximately 13% of its 2000 net sales. In addition, certain of Mead’s domestic operations have sales to foreign customers. In the conduct of its foreign operations, Mead also makes intercompany sales and receives royalties and dividends denominated in many different currencies. All of this exposes Mead to the effect of changes in foreign currency exchange rates.

Flows of foreign currencies into and out of Mead’s domestic operations are generally stable and regularly occurring, and are recorded at fair market value in Mead’s financial statements. Mead’s foreign currency management policy permits Mead

to enter into foreign currency hedges when these flows exceed a threshold which is a function of these cash flows and forecasted annual net income. During 2000, the company entered into foreign currency hedges to partially offset the foreign currency impact of these flows on operating earnings.

Mead also issues intercompany loans to its foreign subsidiaries in their local currencies, exposing it to the effect of changes in spot exchange rates at loan issue and loan repayment dates. Generally, Mead uses forward exchange contracts with terms of less than one year to hedge these exposures. When applied to Mead's derivative and other foreign currency sensitive instruments at December 31, 2000, a 10% adverse change in currency rates would not materially affect Mead's financial position, annual results of operations or cash flows.

Commodities

Mead is exposed to price changes in raw materials, components, and items purchased for resale. The prices of some of these items can vary significantly over time due to changes in the markets in which the company's many suppliers operate. Mead's selling prices often change in a similar fashion, although often to a greater or lesser degree. The company does use a limited amount of financial instruments to manage its exposure to commodity prices. At year-end 2000, Mead had two swap transactions hedging future purchases of old corrugated containers ("OCC") and corrugated medium sales totaling approximately \$12 million over three years. The potential financial impact of these swaps was assessed by modeling a two standard deviation movement in the price of these commodities for the life of the transactions. These transactions are not expected to have a material impact on Mead's financial position or annual results of operations or cash flows based on the analysis.

Outlook

Mead's operations throughout the world are affected by changes in supply and demand, both of which are influenced by changes in foreign currency exchange rates, interest rates, consumer confidence and other factors. While changes in demand are generally gradual and track the rate of domestic economic activity, new supply typically comes onto the market in large increments with the start-up of new productive capacity. The result can be temporary periods of oversupply that lead to price weakness, as in 1998 and 1999. Prices for several of Mead's products improved in the first half of 2000. In the second half of the year, however, weaker foreign currencies and slowing worldwide economies negatively affected selling prices for many of Mead's products.

New capacity for paper and paperboard in the U.S. is expected to grow at a slower rate over the next few years than during the late 1990s. New global capacity in Europe, Asia Pacific and Canada has increasingly become a factor in recent years. During 1998 and much of 1999, new global capacity led to increased supply. Weaker markets in Asia Pacific and weaker foreign currencies relative to the U.S. dollar led to an increase in imports into the United States. U.S. producers attempted to reduce inventories by taking market-related downtime. As a result, selling prices declined. In late 1999 and through the first three quarters of 2000, the supply-demand balance improved, leading to some pricing improvements for certain grades of paper and containerboard. However, in the fourth quarter of 2000, demand began to subside and prices began to decline.

The impact of e-commerce to date appears to be additive to the traditional uses of coated paper which include magazines, catalogs and advertising materials. The overall market demand for carbonless copy paper used in multi-part business forms continued to decline gradually in 2000 as it did in 1999 and 1998.

The sales by Mead's foreign operations are approximately 13% of overall sales, with most occurring in the packaging and coated board businesses of the Packaging and Paperboard segment and in the Consumer and Office Products segment, primarily in Europe, Mexico and Canada. Fluctuations in European and Canadian currencies can affect operating results for these segments. The impact of currency fluctuations can affect the results of Mead's individual businesses.

Energy-related costs, specifically costs for natural gas, oil and purchased electricity, increased by approximately 15% in 2000 over 1999. While the company relies on self-generated sources for approximately half of its energy needs, natural gas, oil and purchased electricity represent an important component of the company's energy needs. Factors leading to the increase in energy prices include reduced supply, growing demand and deregulation of the utility industry. These factors are expected to continue to affect energy prices in 2001.

The company's businesses continue to show signs of a slowing economy and the impacts of rising energy-related costs and a strong U.S. dollar. These factors had a significant impact on the company's 2000 results, especially in the more cyclical businesses of coated paper and containerboard. Looking forward to the first half of 2001, weak market conditions are likely to affect these businesses. To counter the impact of these factors, the company intends to improve productivity, align production more closely to meet demand, reduce discretionary spending, implement a hiring freeze and other cost controls, and continue to keep capital spending at levels below that of depreciation.

During 2000, Mead continued the multi-year implementation of an enterprise resource planning system across the company. Mead expects the technology and the redesign of business processes will help achieve meaningful cost reductions and enhanced operating efficiencies. Mead expects to spend approximately \$125 million to implement its ERP system between 1998 and 2003. Through 2000, Mead had incurred costs totaling approximately \$76 million. These costs include incremental amounts for hardware and software and costs for the redeployment of company resources. The expenditures for this system will replace some expenditures that would have been spent to upgrade or replace existing systems. These costs do not include amounts incurred by operating divisions as they implement the ERP system. Some of the ERP costs are being expensed as incurred. Other costs, such as those for the purchase of systems, will be capitalized in accordance with generally accepted accounting principles. From 1998 through 2000, approximately 64% of the costs were capitalized, and 36% were expensed. When implementation is completed, the majority of costs are expected to be expensed. Over the past few years, Mead assembled an implementation team, developed a common format for the corporate-wide system and began a multi-year, phased-in implementation program. The new system is fully operational at the Coated Board division of the Packaging and Paperboard segment. The system is partially installed at all the company's major mills, specifically the component related to non-order management functions. In 2001, the implementations currently in process will be completed at the three larger paper mills of the Paper segment and the containerboard business of the Packaging and Paperboard segment. Implementation at additional company divisions will follow in 2002 and early 2003.

Forward-looking Statements

Forward-looking statements throughout this report are based upon current expectations and are subject to numerous risks and uncertainties, which could cause actual results to differ materially from those expressed. These risks and uncertainties include, but are not limited to: growth in supply of different sectors of the paper and forest products industry, particularly in the U.S., Europe and Asia Pacific; demand for paper and paperboard in the U.S., Europe and Asia Pacific markets; market prices for these products; fluctuations in foreign currency, primarily in Europe; the stability of financial markets; capacity spending levels in the industry; general business and economic conditions in the U.S., Europe, Asia Pacific and Latin America; interest rates and their volatility; energy costs and availability; government actions; competitive factors; and opportunities that may be presented to and pursued by the company not known at this time.

CAPITAL EXPENDITURES ANALYSIS

(all dollar amounts in millions)	2000	1999	1998	1997	1996
Growth (including related environmental expenditures)	\$ 41.2	\$ 40.2	\$158.6	\$139.7	\$225.4
Maintenance	56.4	42.8	79.1	150.8	73.9
Cost-effectiveness	83.9	102.1	117.3	122.6	96.0
Environmental projects	24.4	27.8	29.0	24.2	33.4
Total	\$205.9	\$212.9	\$384.0	\$437.3	\$428.7

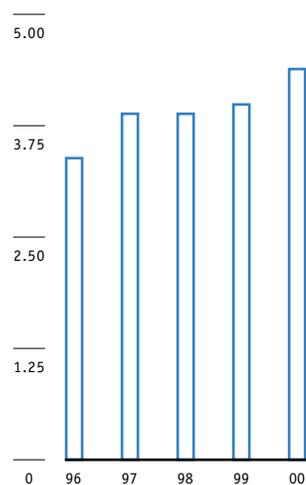
Five-Year Data on Operations, Liquidity, Financial Condition and Capital Resources

(all dollar amounts in millions, except per share amounts)

Year Ended December 31	2000	1999	1998	1997	1996
Operations:					
Net sales	\$4,368.1	\$3,996.1	\$3,944.2	\$3,912.2	\$3,436.9
Earnings from continuing operations	163.6	208.1	140.1	163.0	183.8
Earnings per common share from continuing operations — assuming dilution	1.60	1.99	1.34	1.53	1.73
Liquidity:					
Working capital	269.0	229.7	406.9	312.7	280.1
Current ratio	1.3	1.2	1.6	1.5	1.4
Assets:					
Property, plant and equipment — net	3,269.9	3,357.4	3,372.7	3,273.8	3,084.6
Total assets	5,680.0	5,661.7	5,142.2	5,152.4	4,905.9
Capital:					
Borrowed capital — long-term debt	1,322.8	1,333.7	1,367.4	1,428.0	1,239.7
Equity capital	2,397.8	2,430.8	2,252.0	2,288.5	2,246.4
Total capital	\$3,720.6	\$3,764.5	\$3,619.4	\$3,716.5	\$3,486.1
Borrowed capital as a percent of total capital	35.6%	35.4%	37.8%	38.4%	35.6%

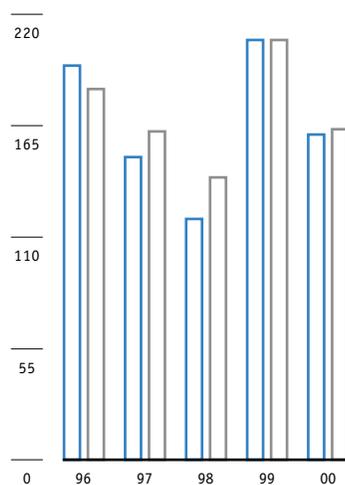
Net Sales

(billions of dollars)



Earnings

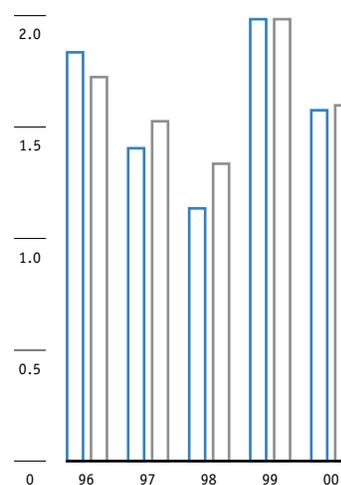
(millions of dollars)



Net
Continuing Operations

Earnings per Share - Assuming Dilution

(dollars)

