RIVERWOOD HOLDING INC
Form 10-K/A
July 24, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal period ended December 31, 2002

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER: 1-13182

RIVERWOOD HOLDING, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**58-2205241** (I.R.S. employer identification no.)
3350 Riverwood Parkway, S.E. **Suite 1400** **Atlanta, Georgia** (Address of principal executive offices)	**30339** (Zip Code)

Registrant's telephone number, including area code:
c/o Riverwood International Corporation (770) 644-3000

Securities registered pursuant to Section 12(b) of the Act: **None**
Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No ý

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this

Form 10-K or any amendment to this Form 10-K. Yes ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes o No ý

As of April 9, 2003, there were 7,054,930 shares and 500,000 shares of the registrant's Class A Common Stock, par value $0.01 per share (the "Class A Common Stock"), and Class B Common Stock, par value $0.01 per share (the "Class B Common Stock," and together with the Class A Common Stock, "Holding Common Stock"), respectively, outstanding.

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As used in this Form 10-K, unless the context otherwise requires: "RIC" refers to the corporation formerly named Riverwood International Corporation; the "Predecessor" or the "Predecessor Company" refers to RIC and its subsidiaries in respect of periods prior to the Merger (as defined herein); the "Company" refers to the registrant, Riverwood Holding, Inc., a Delaware corporation ("Holding") and its subsidiaries; "RIC Holding" refers to RIC Holding, Inc., a Delaware corporation, successor by merger to RIC and a wholly-owned subsidiary of Holding; and "Riverwood" refers to Riverwood International Corporation, a Delaware corporation formerly named Riverwood International USA, Inc. and a wholly-owned subsidiary of RIC Holding.

EXPLANATORY NOTE

The Company is, by means of this filing, clarifying and adding certain disclosure under Item 1 Business, Item 6 Selected Five-Year Financial Data, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 8 Financial Statements, Item 10 Directors and Executive Officers of the Registrant, Item 11 Executive Compensation, Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, and Item 13 Certain Relationships and Related Transactions. The exhibit list to this amended Form 10-K is amended to reflect the previously filed exhibits to the Company's Form 10-K and, therefore, those exhibits are not re-filed herewith. In addition, in connection with the filing of this amended Form 10-K and pursuant to the rules of the Securities and Exchange Commission, the Company is including with this amended Form 10-K certain currently dated certifications.

This amended Form 10-K does not purport to provide a general update or discussion of developments with respect to the Company subsequent to the original filing; such disclosures are contained in the Company's subsequent filings with the Securities and Exchange Commission.

The filing of this amended Form 10-K shall not be deemed an admission that the original filing, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

PART I

ITEM 1. BUSINESS

Overview

The Company is an integrated provider of paperboard packaging solutions to multinational beverage and consumer products companies. The Company focuses on large segments of the paperboard packaging market where it provides companies with paperboard packaging solutions designed to deliver marketing and performance benefits at a competitive cost.

The Company is the larger of two worldwide producers of coated unbleached kraft paperboard ("CUK Board"), the grade of paperboard that the Company uses for its packaging products. CUK Board is a specialized high-quality grade of paperboard with excellent strength characteristics and printability for high-resolution graphics that make it particularly well suited for a variety of packaging applications. The Company's Coated Board business segment includes the production and sale of CUK Board for its beverage multiple packaging and consumer products packaging businesses. The Company refers to the CUK Board it produces for use in beverage multiple packaging as carrierboard and in consumer products packaging as cartonboard.

Customers in the Company's beverage packaging business include Anheuser-Busch Companies, Inc., Miller Brewing Company, numerous Coca-Cola and Pepsi bottling companies, Interbrew, Asahi Breweries, Unilever and Master Foods. In its consumer products packaging business, the Company provides cartonboard, through independent converters, to consumer products companies such as Kraft Foods, Nestle, Unilever and Mattel. In 2002, the Company had net sales of $1.2 billion.