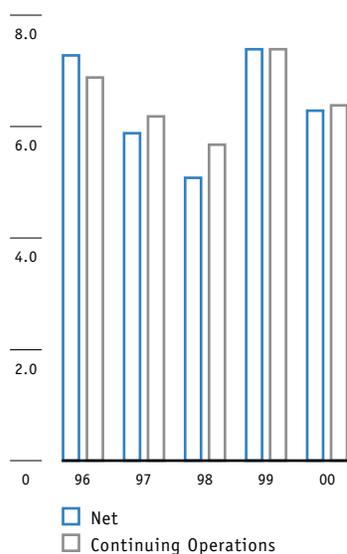


Net
Continuing Operations

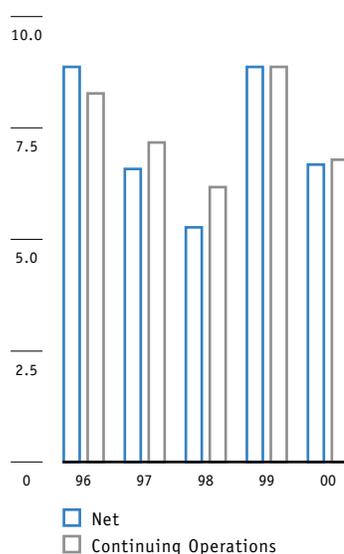
Common Stock Information

	2000	1999	1998	1997	1996
Common dividends paid (millions)	\$ 69.4	\$ 66.5	\$ 66.2	\$ 63.8	\$ 61.9
Average common shares — assuming dilution (millions)	102.3	104.6	104.9	106.4	106.3
Common shares outstanding at year-end (millions)	98.9	102.6	101.8	103.9	104.3
Per share amounts:					
Cash dividends paid	\$.68	\$.65	\$.64	\$.61	\$.59
Book value	24.25	23.70	22.12	22.03	21.55
Market price at year-end	31.38	43.44	29.31	28.00	29.07
Dividend yield	2.2%	1.5%	2.2%	2.2%	2.0%

Return on Average Total Capital
(percent)



Return on Average Equity
(percent)



Quarterly Data (Unaudited)

Certain quarterly amounts have been adjusted to reflect the company's adoption of new accounting standards related to revenue recognition and shipping and handling costs. Reconciliation to previously reported amounts and descriptions of the adjustments are provided in the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

(all dollar amounts in millions, except per share data)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
Net sales:					
2000	\$953.6	\$1,151.4	\$1,218.2	\$1,044.9	\$4,368.1
1999	909.7	1,055.3	1,032.5	998.6	3,996.1
1998	875.6	1,091.9	1,056.7	920.0	3,944.2
Gross profit:					
2000	177.0	245.0	242.5	174.0	838.5
1999	147.2	169.3	163.8	187.4	667.7
1998	169.6	188.0	188.9	141.4	687.9
Earnings from continuing operations:					
2000	23.2	63.9	59.8	16.7	163.6
1999	22.9	44.8	50.8	89.6	208.1
1998	33.6	40.2	35.4	30.9	140.1
Earnings before cumulative effect of accounting change:					
2000	23.2	63.9	59.8	16.7	163.6
1999	22.9	44.8	50.8	89.6	208.1
1998	30.6	15.2	35.4	38.5	119.7
Net earnings:					
2000	20.8	63.9	59.8	16.7	161.2
1999	22.9	44.8	50.8	89.6	208.1
1998	30.6	15.2	35.4	38.5	119.7
Per common share — basic: ⁽¹⁾					
Earnings from continuing operations:					
2000	.22	.62	.59	.17	1.61
1999	.22	.44	.50	.87	2.04
1998	.32	.39	.34	.30	1.36
Discontinued operations:					
1998	(.03)	(.24)		.07	(.20)
Earnings before cumulative effect of accounting change:					
2000	.22	.62	.59	.17	1.61
1999	.22	.44	.50	.87	2.04
1998	.29	.15	.34	.37	1.16
Cumulative effect of accounting change:					
2000	(.02)				(.02)
Net earnings:					
2000	.20	.62	.59	.17	1.59
1999	.22	.44	.50	.87	2.04
1998	.29	.15	.34	.37	1.16
Per common share — assuming dilution: ⁽¹⁾					
Earnings from continuing operations:					
2000	.22	.62	.59	.17	1.60
1999	.22	.43	.48	.86	1.99
1998	.32	.38	.34	.30	1.34
Discontinued operations:					
1998	(.03)	(.24)		.07	(.20)
Earnings before cumulative effect of accounting change:					
2000	.22	.62	.59	.17	1.60
1999	.22	.43	.48	.86	1.99
1998	.29	.14	.34	.37	1.14
Cumulative effect of accounting change:					
2000	(.02)				(.02)
Net earnings:					
2000	.20	.62	.59	.17	1.58
1999	.22	.43	.48	.86	1.99
1998	.29	.14	.34	.37	1.14
Cash dividends per common share:					
2000	.17	.17	.17	.17	.68
1999	.16	.16	.16	.17	.65
1998	.16	.16	.16	.16	.64

⁽¹⁾The number of shares used in the calculation of per share data is computed based on quarterly averages; therefore, the sum of individual earnings per share may not equal the annual computation.

Statements of Earnings

Year Ended December 31 (all amounts in millions, except per share amounts)	2000	1999	1998
Net sales	\$4,368.1	\$3,996.1	\$3,944.2
Costs and expenses:			
Cost of sales (Note K)	3,529.6	3,328.4	3,256.3
Selling and administrative expenses (Note K)	493.1	387.4	387.5
	4,022.7	3,715.8	3,643.8
Earnings from operations	345.4	280.3	300.4
Other revenues — net (Note L)	10.9	96.7	34.2
Interest and debt expense	(121.0)	(105.1)	(109.0)
Earnings from continuing operations before income taxes	235.3	271.9	225.6
Income taxes (Note M)	82.5	98.5	83.7
Earnings from continuing operations before equity in net earnings (loss) of investees	152.8	173.4	141.9
Equity in net earnings (loss) of investees (Note D)	10.8	34.7	(1.8)
Earnings from continuing operations	163.6	208.1	140.1
Discontinued operations (Note N)			(20.4)
Earnings before cumulative effect of change in accounting principle	163.6	208.1	119.7
Cumulative effect of change in accounting principle (Note A)	(2.4)		
Net earnings	\$ 161.2	\$ 208.1	\$ 119.7
Earnings per common share — basic (Note A):			
Earnings from continuing operations	\$ 1.61	\$ 2.04	\$ 1.36
Discontinued operations			(.20)
Earnings before cumulative effect of change in accounting principle	1.61	2.04	1.16
Cumulative effect of change in accounting principle	(.02)		
Net earnings	\$ 1.59	\$ 2.04	\$ 1.16
Weighted-average number of common shares outstanding	101.5	102.3	103.3
Earnings per common share — assuming dilution (Note A):			
Earnings from continuing operations	\$ 1.60	\$ 1.99	\$ 1.34
Discontinued operations			(.20)
Earnings before cumulative effect of change in accounting principle	1.60	1.99	1.14
Cumulative effect of change in accounting principle	(.02)		
Net earnings	\$ 1.58	\$ 1.99	\$ 1.14
Weighted-average number of common shares outstanding — assuming dilution	102.3	104.6	104.9

See notes to financial statements.

Balance Sheets

December 31 (all dollar amounts in millions)	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 29.4	\$ 56.4
Accounts receivable, less allowance for doubtful accounts of \$7.6 in 2000 and \$8.1 in 1999	557.3	547.7
Inventories (Note C)	561.5	489.9
Deferred tax asset (Note M)	91.5	77.5
Other current assets	41.6	58.8
Total current assets	1,281.3	1,230.3
Investments and other assets (Notes B, D and O)	1,128.8	1,074.0
Property, plant and equipment, net (Note E)	3,269.9	3,357.4
Total assets	\$5,680.0	\$5,661.7
LIABILITIES AND SHAREOWNERS' EQUITY		
Current liabilities:		
Notes payable (Note G)	\$ 200.3	\$ 186.2
Accounts payable (Note F)	269.1	266.1
Accrued expenses and other current liabilities (Notes F and R)	530.3	513.2
Current maturities of long-term debt (Note G)	12.6	35.1
Total current liabilities	1,012.3	1,000.6
Long-term debt (Notes G and Q)	1,322.8	1,333.7
Commitments and contingent liabilities (Notes Q and R)		
Deferred items (Notes M and P)	947.1	896.6
Shareowners' equity (Notes I, J and T):		
Common shares	147.4	153.0
Additional paid-in capital	125.2	121.6
Retained earnings	2,172.9	2,178.0
Other comprehensive loss	(47.7)	(21.8)
	2,397.8	2,430.8
Total liabilities and shareowners' equity	\$5,680.0	\$5,661.7

See notes to financial statements.

Statements of Shareowners' Equity

(all dollar amounts in millions, except per share amounts; all share amounts in thousands)	Common Shares		Additional Paid-In Capital	Retained Earnings	Other Comprehensive Loss (Note T)	Comprehensive Earnings (Note T)
	Shares	Amount				
December 31, 1997	103,885	\$154.9	\$ 53.5	\$2,100.6	\$(20.5)	
Net earnings				119.7		\$119.7
Shares issued	587	.9	14.5			
Shares purchased	(2,642)	(3.9)	(1.7)	(77.2)		
Cash dividends — \$.64 a common share				(66.2)		
Foreign currency translation adjustment					(15.0)	(15.0)
Change in minimum pension liability (net of income tax benefit of \$4.5)					(7.6)	(7.6)
December 31, 1998	101,830	151.9	66.3	2,076.9	(43.1)	<u>\$ 97.1</u>
Net earnings				208.1		\$208.1
Shares issued	1,978	2.9	56.4			
Shares purchased	(1,229)	(1.8)	(1.1)	(40.5)		
Cash dividends — \$.65 a common share				(66.5)		
Foreign currency translation adjustment					17.2	(3.3)
Change in minimum pension liability (net of income taxes of \$.5)					.8	.8
Change in unrealized gain on available-for-sale securities (net of income taxes of \$1.8) (Note D)					3.3	3.3
December 31, 1999	102,579	153.0	121.6	2,178.0	(21.8)	<u>\$208.9</u>
Net earnings				161.2		\$161.2
Shares issued	360	.5	8.8			
Shares purchased	(4,071)	(6.1)	(5.2)	(96.9)		
Cash dividends — \$.68 a common share				(69.4)		
Foreign currency translation adjustment					(11.4)	(11.4)
Change in minimum pension liability (net of income tax benefit of \$.3)					(.6)	(.6)
Change in unrealized loss on available-for-sale securities (net of income tax benefit of \$7.4) (Note D)					(13.9)	(13.9)
December 31, 2000	98,868	\$147.4	\$125.2	\$2,172.9	\$(47.7)	<u>\$135.3</u>

See notes to financial statements.

Statements of Cash Flows

Year Ended December 31 (all dollar amounts in millions)	2000	1999	1998
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>			
Cash flows from operating activities:			
Net earnings	\$ 161.2	\$ 208.1	\$ 119.7
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation, amortization and depletion of property, plant and equipment	276.4	263.2	260.3
Depreciation and amortization of other assets	60.5	44.2	41.5
Deferred income taxes	22.0	11.9	30.5
Investees — earnings and dividends	(1.1)	(16.1)	16.3
Gain on sale of assets		(86.3)	(28.3)
Discontinued operations			20.4
Cumulative effect of change in accounting principle	2.4		
Other	(10.1)	23.0	8.9
Change in assets and liabilities, excluding effects of acquisitions and dispositions:			
Accounts receivable	(25.5)	(1.2)	17.1
Inventories	(56.5)	34.0	(46.0)
Other current assets	17.2	7.4	(5.6)
Accounts payable and accrued liabilities	21.3	(3.6)	(3.7)
Cash (used in) discontinued operations			(8.5)
Net cash provided by operating activities	467.8	484.6	422.6
Cash flows from investing activities:			
Capital expenditures	(205.9)	(212.9)	(384.0)
Additions to equipment rented to others	(28.3)	(26.8)	(31.1)
Payments for acquired businesses, net of cash acquired	(41.9)	(559.0)	(50.9)
Proceeds from sale of assets		185.2	342.2
Other	(28.1)	(33.0)	(33.6)
Net cash (used in) investing activities	(304.2)	(646.5)	(157.4)
Cash flows from financing activities:			
Additional borrowings	10.0	15.0	160.5
Payments on borrowings	(45.0)	(23.4)	(217.2)
Notes payable	14.1	186.2	
Cash dividends paid	(69.4)	(66.5)	(66.2)
Common shares issued	7.9	48.4	13.0
Common shares purchased	(108.2)	(43.4)	(82.8)
Net cash provided by (used in) financing activities	(190.6)	116.3	(192.7)
Increase (decrease) in cash and cash equivalents	(27.0)	(45.6)	72.5
Cash and cash equivalents at beginning of year	56.4	102.0	29.5
Cash and cash equivalents at end of year	\$ 29.4	\$ 56.4	\$ 102.0

See notes to financial statements.

Notes to Financial Statements

Years Ended December 31, 2000, 1999 and 1998

Note A | Significant Accounting Policies

CONSOLIDATION The accompanying financial statements include the accounts of the company and its wholly owned subsidiaries. All significant intercompany transactions are eliminated. Investments in investees are stated at cost plus the company's equity in their undistributed net earnings since acquisition.

CASH AND CASH EQUIVALENTS The company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

INVENTORIES The inventories of finished and semi-finished products and raw materials are stated at the lower of cost or market determined primarily on the last-in, first-out (LIFO) basis. Stores and supplies are stated at average cost.

OTHER ASSETS Included in other assets are goodwill, capitalized software, equipment rented to others and other intangibles, which are being amortized using the straight-line method over their estimated useful lives of three to 20 years. The company periodically reviews goodwill balances for impairment based on the expected future cash flows of the related businesses acquired.

COMPUTER SOFTWARE COSTS The company records software development costs in accordance with the American Institute of Certified Public Accountants' Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*.

DEPRECIATION AND DEPLETION Depreciation of property, plant and equipment and amortization of capital leases and land improvements are calculated using the straight-line method over the estimated useful lives of the properties. The rates used to determine timber depletion are based on projected quantities of timber available for cutting and are calculated annually.

INTEREST RATE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS Amounts currently due to or from interest rate swap counterparties are recorded in interest expense in the period in which they accrue. The premiums paid to purchase interest rate caps, as well as gains or losses on terminated interest rate swap and cap agreements, are included in long-term liabilities or assets and amortized to interest expense over the shorter of the original term of the agreements or the life of the financial instruments to which they are matched. Gains or losses on foreign currency forward contracts are recognized currently through income and generally offset the transaction losses or gains on the foreign currency cash flows which they are intended to hedge.

ENVIRONMENTAL LIABILITIES The company records accruals for environmental costs based on estimates developed in consultation with environmental consultants and legal counsel in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 5. The estimated costs to be incurred in closing existing landfills, based on current environmental requirements and technologies, are accrued over the expected useful lives of the landfills.

ESTIMATES AND ASSUMPTIONS The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported revenues and expenses during a period. Estimates and assumptions are also used in the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

REVENUE RECOGNITION The company recognizes revenue when ownership risk passes, which is generally when goods are shipped.

NET EARNINGS PER COMMON SHARE Net earnings per common share are computed by dividing net earnings by the weighted average number of common shares outstanding during each year. The difference between earnings per common share and earnings per common share (assuming dilution) is the result of outstanding stock options.

STOCK OPTIONS The company measures compensation cost for stock options issued to employees using the intrinsic value based method of accounting in accordance with Accounting Principles Board Opinion No. 25.

RECLASSIFICATION Certain prior year amounts have been reclassified to conform to current year presentation. The company changed the presentation of its income statement to include cost of sales and selling and administration expenses under the heading of costs and expenses, eliminating the gross margin line. This change conforms the company's presentation to more closely compare to that of other companies in its industry. Additionally, in compliance with EITF 00-10, *Accounting for Shipping and Handling Fees and Costs*, the company reclassified to revenue certain shipping and handling costs billed to customers that were previously recorded as an offset to shipping and handling costs included in cost of goods sold.

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE In 2000, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements*, which addresses the timing of revenue recognition. In response to SAB 101, the company undertook a review of its revenue recognition practices and identified certain provisions included in a limited number of sales arrangements that delayed the recognition of revenue under SAB 101. During the fourth quarter 2000, the company changed its method of accounting for the provisions included in these sales agreements to be in accordance with SAB 101. The company has retroactively adopted SAB 101 as of January 1, 2000, and has recorded a cumulative effect adjustment of \$2.4 million, net of tax of \$1.3 million, in 2000 to reflect application of the new accounting. The cumulative effect adjustment was computed based on revenue of \$15.9 million initially recognized in 1999 that was delayed to 2000 under SAB 101. The adoption of SAB 101 did not have a material impact on the net earnings of 2000. In addition, there is no material change in pro forma results assuming retroactive application of the change in accounting principle for 1999 and 1998.

ACCOUNTING PRONOUNCEMENTS Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, requires derivatives to be recorded on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in fair value of the derivatives are recorded depending upon whether the instruments meet the criteria for hedge accounting. This Statement will be adopted effective January 1, 2001, and will result in a cumulative after-tax reduction in net earnings of approximately \$10.4 million and a reduction in other comprehensive loss of \$10.3 million in the first quarter of 2001.

Note B | Acquisitions

On November 1, 1999, the company acquired the AT-A-GLANCE Group of Cullman Ventures, Inc., a manufacturer of diaries, appointment books, calendars, posters, organizers and planners, for approximately \$540 million in cash. The acquisition has been accounted for as a purchase, and the results of its operations are reflected in the accompanying financial statements from the date of acquisition. The acquisition resulted in goodwill of \$265 million, which reflects the final allocation of the purchase price in 2000. The goodwill is being amortized on the straight-line method over 20 years.

Included in the purchase price allocation are charges of \$6.6 million associated with the shutdown and consolidation of operating facilities acquired as part of the AT-A-GLANCE acquisition. The adjustment included \$3.1 million for lease termination costs and other contractual obligations which will derive no future benefits, and \$3.5 million for severance costs including medical, dental and other personnel-related costs. The severance costs related to 146 salaried and hourly employees, of whom 76 employees had left the company on or before December 31, 2000. Payments of \$1.4 million were made by December 31, 2000, related to lease termination costs and other contractual obligations; the remaining liability of \$1.7 million is expected to be paid by the end of the second quarter of 2001. Severance-related amounts of \$1.8 million were paid by December 31, 2000; the remaining severance-related liability of \$1.7 million is expected to be paid by the end of the second quarter of 2001.

To comply with disclosures required by generally accepted accounting principles related to acquisitions, the following unaudited pro forma combined results of operations are presented as though the acquisition occurred at the beginning of each period presented below. In management's opinion, the unaudited pro forma combined results of operations are not indicative of the actual results that would have occurred under the ownership and management of the company.

The following unaudited pro forma information includes adjustments for income taxes, interest expense, depreciation and amortization expense to reflect the accounting basis used to record the acquisition:

Year Ended December 31 (all dollar amounts in millions, except per share amounts)	1999	1998
Net sales	\$4,281.3	\$4,274.1
Earnings from continuing operations	\$ 210.4	\$ 141.9
Net earnings	\$ 210.4	\$ 121.5
Earnings per common share — basic:		
Earnings from continuing operations	\$ 2.06	\$ 1.37
Net earnings	\$ 2.06	\$ 1.17
Earnings per common share — assuming dilution:		
Earnings from continuing operations	\$ 2.01	\$ 1.35
Net earnings	\$ 2.01	\$ 1.16

The company made additional acquisitions for approximately \$42 million and \$27 million in cash during 2000 and 1999, respectively. These acquisitions were also accounted for as purchases.

Note C | Inventories

December 31 (all dollar amounts in millions)	2000	1999
Finished and semi-finished products	\$360.1	\$297.1
Raw materials	117.2	113.7
Stores and supplies	84.2	79.1
	\$561.5	\$489.9

For purposes of comparison to non-LIFO companies, inventories valued at current replacement cost would have been \$182.8 million and \$169.7 million higher than reported at December 31, 2000 and 1999, respectively.

Note D | Investments and Other Assets

December 31 (all dollar amounts in millions)	2000	1999
Pension asset	\$ 304.4	\$ 285.5
Goodwill and other intangibles (net of accumulated amortization of \$34.1 in 2000 and \$10.0 in 1999)	427.1	387.0
Cash surrender value of life insurance, less policy loans of \$57.2 in 2000 and \$50.6 in 1999	157.7	147.3
Equipment rented to others, at cost (net of accumulated depreciation of \$258.6 in 2000 and \$265.4 in 1999)	65.3	69.4
Convertible debentures (including unrealized loss of \$16.2 in 2000 and unrealized gain of \$5.1 in 1999)	47.6	69.4
Capitalized software (net of accumulated amortization of \$11.6 in 2000 and \$11.9 in 1999)	53.8	37.6
Investment in investees	31.0	28.3
Other	41.9	49.5
	\$1,128.8	\$1,074.0

During 1999, the company sold its 50%-owned investment in Northwood Inc. (see Note L). The company's remaining principal investees are the 30% ownership interest in a limited partnership that operates the cogeneration facility located at the Rumford, Maine, paper mill and the 50% ownership interest in Northwood Panelboard Company, an oriented strand board mill in Bemidji, Minnesota. The company received dividends and partnership distributions of \$15.5 million, \$27.1 million and \$20.3 million in 2000, 1999 and 1998, respectively.