The Company reports its results in two business segments: Coated Board and Containerboard. Its Coated Board business segment includes the production and sale of carrierboard and cartonboard. Its Containerboard business segment includes the production and sale of containerboard linerboard, corrugating medium and kraft paper for sale in the open market. The Company operates in four geographic areas: the United States, Central and South America, Europe and Asia-Pacific. For business segment and geographic area information for each of the last three fiscal years, see Note 24 to Notes to Consolidated Financial Statements.

The Company was incorporated on December 7, 1995 under the laws of the State of Delaware.

Coated Board

In the Company's Coated Board segment, the Company produces CUK Board at its mills, prints and cuts, or converts, the CUK Board into cartons at its and third parties' converting plants, and manufactures packaging machines designed to package bottles and cans and non-beverage consumer products. The Company installs its packaging machines at customer plants under long-term leases and provides support, service and performance monitoring of the machines.

Beverage Multiple Packaging. In the Company's beverage multiple packaging business, it provides a range of packaging solutions to multinational beverage companies, offering them carrierboard, beverage cartons and packaging machines either as an integrated solution or separately. The Company supplies beverage cartons in a variety of designs and formats, including 6, 12 and 24 multi-packs. The Company designs its products to meet its customers' needs for beverage multi-packs. The Company's proprietary beverage packaging machines package cans, bottles and other beverage containers into its beverage cartons at high speeds. The Company enters into annual or multi-year carton supply contracts with its customers. The Company's carton supply contracts generally provide that the customer is obligated to purchase a fixed portion of its carton requirements from the Company.

In 2002, the Company's integrated beverage packaging business accounted for approximately 90% of its 2002 carrierboard shipments. The Company sold the remaining 10% of its carrierboard shipments in the open market to independent converters. Particularly in the Company's international operations, its carrierboard may be sold to and converted by joint ventures and licensees of the Company's beverage cartons who, in turn, sell converted beverage cartons to end-users for use on the Company's proprietary packaging machines. The Company's beverage multiple packaging business also includes sales of carrierboard, which the Company has produced and converted, to customers for use on third-party packaging machines.

The Company is focused on growing its presence in beverage categories beyond its traditional beer and carbonated soft drink markets. To this end, the Company has designed a CUK board product for juice pouches using its new Z-Flute® proprietary technology. A number of beverage companies are currently testing this product. The Company has begun to make shipments of this product to customers. In addition, the Company has designed a new carton, based on its Fridge Vendor design, to target the market for take-home water bottle multiple packaging. This product is now available throughout one of the Company's major customer's marketing areas.

In 2002, carrierboard accounted for approximately 65% of the Company's total CUK Board shipments. In 2002, the Company shipped approximately 671,000 tons of carrierboard and had net sales in its beverage multiple packaging business of $818.8 million. The Company sells carrierboard under the brand names Aqua-Kote® and Z-Flute®.

Consumer Products Packaging. In the Company's consumer products packaging business, historically the Company has principally sold cartonboard to independent converters who convert the cartonboard and sell cartons to consumer products companies, such as Kraft Foods, Nestle, Unilever and Mattel, for consumer products packaging for confectionary, frozen and dry foods, toys and other consumer products. The Company serves these customers through relationships with converters and works with both the end-user and the converter to design packaging solutions.

Historically, the consumer products packaging business has been of secondary importance to the Company, serving primarily as an outlet for excess CUK Board production. The Company has historically manufactured and leased packaging machines to consumer products companies both in the United States and internationally and has converted a portion of its cartonboard into cartons at its international converting plants. In January 2000, the Company adopted a new strategy for its consumer products packaging business and, as a first step, organized this operating unit to target non-beverage consumer products packaging markets where the Company has not historically competed and to

improve the Company's product mix and margins. The Company's strategy is to capitalize on the capabilities and business model that it has developed in its beverage multiple packaging business by developing integrated packaging solutions, including new carton designs and packaging machines, for targeted consumer products applications and building relationships directly with consumer products companies. At the same time, the Company intends to maintain its relationships with independent converters of the Company's cartonboard.