The convertible debentures have a par value of \$77.5 million in Canadian dollars. They are classified as available-for-sale securities and are carried at fair value with unrealized gains or losses, net of tax, reported in other comprehensive loss. Fair value of the securities is based on an independent valuation. The securities are convertible to common shares of the issuer at any time, redeemable by the issuer beginning in November 2002 and mature in November 2006.

Note E | Property, Plant and Equipment

December 31 (all dollar amounts in millions)	2000	1999
Property, plant and equipment, at cost:		
Land and land improvements	\$ 159.1	\$ 156.0
Buildings	642.9	638.3
Machinery and equipment	4,733.0	4,646.0
Construction in progress	107.4	82.9
	5,642.4	5,523.2
Less accumulated amortization and depreciation	(2,762.6)	(2,547.0)
	2,879.8	2,976.2
Timber and timberlands, net of timber depletion	390.1	381.2
Property, plant and equipment, net	\$ 3,269.9	\$ 3,357.4

Note F | Current Liabilities

December 31 (all dollar amounts in millions)	2000	1999
Accounts payable:		
Trade	\$206.7	\$220.2
Outstanding checks	62.4	45.9
	\$269.1	\$266.1
Accrued expenses and other current liabilities:		
Accrued wages	\$105.5	\$108.0
Accrued rebates and allowances	111.1	99.0
Taxes, other than income	33.2	40.2
Accrued interest	37.1	36.8
Other current liabilities	243.4	229.2
	\$530.3	\$513.2

Note G | Debt

December 31 (all dollar amounts in millions)	2000	1999
Capital lease obligations	\$ 285.9	\$ 287.4
Variable-rate Industrial Development Revenue Bonds, due from 2001 through 2033, average effective rate 4.0%	165.4	165.4
8½% debentures, face amount of \$150.0, due 2023 (effective rate 8.4%)	148.1	148.0
7½% debentures, face amount of \$150.0, due 2025 (effective rate 7.4%)	147.4	147.3
7.35% debentures, face amount of \$150.0, due 2017 (effective rate 7.4%)	148.7	148.6
6.84% debentures, face amount of \$150.0, due 2037 (effective rate 7.0%)	148.7	148.4
7.55% debentures, face amount of \$150.0, due 2047 (effective rate 7.7%)	143.9	143.7
6.60% notes, face amount of \$100.0, due 2002 (effective rate 6.9%)	99.6	99.3
Medium-term notes, 7.3% to 9.8%, face amount of \$45.5 in 2000 and \$78.5 in 1999, due from 2002 through 2020 (effective rate 9.9%)	44.5	76.8
Other	3.2	3.9
	1,335.4	1,368.8
Less current portion	12.6	35.1
	\$1,322.8	\$1,333.7

Capital lease obligations consist primarily of Industrial Development Revenue Bonds and Notes with an average effective rate of 4.9%. The variable-rate Industrial Development Revenue Bonds are supported by letters of credit. The interest rates on the variable-rate tax-exempt bonds closely follow the tax-exempt commercial paper rates. Notes payable represent short-term borrowings with a weighted-average interest rate of 6.6%.

The 8 $\frac{1}{8}$ % and 7 $\frac{1}{8}$ % debentures are callable by the company at approximately 103% beginning in 2003. The 6.84% debentures can be put to the company at par value in 2007.

The company has an unused \$300 million bank credit agreement that extends until November 2005 and an unused \$300 million bank credit agreement that expires November 2001. These agreements support \$49.5 million of the company's capital lease obligations and \$61.0 million of notes payable. They contain restrictive covenants and require commitment fees in accordance with standard banking practice. The company has the ability to borrow up to \$489.5 million pursuant to these agreements at December 31, 2000.

Maturities of long-term debt for the next five years are \$12.6 million in 2001, \$135.3 million in 2002, \$.7 million in 2003, \$6.7 million in 2004 and \$.4 million in 2005.

The company has guaranteed obligations of certain affiliated operations and others totaling \$26.9 million at December 31, 2000. In addition, the company has a 50% interest in a partnership with Kimberly-Clark Corporation, which has borrowed \$300 million under a loan agreement with a syndicate of banks, which matures in 2003. The loan, one-half of which has been guaranteed by the company, may be prepaid at any time either in cash or by delivery of notes receivable from Georgia-Pacific Corporation held by the partnership as part of the consideration from the 1988 sale of Brunswick Pulp and Paper Company, a former affiliate. It is not practicable to estimate the fair value of the above guarantees; however, the company does not expect to incur losses as a result of these guarantees.

Note H | Financial Instruments

The company uses various derivative financial instruments as part of an overall strategy to manage exposure to market risks associated with interest rate and foreign currency exchange rate fluctuations. The company uses foreign currency forward contracts to manage the foreign currency exchange rate risks associated with its international operations. The company utilizes interest rate swap and cap agreements to manage its interest rate risks on its debt instruments, including the reset of interest rates on variable-rate debt. The company does not hold or issue derivative financial instruments for trading purposes.

The risk of loss to the company in the event of nonperformance by any counterparty under derivative financial instrument agreements is not considered significant by management. All counterparties are rated A or higher by Moody's and Standard and Poor's. Although the derivative financial instruments expose the company to market risk, fluctuations in the value of the derivatives are mitigated by expected offsetting fluctuations in the matched instruments.

As part of an overall strategy to maintain an acceptable level of exposure to the risk of interest rate fluctuation, the company has developed a targeted mix of fixed-rate and cap-protected debt versus variable-rate debt. To efficiently manage this mix, the company may utilize interest rate swap, cap and option agreements to effectively convert the debt portfolio into an acceptable fixed-rate, capped-rate and variable-rate mix.

Under interest rate swap agreements, the company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and variable-rate interest amounts calculated by reference to an agreed-upon notional principal amount. The company utilizes interest rate cap agreements to limit the impact of increases in interest rates on its floating rate debt. The interest rate cap agreements require premium payments to counterparties based upon a notional principal amount. Interest rate cap agreements entitle the company to receive from the counterparties the amounts, if any, by which the selected market interest rates exceed the strike rates stated in the agreements.

The fair values of the interest rate swap and cap agreements are estimated using quotes from brokers and represent the cash requirement if the existing agreements had been settled at year-end. Selected information related to the company's interest rate swap and cap agreements is as follows:

December 31 (all dollar amounts in millions)	Swap Agreements		Cap Agreements	
	2000	1999	2000	1999
Notional amount	\$84.3	\$114.2	\$50.0	\$50.0
Fair value	\$ (.5)	\$ (3.1)	\$	\$
Carrying amount	.3	(1.5)	.1	.1
Net unrecognized gain (loss)	\$ (.8)	\$ (1.6)	\$ (.1)	\$ (.1)

The company utilizes foreign currency forward contracts to reduce exposure to exchange rate risks primarily associated with transactions in the regular course of the company's international operations. The forward contracts establish the exchange rates at which the company will purchase or sell the contracted amount of specified foreign currencies at a future date. The company utilizes forward contracts which are short-term in duration (generally one month) and receives or pays the difference between the contracted forward rate and the exchange rate at the settlement date. The major currency exposures hedged by the company are the Canadian dollar, British pound, Japanese yen and Euro. Selected information related to the company's foreign currency forward contracts is as follows:

December 31 (all dollar amounts in millions)	Foreign Currency Forward Contracts	
	2000	1999
Notional amount	\$110.6	\$239.7
Fair value	\$.6	\$ 6.9
Carrying amount	.6	6.9
Net unrecognized gain (loss)	\$	\$

The fair value of the company's long-term debt is estimated based on quoted market prices for the same or similar issues or on current rates offered to the company for debt of the same remaining maturities. The fair value of long-term debt was \$1,307.7 million and \$1,295.0 million at December 31, 2000 and 1999, respectively, and the related carrying amounts were \$1,322.8 million and \$1,333.7 million, respectively. The carrying amount of the notes payable and the current maturities of long-term debt are reasonable estimates of their fair value.

At December 31, 2000 and 1999, the company held short-term investments which are included in cash and cash equivalents. The carrying amount of these short-term investments is a reasonable estimate of fair value. See Note D for disclosure regarding the investment in convertible debentures.

Note I | Shareowners' Equity

The company has authorized 300 million no par common shares. The company has outstanding authorization from the Board of Directors to repurchase up to 10 million common shares of which 4.1 million have been repurchased at December 31, 2000.

Under a Rights Agreement, each outstanding common share presently has one right attached which trades with the common share. Generally, the rights become exercisable and trade separately 10 days after a third party acquires 20% or more of the common shares or commences a tender offer for a specified percentage of the common shares. In addition, the rights become exercisable if any party becomes the beneficial owner of 10% or more of the outstanding common shares and is determined by the Board of Directors to be an adverse party. Upon the occurrence of certain additional triggering events specified in the Rights Agreement, each right would entitle its holder (other than, in certain instances, the holder of 20% or more of the common shares) to purchase common shares of the company (or, in certain circumstances, cash, property or other securities of the company) having a value of \$100 for \$50, the initial exercise price. The rights expire in 2006 and are presently redeemable at \$.005 per right. At December 31, 2000, there were 110.8 million common shares reserved for issuance under this plan.

The Board of Directors has approved termination benefits for certain key executives and a severance plan for all other salaried employees and established a Benefit Trust in connection with the company's unfunded supplemental retirement plan, incentive compensation plans and supplements, deferred compensation plans and supplements, former directors retirement plan, excess earnings benefit plans, directors capital accumulation plan, executive capital accumulation plan, Section 415 excess benefit plan and executive severance agreements to preserve the benefits earned thereunder in the event of a change in control of the company. These plans would be required to be immediately funded upon occurrence of a triggering event (including a potential change in control or actual change in control).

The company has preferred shares authorized but unissued as follows: 61,500 undesignated cumulative preferred, par value \$100; 20 million undesignated voting cumulative preferred, without par value; 20 million cumulative preferred, without par value; and 295,540 cumulative second preferred, par value \$50.

At December 31, 2000, there was \$845.9 million available for common dividends, which represents the maximum amount of additional indebtedness that can be incurred solely to pay common dividends while remaining in compliance with certain debt covenants.

Note J | Stock-Based Compensation Plans

Officers and key employees have been granted stock options under various stock-based compensation plans. Options to purchase 3.6 million shares are accompanied by limited rights which may be exercised in lieu of the option under certain circumstances. The exercise price of all options equals the market price of the company's stock on the date of the grant. The options and rights have a maximum term of 10 years and vest after one year or three years. There are 11.1 million shares reserved for issuance under the 1991 and 1996 Stock Option Plans.

A Restricted Stock Plan provides for the issuance of restricted common shares to certain employees and to directors who are not officers or employees of the company. These shares are restricted for periods of six months to eight years. At December 31, 2000, 3,000 common shares were issued and outstanding under the plan. There are 645,000 shares reserved for issuance under this plan. There were 86,000, 39,000 and 7,000 shares granted in 2000, 1999 and 1998, respectively, at a weighted-average price of \$32.08, \$29.99 and \$29.24, respectively.

The following table summarizes activity in the company's stock-based compensation plans:

(all share amounts in thousands)	2000		1999		1998	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	8,442	\$27.95	8,574	\$26.68	7,480	\$24.62
Granted	1,210	31.27	1,954	30.59	1,734	34.11
Exercised	(295)	19.49	(2,021)	24.98	(604)	22.12
Canceled	(190)	31.33	(65)	31.89	(36)	32.97
Outstanding at end of year	9,167	\$28.59	8,442	\$27.95	8,574	\$26.68
Exercisable at year-end	7,785	\$27.99	6,343	\$27.05	6,739	\$24.77
Weighted-average fair value of options granted during the year using the extended binomial option-pricing model	\$9.48		\$8.58		\$10.56	
Weighted-average assumptions used for grants:						
Expected dividend yield	2%		2%		2%	
Expected volatility	29%		25%		29%	
Risk-free interest rate	6.6%		5.2%		5.6%	
Expected life of option (in years)	6.0		6.0		6.0	

The following table shows various information about stock options outstanding at December 31, 2000:

(all share amounts in thousands)	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2000	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable at December 31, 2000	Weighted-Average Exercise Price
Range of Exercise Prices					
\$13.31 – \$18.32	401	.8	\$16.82	401	\$16.82
21.75 – 29.82	6,011	5.7	27.28	5,930	27.27
30.22 – 43.41	2,755	8.1	33.17	1,454	34.01
\$13.31 – \$43.41	9,167	6.2	\$28.59	7,785	\$27.99

Total compensation costs charged to earnings from continuing operations before income taxes for all stock-based compensation awards were not significant in 2000, 1999 and 1998. Had compensation costs been determined based on the fair value method of SFAS No. 123 for all plans, the company's net earnings and earnings per common share would have been reduced to the following pro forma amounts:

Year Ended December 31	2000	1999	1998
Net earnings (in millions):			
As reported	\$161.2	\$208.1	\$119.7
Pro forma	\$153.0	\$198.4	\$108.7
Earnings per common share — assuming dilution:			
As reported	\$ 1.58	\$ 1.99	\$ 1.14
Pro forma	\$ 1.50	\$ 1.90	\$ 1.04

Note K | Asset Write-downs and Employee Termination Costs

During 2000, the company recorded a pretax charge of \$9.5 million in cost of sales associated with the shutdown and disposal of one Consumer and Office Products location and the shutdown of one Packaging and Paperboard location. The charges included \$1.3 million for transferring equipment to other locations, \$6.8 million for severance costs including medical, dental and other benefits, and an additional \$1.4 million in depreciation expense. Machinery and equipment was transferred to various Consumer and Office Products and Packaging and Paperboard locations and expensed as incurred. The severance costs related to 269 salaried and hourly employees, of whom 259 employees had left the company on or before December 31, 2000. Substantially all severance-related amounts not paid by December 31, 2000, are expected to be paid by the end of the first quarter of 2001. Of the total charge, \$6.4 million was recorded in the third quarter and \$3.1 million in the fourth quarter. In accordance with SFAS No. 121, the estimated useful lives of certain equipment at the Packaging and Paperboard location were reviewed and updated to reflect the shutdown of this location resulting in \$1.4 million of additional depreciation in the third and fourth quarters.

During 1999, the company recorded a pretax charge of \$18.9 million (\$17.5 million in cost of sales and \$1.4 million in selling and administrative expenses) associated with the shutdown and disposal of four uncoated paper machines at the Rumford, Maine, paper mill. The charge included \$13.5 million for asset write-downs and contractual obligations and \$5.4 million for severance costs including medical, dental and other benefits. A review for impairment in accordance with SFAS No. 121 was performed and resulted in recognition of a \$10.6 million impairment charge to adjust the carrying amount of machinery and equipment and related spare parts included in stores and supplies inventory to their estimated fair values. Also included in the \$13.5 million charge is \$2.6 million to write off an investment in a joint venture as a result of the permanent decline in its value. The joint venture sold products manufactured on the affected machines. A charge of \$.3 million was recorded related to certain contractual obligations which will derive no future benefits. The severance costs related to 113 salaried and hourly employees who left the company and were paid by the end of the first quarter of 2000. Of the total charge, \$15.6 million was recorded in the second quarter and \$3.3 million in the fourth quarter.

In 1998, the company recorded a pretax charge of \$37.7 million primarily in cost of sales for asset write-downs and other charges. The charges were comprised of a \$10.4 million reserve for stores and supplies inventory; \$10.4 million for the write-off of capitalized costs related to unimplemented software in development abandoned as a result of the decision to implement an enterprise resource planning computer system; an \$8.2 million charge related to the Japanese packaging operation; \$4.6 million for the write-off and disposal of certain plant equipment that was replaced by new equipment at the Packaging and Paperboard segment's mill in Stevenson, Alabama; \$2.9 million for the write-off of a capital project in process that was not undertaken as a result of market changes; and a special assessment of \$1.2 million related to customs issues.

The reserve for stores and supplies was recorded upon the completion of a study in the second quarter of 1998 to determine the future utility of obsolete and excess replacement parts that are used to support the maintenance of plant machinery and equipment in the Paper and Packaging and Paperboard segments. The study identified the specific items which were to be disposed of and the company is holding those items for disposal. The reserve adjusted those items identified to their net realizable value, and the company commenced a disposal program at that time. All items were disposed of and the related reserve was utilized for its intended purpose by the end of the first quarter of 2000.

As a result of the deteriorating economic environment in Japan and poor operating performance by the Japanese packaging operation, a charge was recorded in 1998 to write down certain inventory and to reflect the impairment of property, plant and equipment and goodwill. The fair value of the fixed assets and goodwill and the related write-down in value was determined based on management's assessment of the future cash flows of the operations.

In the third quarter of 1998, the company adopted a plan to make organizational changes and reduce its work force, and recorded a charge of \$22.0 million for employee severance and related costs in selling and administrative expenses. This plan involved terminating 318 domestic employees, primarily salaried, and was communicated to affected employees in the third quarter of 1998. The charge covered severance payments and medical, dental and other benefits. Pursuant to this plan, 291 people left the company, with the remainder of the planned terminations not occurring as a result of placement of affected employees in other open positions within the company. As a result of fewer people being terminated, lower severance benefits paid than estimated and less utilization of outplacement benefits by terminated employees, the company reversed \$2.7 million of the original charge to selling and administrative expenses in the third quarter of 1999.

The following is a summary related to the severance charges:

(all dollar amounts in millions)	2000 Severance Charge	1999 Severance Charge	1998 Severance Charge
Charge recorded	\$	\$	\$ 22.0
Used for intended purpose			(12.1)
Balance at December 31, 1998			9.9
Charge recorded		5.4	
Used for intended purpose		(2.7)	(7.2)
Charge reversed			(2.7)
Balance at December 31, 1999		2.7	
Charge recorded	6.8		
Used for intended purpose	(5.5)	(2.7)	
Balance at December 31, 2000	\$ 1.3	\$	\$

The total charges (credits) by segment for asset write-downs and employee termination costs are as follows:

Year Ended December 31 (all dollar amounts in millions)	2000	1999	1998
Paper	\$	\$17.4	\$28.2
Packaging and Paperboard	3.4	(.8)	25.2
Consumer and Office Products	6.1	(.1)	4.6
Corporate and other		(.3)	1.7
	\$9.5	\$16.2	\$59.7

Note L | Other Revenues — Net

Year Ended December 31 (all dollar amounts in millions)	2000	1999	1998
Investment income	\$ 8.1	\$ 5.4	\$ 6.4
Gain on sale of Northwood		82.3	
Gain on sale of assets		4.0	28.3
Other	2.8	5.0	(.5)
	\$10.9	\$96.7	\$34.2

During the fourth quarter of 1999, the company sold its 50%-owned investment in Northwood Inc. for \$77.5 million of convertible debentures in Canadian dollars (fair value of \$63.8 million in U.S. dollars at the sale date) and approximately \$163.8 million of cash and recognized a gain of \$82.3 million.

The 1998 gain on sale of assets is comprised of \$11.8 million on the sale of timberland, \$13.9 million related to the sale of nonstrategic packaging businesses and \$2.6 million on the sale of an undeveloped mill site in Tennessee.

Note M | Income Taxes

The principal current and noncurrent deferred tax assets and (liabilities) are as follows:

December 31 (all dollar amounts in millions)	2000	1999
Deferred tax liabilities:		
Accelerated depreciation for tax purposes	\$(586.6)	\$(564.8)
Nontaxable pension asset	(115.7)	(108.5)
Deferred installment gain	(47.5)	(47.5)
Other	(50.6)	(64.3)
	(800.4)	(785.1)
Deferred tax assets:		
Tax credit carryforwards		40.6
Compensation and fringe benefits accruals	76.5	67.9
Postretirement benefit accrual	53.5	52.9
Loss provisions and other expenses not currently deductible	68.6	72.2
Other	44.3	30.1
	242.9	263.7
Net deferred liability	\$(557.5)	\$(521.4)
Included in the balance sheets:		
Current assets — deferred tax asset	\$ 91.5	\$ 77.5
Deferred items	(649.0)	(598.9)
Net deferred liability	\$(557.5)	\$(521.4)

The significant components of income tax expense are as follows:

Year Ended December 31 (all dollar amounts in millions)	2000	1999	1998
Currently payable:			
Federal	\$50.9	\$ 33.3	\$ 9.8
Federal alternative minimum tax		2.1	11.1
State and local	4.7	5.3	3.3
Foreign	10.7	54.4	13.4
	66.3	95.1	37.6
Change in deferred income taxes	15.6	14.2	26.0
	81.9	109.3	63.6
Allocation to partnership earnings	(5.8)	(8.5)	(5.7)
Allocation to discontinued operations			21.3
Allocation to cumulative effect of change in accounting principle	(1.3)		
Allocation to other comprehensive loss	7.7	(2.3)	4.5
	\$82.5	\$ 98.5	\$83.7

The following table summarizes the major differences between the actual income tax provision attributable to continuing operations and taxes computed at the federal statutory rates:

Year Ended December 31 (all dollar amounts in millions)	2000	1999	1998
Federal taxes computed at statutory rate	\$82.4	\$95.2	\$79.0
State and local income taxes, net of federal benefit	3.0	3.4	2.9
Impact related to difference in tax rates for foreign operations	1.2	3.1	2.1
Other	(4.1)	(3.2)	(.3)
Income taxes	\$82.5	\$98.5	\$83.7
Effective tax rate	35.1%	36.2%	37.1%

Earnings from operations of foreign subsidiaries were \$26.8 million, \$20.0 million and \$31.6 million in 2000, 1999 and 1998, respectively. At December 31, 2000, no domestic income taxes have been provided on the company's share of the undistributed net earnings of overseas operations due to management's intent to reinvest such amounts indefinitely. Those earnings totaled \$127.3 million, including foreign currency translation adjustments. The aggregate amount of unrecognized deferred tax liability is approximately \$6.7 million at December 31, 2000.