The Company believes that the performance characteristics of its CUK board, specifically its tear strength, wet strength and stiffness, make it appropriate for applications in segments of the consumer products packaging market. As such, the Company believes that the growth opportunity for it in these segments will largely depend on its ability to introduce CUK board to packaging applications currently served by other substrates. The Company has had success penetrating several non-beverage paperboard applications in which it believes CUK board has a competitive advantage. The Company has developed its new Z-Flute® carton technology to penetrate selected non-beverage segments of the market for mini- and micro-flute corrugated products. The Company has designed Z-Flute® to capitalize on the strength and marketing capabilities of CUK board needed in these markets while providing the structural reinforcement and additional anti-crush strength required for the shipping, stacking and storage needs of retailers and consumers alike. Specific non-beverage applications for micro-flute products include cartons for frozen food and dry foods and candy.

In 2002, cartonboard accounted for approximately 35% of the Company's total CUK Board shipments. In 2002, the Company shipped approximately 363,000 tons of cartonboard and had net sales in its consumer products packaging business of $234.4 million. The Company sells cartonboard under the brand names Pearl-Kote®, Omni-Kote®, Z-Flute® and Multiboard®.

CUK Board Production. The Company produces CUK Board at its West Monroe, Louisiana paper mill (the "West Monroe Mill") and its Macon, Georgia paper mill (the "Macon Mill"). The Company has three paperboard machines at the West Monroe Mill and two paperboard machines at the Macon Mill. These mills have a current total combined annual production capacity of approximately 1.2 million gross tons of CUK Board.

The Company's total CUK Board production at its West Monroe Mill was approximately 688,000 gross tons during the year ended December 31, 2002. Total CUK Board production at its Macon Mill was approximately 480,000 gross tons of CUK Board during the year ended December 31, 2002.

CUK Board is manufactured from pine and hardwood fibers and, in some cases, recycled fibers, such as old corrugated containers ("OCC") and clippings from the Company's converting operations. Virgin fiber is obtained in the form of wood chips or pulp wood acquired through open market purchases or the Company's long-term purchase contract with Plum Creek Timber Company, L.P. These chips are chemically treated to form softwood and hardwood pulp, which are then blended (together, in some cases, with recycled fibers). In the case of carrierboard, a chemical is added to increase moisture resistance. The pulp is then processed through the mill's paper machines, which consist of a paper-forming section, a press section (where water is removed by pressing the wet paperboard between rolls), a drying section and the coating section. Coating on CUK Board, principally a mixture of pigments, binding agents and water, provides a white, smooth finish, and is applied in multiple steps to achieve desired levels of brightness, smoothness and shade. After the CUK Board is coated, it is wound into rolls, which are then shipped to the Company's converting plants or to outside converters.

White Lined Chip Production. The Company produces WLC at its Swedish Mill, and shipped approximately 157,000 tons of such board during 2002. WLC is used for a variety of folding carton applications principally throughout Europe.

Converting Operations. The Company converts CUK board as well as other grades of paperboard into cartons at 11 carton converting plants at 10 sites that the Company operates in the United States, the United Kingdom, Spain, France and Brazil, as well as through converting plants associated with its joint ventures in Japan and Denmark and licensees in other markets outside the United States. The converting plants print, cut and glue paperboard into cartons designed to meet customer specifications. These plants primarily utilize roll-fed printing presses with in-line cutters to print and cut CUK board. Printed and cut cartons are in turn glued and shipped to the Company's customers.

The Company's U.S. converting plants are dedicated to converting carrierboard produced by the Company into beverage cartons. These presses have substantially higher cutting and printing speeds, resulting in fewer labor hours per ton of CUK board carton produced. The Company realized significant productivity gains when it completed its new converting plant in Perry, Georgia in 1996, which resulted in improved logistics by reducing transportation distances between its Macon mill and its converting plants. The Company intends to continue to invest in its domestic converting plants to improve their process capabilities.