Note N | Discontinued Operations

In 1998, the company sold its Distribution segment, Zellerbach, and related real estate for \$288.0 million. Revenues of the Distribution segment were \$965.0 million in 1998. The 1998 loss from discontinued operations of \$20.4 million was comprised of \$6.0 million of losses from operations, net of income tax benefit of \$3.1 million, and a \$14.4 million loss on the sale (including the loss on operations during the phase-out period of \$3.2 million), net of income tax benefit of \$18.2 million.

Note O | Pension Plans

The company has pension plans that cover substantially all employees. Pension benefits for bargaining employees are primarily based upon years of credited service. Benefits for salaried and most other non-bargaining employees are based upon years of service and the employee's average final earnings. The company's funding policy is to contribute amounts to the plans sufficient to meet or exceed the minimum requirements of the Employee Retirement Income Security Act.

Summary information for all of the company's plans is as follows:

December 31 (all dollar amounts in millions)	2000	1999
Change in the projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ (812.0)	\$ (854.4)
Plan obligation assumed		(30.2)
Service cost	(23.6)	(24.8)
Interest cost	(62.8)	(53.8)
Actuarial gain (loss)	(48.0)	66.9
Benefits paid	89.8	101.8
Plan amendments	(12.6)	(16.2)
Termination adjustment due to benefit enhancements	(1.7)	(2.1)
Curtailment adjustment	.7	.8
Projected benefit obligation at end of year	(870.2)	(812.0)
Change in the plan assets:		
Fair value of plan assets at beginning of year	1,131.3	1,026.8
Plan assets assumed		38.1
Actual return on plan assets	54.8	165.2
Employer contributions	3.3	3.0
Benefits paid	(89.8)	(101.8)
Fair value of plan assets at end of year	1,099.6	1,131.3
Plan assets in excess of projected benefit obligation	229.4	319.3
Reconciliation of financial status of plans to amounts recorded in the company's balance sheets:		
Unamortized prior service cost	49.5	41.9
Unrecorded effect of net (gain) loss arising from differences between actuarial assumptions used to determine periodic pension expense and actual experience	11.3	(82.6)
Unamortized plan assets in excess of plan liabilities (overfunding) at January 1, 1986 — to be recognized as a reduction of future years' pension expense	(5.8)	(9.6)
Adjustment for minimum pension liability	(13.2)	(12.3)
Net pension asset	\$ 271.2	\$ 256.7
Amounts recognized in the company's balance sheets consist of:		
Pension asset	\$ 304.4	\$ 285.5
Other current liabilities	(33.2)	(28.8)
Other assets	1.3	1.5
Other comprehensive loss	7.4	6.8
Benefit obligation discount rate	7.25%	8.00%
Rate of compensation increase (for pay-related plans only)	5.25%	5.25%

The total projected benefit obligation for the company's pension plans includes \$49.8 million and \$40.3 million at December 31, 2000 and 1999, respectively, of the unfunded plans, of which \$33.2 million and \$28.8 million represent the accumulated benefit obligation.

The components of net pension (income) for all pension plans are as follows:

Year Ended December 31 (all dollar amounts in millions)	2000	1999	1998
Service cost, benefits earned during the year	\$ 23.6	\$ 24.8	\$ 22.0
Interest cost on projected benefit obligation	62.8	53.8	50.7
Expected return on plan assets	(99.3)	(90.4)	(86.7)
Amortization of prior service cost	3.8	2.6	2.8
Amortization of unrecognized net (gain) loss	.6	6.6	(.3)
Amortization of net transition asset	(3.8)	(6.4)	(7.9)
Termination loss	1.7		3.6
Settlement (gain) loss	(1.2)		13.3
Curtailed (gain) loss	(.1)		.4
Net pension (income)	(11.9)	(9.0)	(2.1)
Less — net pension expense allocated to discontinued operations			7.4
Net pension (income) — continuing operations	\$(11.9)	\$ (9.0)	\$ (9.5)

The plan assets consist primarily of common stocks and fixed income securities. The expected long-term rate of return on plan assets used in determining net pension income was 9% in all years.

The company's pension plans require the allocation of excess plan assets to plan members if the plans are terminated, merged or consolidated following a change in control (as defined) of the company opposed by the Board of Directors. Amendment of these provisions after such a change in control would require approval of plan participants.

The company also has 401(k) plans that cover substantially all U.S. employees. Expense for company matching contributions under these plans was approximately \$11.9 million in 2000, \$11.1 million in 1999 and \$11.9 million in 1998.

Note P | Postretirement Benefits Other than Pension

The company funds certain health care benefit costs principally on a pay-as-you-go basis, with retirees paying a portion of the costs. Certain retired employees of businesses acquired by the company are covered under other health care plans that differ from current plans in coverage, deductibles and retiree contributions.

Summary information on the company's plans is as follows:

December 31 (all dollar amounts in millions)	2000	1999
Change in the projected benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	\$(121.5)	\$(119.7)
Plan obligation assumed		(11.2)
Service cost	(4.0)	(3.9)
Interest cost	(8.9)	(7.5)
Plan amendments	10.6	
Actuarial gain (loss)	(3.7)	12.3
Benefits paid	7.7	8.5
Accumulated postretirement benefit obligation at end of year	(119.8)	(121.5)
Change in the plan assets:		
Fair value of plan assets at beginning of year	8.1	10.1
Actual return on plan assets	.2	.9
Employer contributions	6.7	5.6
Benefits paid	(7.7)	(8.5)
Fair value of plan assets at end of year	7.3	8.1
Accumulated postretirement benefit obligation in excess of plan assets	(112.5)	(113.4)
Reconciliation of financial status of plans to amounts recorded in the company's balance sheets:		
Unrecorded effect of net (gain) arising from differences between actuarial assumptions used to determine periodic postretirement expense and actual experience	(30.2)	(25.9)
Accrued postretirement benefit cost — included in deferred items	\$(142.7)	\$(139.3)
Benefit obligation discount rate	7.25%	7.75%–8.00%

The components of net periodic postretirement benefit cost are as follows:

Year Ended December 31 (all dollar amounts in millions)	2000	1999	1998
Service cost, benefits attributed to employee service during the year	\$ 4.0	\$ 3.9	\$3.7
Interest cost on accumulated postretirement benefit obligation	8.9	7.5	7.6
Expected return on plan assets	(.6)	(.8)	(.7)
Curtailment gain			(4.7)
Amortization of unrecognized net (gain)	(.5)	(.5)	(.7)
Net periodic postretirement benefit cost	\$11.8	\$10.1	\$5.2

Included in net periodic postretirement benefit cost in 1998 is a curtailment gain of \$4.7 million allocated to the company's discontinued operations.

The expected long-term rate of return on plan assets used in determining the net periodic postretirement benefit cost was 8.0% in each year. The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation in 2000 was 8.0% declining by 1.0% per year to an ultimate rate of 5.0%. The assumed health care trend rates used in 1999 and 1998 were 9.0% and 7.4%, respectively, declining by 1.0% per year and .8% per year, respectively.

If the health care cost trend rate assumptions were increased or decreased by 1.0%, the accumulated postretirement benefit obligation at December 31, 2000, would be increased or decreased by 8.6% and 8.4%, respectively. The effect of this change on the sum of the service cost and interest cost components of net periodic postretirement benefit cost for 2000 would be an increase or decrease of 11.3% and 10.3%, respectively.

Note Q | Leases

At December 31, 2000, future minimum annual rental commitments under noncancelable lease obligations are as follows:

(all dollar amounts in millions)	Capital Leases	Operating Leases
Year Ending December 31:		
2001	\$ 13.1	\$ 30.9
2002	13.1	23.3
2003	13.1	17.1
2004	13.1	12.0
2005	13.1	9.3
Later years through 2033	595.8	38.3
Total minimum lease payments	661.3	<u>\$130.9</u>
Less amount representing interest	(375.4)	
Capital lease obligations	<u>\$ 285.9</u>	

The majority of rent expense is for operating leases which are for office, warehouse and manufacturing facilities and delivery, manufacturing and computer equipment. A number of these leases have renewal options. Rent expense was \$74.9 million, \$63.3 million and \$51.7 million in 2000, 1999 and 1998, respectively.

Note R | Litigation and Other Proceedings

The company is involved in various litigation generally incidental to normal operations, as well as proceedings regarding equal employment opportunity matters, among others. The company is involved in investigations regarding customs that may result in payments by the company ranging from an insignificant amount to as much as \$15 million; however, no liability has been recorded relating to this matter because an obligation is not viewed as probable. The company has also been identified as a potentially responsible party in at least 20 environmental proceedings. It is not possible to determine the ultimate liability, if any, in all these matters. The company has established reserves of approximately \$40 million relating to environmental liabilities, including those related to previously discontinued operations, which it believes are probable and reasonably estimable. The company believes that it is reasonably possible that costs associated with these sites may exceed current reserves by an amount that could range from an insignificant amount to as much as \$40 million. The estimate of this range is less certain than the estimates upon which reserves are based. In order to establish this range, assumptions less favorable to the company among those outcomes that are considered reasonably possible were used. In the opinion of management, after consultation with legal counsel and after considering established reserves, the resolution of pending litigation and proceedings is not expected to have a material effect on the financial condition, results of operations or liquidity of the company.