The Company's international converting plants convert carrierboard and cartonboard produced by the Company, as well as paperboard supplied by outside producers, into cartons. The Company's converting plants outside of the United States are designed to meet the smaller volume orders of these markets.

Proprietary Packaging Machinery and Carton Designs. The Company designs cartons and designs, tests and manufactures prototype packaging machinery for beverage multiple packaging and consumer products packaging applications at its Product Development Center (the "PDC") in Marietta, Georgia. At the PDC, the Company integrates carton and packaging machinery designs to create packaging solutions to meet customer needs. The Company manufactures and also designs packaging machinery for beverage multiple packaging and consumer products packaging applications at its principal U.S. manufacturing facility in Crosby, Minnesota and at a facility near Barcelona, Spain. By manufacturing packaging machinery in one U.S. and one European location, the Company expects to improve customer service, simplify its work processes and reduce costs. The Company leases substantially all of its packaging machines to customers, typically under machinery use agreements with original terms of three to six years. Packaging machinery placements during 2002 increased approximately 27% when compared to 2001 as a result of a 16% increase in packaging machinery orders in 2001 when compared to 2000. The Company expects packaging machinery placements for 2003 to be comparable to 2002. The Company has been and will continue to be selective in future packaging machinery placements to ensure appropriate returns.

The Company employs a "pull through" marketing strategy in its beverage multiple packaging business, the key elements of which are (i) the design and manufacture of proprietary packaging machines capable of packaging plastic and glass bottles, cans and other primary containers, (ii) the installation of the machines at customer locations under multi-year machinery use arrangements and (iii) the development of proprietary beverage cartons with high-resolution graphics for use on those machines.

The Company's packaging machines are designed to package Polyethylene Terephthalate ("PET") bottles and glass bottles, cans and other primary beverage containers, as well as non-beverage consumer products, using cartons designed by the Company, made from the Company's CUK Board and converted into cartons by the Company, its joint venture partners or its licensees. In order to meet customer requirements, the Company has developed an extensive portfolio of packaging machines consisting of three principal machinery lines, including eight different models of packaging machines. The Company's machines package cans and PET or glass bottles in a number of formats including baskets, clips, trays, wraps and fully enclosed cartons. These machines have packaging ranges from 2 to 36 cans per package and have the ability to package cans at speeds of up to 3,000 cans per minute. The

Company's consumer product packaging machines are designed to package cans or bottles in wraps or fully enclosed cartons. The Company also manufactures ancillary equipment, such as machines for taping cartons and placing coupons in cartons.

Marketing and Distribution. The Company markets its CUK Board and CUK Board-based products principally to multinational brewers, soft drink bottlers, food companies and other consumer products companies that use printed packaging for retail display, multiple packaging and shipment of their products. The Company also sells CUK Board in the open market to carrierboard and cartonboard converters. The Company markets CUK Board under the names Aqua-Kote®, Pearl-Kote®, Omni-Kote® and Z-Flute®. The Company reviews a customer's credit history before extending credit to the customer of which the payment terms are generally 30 days domestically, but vary internationally according to local business practices.

In its beverage multiple packaging business, the Company's major customers for beverage cartons include Anheuser-Busch Companies, Inc., Miller Brewing Company, numerous Coca-Cola and Pepsi bottling companies, Interbrew and Asahi Breweries. The Company also sells beverage carrierboard in the open market to independent converters, including licensees of the Company's proprietary carton designs, for the manufacture of beverage cartons. During 2002, the Company had two customers, Anheuser-Busch Companies, Inc. and Miller Brewing Company, who represented approximately 16% and 12% respectively, of the Company's net sales.

In its consumer products packaging business, the Company has historically sold substantially all of its cartonboard to numerous independent converters that convert the cartonboard into cartons for consumer products. The Company has entered into agreements with a number of major independent converters. Under the terms of these agreements, the converters agree to purchase a significant portion of their CUK Board requirements from the Company and to assist the Company in customer development efforts designed to grow the market for CUK Board. The terms of these arrangements include certain limitations on the Company's ability to raise the selling prices of its cartonboard.