Note S | Additional Information on Cash Flows

Year Ended December 31 (all dollar amounts in millions)	2000	1999	1998
Cash paid during the year for:			
Interest	\$119.4	\$106.1	\$111.3
Less amount capitalized	(1.6)	(2.8)	(6.3)
Interest, net of amount capitalized	\$117.8	\$103.3	\$105.0
Income taxes	\$ 76.7	\$ 56.3	\$ 31.8

Note T | Other Comprehensive Loss

The difference between net earnings and comprehensive earnings relates to the changes in foreign currency translation adjustment, additional minimum pension liability and unrealized gain (loss) on available-for-sale securities. Accumulated other comprehensive loss was comprised of the following:

Year Ended December 31 (all dollar amounts in millions)	2000	1999
Foreign currency translation adjustment	\$(29.7)	\$(18.3)
Additional minimum pension liability	(7.4)	(6.8)
Unrealized gain (loss) on available-for-sale securities	(10.6)	3.3
	\$(47.7)	\$(21.8)

The 1999 foreign currency translation adjustment is comprised of \$17.2 million of foreign currency translation adjustment arising during 1999 less a \$20.5 million reclassification adjustment for foreign currency translation adjustment included in gain on sale of assets.

Note U | Segment Information

INDUSTRY SEGMENTS The company classifies its businesses into three industry segments. The Paper operations manufacture and sell printing, writing, carbonless copy, publishing and specialty paper primarily to domestic publishers, printers and converters. The Packaging and Paperboard operations manufacture and sell beverage and food packaging materials, corrugated shipping containers and paperboard to those markets primarily located in the United States with other operations conducted in Europe, Latin America and Asia Pacific. The Consumer and Office Products operations are conducted predominantly in North America and manufacture and distribute school, office and dated material products to retailers and commercial distributors.

The company evaluates performance based on earnings from continuing operations before income taxes and equity in net earnings of investees. The accounting policies of the segments are the same as those described in the significant accounting policies (Note A).

Year Ended December 31 (all dollar amounts in millions)	2000	1999	1998
Net sales:			
Industry segments:			
Paper	\$1,926.5	\$1,882.7	\$1,880.4
Packaging and Paperboard	1,612.2	1,582.5	1,564.6
Consumer and Office Products	829.4	530.9	499.2
Total	\$4,368.1	\$3,996.1	\$3,944.2
Earnings (loss) from continuing operations before income taxes:			
Industry segments:			
Paper	\$ 181.9	\$ 147.6	\$ 206.3
Packaging and Paperboard	174.0	170.0	142.5
Consumer and Office Products	61.7	38.0	42.8
Corporate and other ⁽¹⁾	(182.3)	(83.7)	(166.0)
Total	\$ 235.3	\$ 271.9	\$ 225.6
Depreciation, depletion and amortization:			
Industry segments:			
Paper	\$ 122.1	\$ 120.2	\$ 116.8
Packaging and Paperboard	146.5	150.5	160.9
Consumer and Office Products	40.8	16.2	9.1
Corporate and other	27.5	20.5	15.0
Total	\$ 336.9	\$ 307.4	\$ 301.8
Identifiable assets:			
Industry segments:			
Paper	\$2,206.3	\$2,114.9	\$2,181.3
Packaging and Paperboard	1,861.9	1,887.0	1,935.9
Consumer and Office Products	767.1	803.0	229.8
Intersegment elimination	(2.8)	(4.9)	(1.4)
Corporate and other ⁽²⁾	847.5	861.7	796.6
Total	\$5,680.0	\$5,661.7	\$5,142.2
Capital expenditures:			
Industry segments:			
Paper	\$ 91.6	\$ 82.3	\$ 178.4
Packaging and Paperboard	92.3	92.4	169.9
Consumer and Office Products	8.3	14.7	10.6
Corporate and other	13.7	23.5	25.1
Total	\$ 205.9	\$ 212.9	\$ 384.0

⁽¹⁾Corporate and other includes the following:

Year Ended December 31	2000	1999	1998
Other revenues	\$ 9.9	\$ 96.4	\$ 11.2
Interest expense	(121.0)	(105.1)	(109.0)
Other expenses	(71.2)	(75.0)	(68.2)
	\$ (182.3)	\$ (83.7)	\$ (166.0)

⁽²⁾Corporate and other consists primarily of cash and cash equivalents, property, plant and equipment, investments and other assets.

GEOGRAPHIC AREAS The company has sales from foreign subsidiaries primarily in Canada, Europe, Latin America and Asia Pacific. No individual foreign geographic area is significant to the company relative to total net sales, earnings from continuing operations before income taxes or identifiable assets.

The following represents net sales and total assets of the company's foreign subsidiaries:

Year Ended December 31 (all dollar amounts in millions)	2000	1999	1998
Net sales:			
Europe	\$292.2	\$300.1	\$312.8
Canada	156.3	143.5	144.4
Asia Pacific	75.1	63.4	48.6
Latin America	58.1	47.1	46.6
Total	\$581.7	\$554.1	\$552.4
Assets:			
Europe	\$216.2	\$218.1	\$230.2
Canada	47.6	49.6	50.5
Asia Pacific	42.3	44.8	39.4
Latin America	49.6	33.4	35.1
Total	\$355.7	\$345.9	\$355.2

Eleven-Year Review

(all dollar amounts in millions, except per share amounts)	2000	1999	1998	1997
Operations				
Net sales	\$4,368.1	\$3,996.1	\$3,944.2	\$3,912.2
Cost and expenses	4,022.7	3,715.8	3,643.8	3,579.3
Earnings from operations	345.4	280.3	300.4	332.9
Other revenues (expenses) — net	10.9	96.7	34.2	7.3
Interest and debt expense	(121.0)	(105.1)	(109.0)	(98.2)
Earnings (loss) from continuing operations before income taxes	235.3	271.9	225.6	242.0
Income taxes	82.5	98.5	83.7	87.9
Earnings from continuing operations before equity in net earnings (loss) of investees	152.8	173.4	141.9	154.1
Equity in net earnings (loss) of investees	10.8	34.7	(1.8)	8.9
Earnings from continuing operations	163.6	208.1	140.1	163.0
Discontinued operations			(20.4)	(12.9)
Extraordinary item				
Cumulative effect of change in accounting principle	(2.4)			
Net earnings	\$ 161.2	\$ 208.1	\$ 119.7	\$ 150.1
Per common share - assuming dilution				
Earnings from continuing operations	\$ 1.60	\$ 1.99	\$ 1.34	\$ 1.53
Discontinued operations			(.20)	(.12)
Extraordinary item				
Cumulative effect of change in accounting principle	(.02)			
Net earnings	\$ 1.58	\$ 1.99	\$ 1.14	\$ 1.41
Per share amounts				
Cash dividends paid	\$.68	\$.65	\$.64	\$.61
Book value	24.25	23.70	22.12	22.03
Price range:				
High	45.13	46.31	37.31	37.69
Low	21.19	28.31	25.94	24.88
Financial position				
Current assets	\$1,281.3	\$1,230.3	\$1,086.4	\$ 951.2
Investments and other assets	1,128.8	1,074.0	683.1	644.6
Timber and timberlands — net	390.1	381.2	387.8	362.5
Land and land improvements, plant and equipment — net	2,879.8	2,976.2	2,984.9	2,911.3
Net assets of discontinued operations				282.8
	\$5,680.0	\$5,661.7	\$5,142.2	\$5,152.4
Current liabilities	\$1,012.3	\$1,000.6	\$ 679.5	\$ 638.5
Long-term debt	1,322.8	1,333.7	1,367.4	1,428.0
Deferred items	947.1	896.6	843.3	797.4
Shareowners' equity	2,397.8	2,430.8	2,252.0	2,288.5
	\$5,680.0	\$5,661.7	\$5,142.2	\$5,152.4
Additional data				
Capital expenditures	\$ 205.9	\$ 212.9	\$ 384.0	\$ 437.3
Depreciation, depletion and amortization	336.9	307.4	301.8	282.5
Average shares outstanding — assuming dilution (in millions) ⁽¹⁾	102.3	104.6	104.9	106.4
Number of employees at year-end (in thousands)	15.1	16.3	14.1	14.4
Number of registered shareowners at year-end (in thousands)	12.7	13.3	14.1	14.2

⁽¹⁾Includes 5.2 million shares in 1994 of common stock equivalents relating to outstanding convertible debentures.

	1996	1995	1994	1993	1992	1991	1990
	\$3,436.9	\$3,523.2	\$3,135.9	\$2,920.1	\$2,912.3	\$2,775.6	\$2,832.1
	3,104.6	3,012.8	2,925.2	2,702.5	2,808.7	2,612.4	2,661.2
	332.3	510.4	210.7	217.6	103.6	163.2	170.9
	9.4	31.9	(40.6)	6.6	(5.0)	17.1	20.3
	(57.7)	(69.4)	(101.1)	(94.6)	(99.5)	(112.9)	(92.0)
	284.0	472.9	69.0	129.6	(.9)	67.4	99.2
	104.5	178.0	29.1	54.7	(1.3)	20.5	32.9
	179.5	294.9	39.9	74.9	.4	46.9	66.3
	4.3	39.0	59.8	18.4	6.0	(18.1)	11.7
	183.8	333.9	99.7	93.3	6.4	28.8	78.0
	11.5	16.1	607.3	30.9	31.2	36.8	(46.3)
			(11.3)				6.9
					34.0	(58.7)	
	\$ 195.3	\$ 350.0	\$ 695.7	\$ 124.2	\$ 71.6	\$ 6.9	\$ 38.6
	\$ 1.73	\$ 3.02	\$.84	\$.78	\$.05	\$.25	\$.63
	.11	.15	4.85	.26	.27	.31	(.37)
			(.09)				.05
					.29	(.50)	
	\$ 1.84	\$ 3.17	\$ 5.60	\$ 1.04	\$.61	\$.06	\$.31
	\$.59	\$.55	\$.50	\$.50	\$.50	\$.50	\$.49
	21.55	20.42	18.61	13.33	12.73	12.67	13.14
	30.69	32.07	26.63	24.25	20.82	18.63	19.75
	24.25	24.32	19.57	18.75	16.57	12.25	9.75
	\$ 958.6	\$1,135.4	\$1,596.1	\$ 739.8	\$ 773.5	\$ 691.5	\$ 593.8
	617.2	580.2	592.2	390.7	305.1	279.1	275.3
	366.2	233.7	224.7	219.3	213.1	212.6	217.0
	2,718.4	2,094.6	2,048.2	1,974.5	1,900.3	1,928.7	1,919.0
	245.5	240.1	301.1	659.9	641.3	698.7	714.9
	\$4,905.9	\$4,284.0	\$4,762.3	\$3,984.2	\$3,833.3	\$3,810.6	\$3,720.0
	\$ 678.5	\$ 734.2	\$ 987.8	\$ 541.0	\$ 547.4	\$ 587.0	\$ 537.6
	1,239.7	694.8	957.7	1,360.0	1,317.5	1,300.4	1,245.0
	741.3	694.8	634.2	505.2	473.0	444.8	406.1
	2,246.4	2,160.2	2,182.6	1,578.0	1,495.4	1,478.4	1,531.3
	\$4,905.9	\$4,284.0	\$4,762.3	\$3,984.2	\$3,833.3	\$3,810.6	\$3,720.0
	\$ 428.7	\$ 261.0	\$ 314.0	\$ 301.8	\$ 212.7	\$ 225.9	\$ 416.4
	244.4	230.8	219.6	247.1	234.6	222.0	182.1
	106.3	110.6	125.1	119.2	118.0	117.1	124.4
	14.1	13.0	13.7	13.2	14.0	15.0	15.0
	14.9	15.7	16.7	17.3	18.0	20.3	23.2

Report on Management's Responsibility

Management of The Mead Corporation is responsible for the preparation, objectivity and integrity of the financial statements and related information, including the determination of estimates and judgments, in this annual report. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

The responsibility for establishing and maintaining an internal control structure, directly related to and designed to provide reasonable assurance as to the integrity and reliability of financial reporting, is that of management. The internal control structure is assessed by management as being effective as it encompasses material matters for the year ended December 31, 2000.

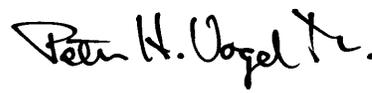
The Audit Committee of the Board of Directors, which consists of directors independent of management, has regularly scheduled meetings with management and the internal and independent auditors to review the annual financial statements, the quality and adequacy of the accounting, financial and internal audit policies, procedures and controls and the internal and independent auditors' scope.



Jerome F. Tatar
Chairman of the Board,
Chief Executive Officer
and President



Timothy R. McLevish
Vice President and
Chief Financial Officer



Peter H. Vogel, Jr.
Vice President, Finance
and Treasurer

Independent Auditors' Report

Board of Directors
The Mead Corporation
Dayton, Ohio

We have audited the accompanying balance sheets of The Mead Corporation and consolidated subsidiaries (the "company") at December 31, 2000 and 1999, and the related statements of earnings, shareowners' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of The Mead Corporation and consolidated subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the financial statements, effective January 1, 2000, the company changed its method of revenue recognition for provisions included in certain sales agreements.

The image shows a handwritten signature in cursive script that reads "Deloitte & Touche LLP". The signature is written in dark ink and is positioned above the typed name and date.

Dayton, Ohio
January 25, 2001

Board of Directors

as of February 22, 2001

John G. Breen, 66^{2,3,5,6,7}
Director
The Sherwin-Williams Company
Cleveland, Ohio

Duane E. Collins, 64^{1,3,4,7}
Chairman, Chief Executive Officer and Director
Parker Hannifin Corporation
Cleveland, Ohio

William E. Høglund, 66^{3,4,5,6,7}
Retired Director and Executive Vice President
General Motors Corporation
Detroit, Michigan

James G. Kaiser, 58^{3,4,6,7}
Chairman, Chief Executive Officer and Director
Avenir Partners, Inc.
Memphis, Tennessee

Robert J. Kohlhepp, 57^{1,3,4,7}
Chief Executive Officer and Director
Cintas Corporation
Cincinnati, Ohio

John A. Krol, 64^{3,4,5,6,7}
Retired Director and Chairman of the Board
E.I. DuPont de Nemours and Company
Wilmington, Delaware

Susan J. Kropf, 52^{1,2,3,7}
Director, President and Chief Operating Officer
Avon Products Inc.
New York, New York

Charles S. Mechem, Jr., 70^{2,3,5,6,7}
Retired Chairman of the Board and Director
Convergys Corporation
Cincinnati, Ohio

Heidi G. Miller, 47^{2,3,6,7}
Vice Chairman
Marsh Inc., a subsidiary of Marsh & McLennan
Companies, Inc.
New York, New York

Lee J. Styslinger, Jr., 67^{1,2,3,5,7}
Chairman of the Board and Director
ALTEC Industries, Inc.
Birmingham, Alabama

Jerome F. Tatar, 54⁵
Chairman of the Board, President,
Chief Executive Officer and Director
The Mead Corporation
Dayton, Ohio

J. Lawrence Wilson, 65^{1,3,5,6,7}
Retired Director, Chairman of the Board
and Chief Executive Officer
Rohm and Haas Company
Philadelphia, Pennsylvania

Committees of the Board

- 1 Audit Committee
- 2 Compensation Committee
- 3 Corporate Objectives Committee
- 4 Corporate Responsibility Committee
- 5 Executive Committee
- 6 Finance Committee
- 7 Nominating & Organization Committee

Protecting Shareowner Interests

After the annual meeting of shareowners in April 2001, The Mead Corporation's Board of Directors will be comprised of 10 outside directors and one inside director — the chairman of the board, president and chief executive officer.

Only outside directors can serve on the Audit, Corporate Objectives and Nominating & Organization Committees. Only outside directors serve on the Compensation Committee.

Mead's internal audit staff and its independent auditors regularly work directly with the Audit Committee of the Board of Directors. Either one can initiate direct discussions with the committee members at any time they believe it is necessary.

Shareowner proposals and suggestions are reviewed by the Nominating & Organization Committee. This committee also evaluates the performance of the chief executive officer and furnishes its evaluation to the Compensation Committee.

| Mead Management

as of February 22, 2001

Executive Officers

Jerome F. Tatar
Chairman of the Board, President
and Chief Executive Officer

Raymond W. Lane
Executive Vice President

Ian W. Millar
Executive Vice President

Sue K. McDonnell
Vice President, General Counsel and Secretary

Timothy R. McLevish
Vice President and Chief Financial Officer

A. Robert Rosenberger
Vice President, Human Resources

Mark T. Watkins
Vice President, Technology

Officers

Ronald F. Budzik
Vice President, Government Affairs

Vicki L. Davies
Director, Audit

Douglas G. Draper
Vice President, Corporate Communications

Joseph I. Hitter
Vice President, Taxation

Russell E. Kross
Vice President, Human and Environmental Protection

John K. Langenbahn
Vice President, Information Resources

James M. McGrane
Vice President, Business Process Development

Patricia C. Norris
Assistant Secretary

L. Hal Rogero, Jr.
Assistant Controller

David L. Santez
Assistant Secretary

Linda C. Sheffield
Vice President and Director of Financial
Services Center

Peter H. Vogel, Jr.
Vice President, Finance and Treasurer

Division Heads

William J. Biedenbarn
President,
Mead Packaging

William D. Bloebaum, Jr.
President,
Mead Pulp Sales

Barbara L. Brasier
President,
Gilbert Paper

Robert A. Feeser
President,
Mead Containerboard

Jack C. Goldfrank
President,
Mead Coated Board

Neil A. McLachlan
President,
Mead Consumer & Office Products

Ian W. Millar
President,
Mead Paper

Cynthia A. Niekamp
President,
Mead Specialty Paper

Shareowner Information

Corporate Headquarters

The Mead Corporation
Courthouse Plaza Northeast
Dayton, OH 45463
Telephone: (937) 495-6323
www.mead.com

Shareowner Information Services

To change your address, arrange for direct deposit or reinvestment of dividends, transfer shares, replace a lost certificate, or if you have any questions concerning your Mead common shares or dividends, call or write:

Fleet National Bank
c/o EquiServe
Shareholder Services Division
P.O. Box 43010
Providence, RI 02940-3010
Telephone: (781) 575-3170
Toll-free: (800) 730-4001 (outside Massachusetts only)
www.equiserve.com

**To view your registered account online,
visit: <http://gateway.equiserve.com>**

For questions concerning your Mead shares other than those noted above, call The Mead Corporation, Legal Department, at (937) 495-3710.

Shareowner Investment Plan

This plan permits shareowners to reinvest their dividends and additional amounts of \$25 to \$6,000 per month in Mead common shares. Contact EquiServe Shareholder Services Division for a brochure that describes the plan fully.

Mead Common Shares

Listed on the New York, Chicago and Pacific Stock Exchanges
Trading Symbol: MEA

Stock Transfer Agent and Registrar

Fleet National Bank
Boston, Massachusetts

Independent Auditors

Deloitte & Touche LLP
1700 Courthouse Plaza Northeast
Dayton, OH 45402

Annual Meeting of Shareowners

The Annual Meeting will be held in Dayton, Ohio, in the Blair Auditorium, Sinclair Community College, at 11:00 a.m. on Thursday, April 26, 2001.

Formal notice of the Annual Meeting of Shareowners, a proxy statement and proxy are mailed with the annual report to shareowners of record at the close of business on March 5, 2001.

Material Request

For a quick update on Mead financial news, call the Mead Shareowner Information Line at (888) 909-MEAD (6323). The call is toll-free and provides a recorded summary of the company's most recent earnings and dividend news, as well as a way to request printed information or updates of shareowner records. This line supplements news and information available on the Mead corporate web site at www.mead.com. The "Financial Information" tab includes a stock quote update, Mead's SEC filings, quarterly earnings announcements, the Mead annual report and other shareowner information. Copies of the company's recent news releases can be transmitted via fax by calling "Company News On Call" at (800) 758-5804 ext. 869425.

Market Prices Per Common Share

	2000		1999	
	High	Low	High	Low
First quarter	\$ 45.1250	\$ 28.1250	\$ 33.312	\$ 28.312
Second quarter	38.1250	25.1250	44.750	32.562
Third quarter	28.6875	21.6250	46.312	33.000
Fourth quarter	32.8125	21.1875	43.625	32.375

Dividends Paid Per Common Share

	2000	1999
First quarter	\$.17	\$.16
Second quarter	.17	.16
Third quarter	.17	.16
Fourth quarter	.17	.17
Year	\$.68	\$.65

Paper:

Cover: Mead Signature® Suede, 100 lb. Cover

Coated Pages: Mead Signature® Suede, 100 lb. Text

Financial Pages: Gilbert ESSE® Smooth, Whitegreen, 80 lb. Text

Design:

Martin Design Associates

Photography:

Andy Goodwin

Tom Rogowski

Printing:

George Rice & Sons

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