Distribution of carrierboard and cartonboard is primarily accomplished through direct sales offices in the United States, Argentina, Australia, Brazil, Denmark, Germany, Hong Kong, Italy, Japan, Mexico, Singapore, Spain, Sweden, and the United Kingdom.

Joint Ventures. The Company is a party to joint ventures with Rengo Company Limited and Danapak Holding A/S, in which it owns 50% and 60%, respectively, to market machinery-based packaging systems in Japan and Scandinavia, respectively. The joint ventures cover CUK Board supply, use of proprietary carton designs and marketing and distribution of packaging systems.

Competition. There are only two major producers in the United States of CUK Board, the Company and MeadWestvaco Corporation ("MeadWestvaco"). The Company faces significant competition in its CUK Board business segment from MeadWestvaco. Like the Company, MeadWestvaco produces and converts CUK Board, designs and places packaging machinery with customers and sells CUK Board in the open market. The Company also faces competition from other manufacturers of packaging machines, such as R.A. Jones Co. Inc. ("R.A. Jones").

In the beverage packaging industry, beverage cartons made from CUK Board compete with plastics and corrugated packaging for packaging glass or plastic bottles, cans and other primary containers. Although plastics and corrugated packaging are priced lower than CUK Board, the Company believes that cartons made from CUK Board offer advantages over these materials, in areas such as distribution, high quality graphics, carton designs, package performance, environmental friendliness and design flexibility.

In the consumer product packaging markets, the Company's CUK Board competes principally with MeadWestvaco's CUK Board, recycled clay-coated news ("CCN") and solid bleached sulphate board

("SBS") and, internationally, white lined chip board ("WLC") and folding boxboard ("FBB"). Cartonboard grades compete based on price, strength and printability. CUK Board has generally been priced in a range that is higher than CCN and lower than SBS. CUK Board has slightly better tear strength characteristics than SBS and significantly better printability, tear strength and cross-direction stiffness than CCN. There are a large number of producers of paperboard for the cartonboard markets, who are subject to significant competition and other business pressures.

Containerboard

In the United States, the Company manufactures containerboard linerboard, corrugating medium and kraft paper for sale in the open market. Corrugating medium is combined with linerboard to make corrugated containers. Kraft paper is used primarily to make grocery bags and sacks. The Company's principal paper machines have the capacity to produce both linerboard and CUK Board. The Company has in the past used its CUK Board machines to produce linerboard. The Company has shifted significant mill capacity away from linerboard production on its CUK Board machines to more profitable packaging applications and intends to stop producing linerboard. The Company continues to operate paper machines dedicated to the production of corrugating medium and kraft paper on its two dedicated containerboard machines at the West Monroe Mill.

In 2002, the Company had net sales in its containerboard business of $81.6 million, representing approximately 6.5% of its net sales. In 2002, the Company shipped approximately 8,000 tons of linerboard from the Macon Mill and approximately 122,000 tons of corrugating medium, 37,000 tons of kraft bag paper and 46,000 tons of linerboard from its West Monroe Mill. In 2002, the Company also shipped approximately 22,000 tons of various other paperboard products.

The primary customers for the Company's U.S. containerboard production are independent and integrated corrugated converters. The Company sells corrugating medium and linerboard through direct sales offices and agents in the United States. Outside of the United States, linerboard is primarily distributed through independent sales representatives.

The Company's Containerboard business segment operates within a highly fragmented industry. Most products within this industry are viewed as commodities; consequently, selling prices tend to be cyclical, being affected by economic activity and industry capacity.

In addition to the Company's U.S. Containerboard operations, the Company owned 50% of Igaras Papeis e Embalagens S.A. ("Igaras"), an integrated containerboard producer located in Brazil. On July 1, 2000, Igaras spun off the multiple packaging portion of its business into a newly formed company, of which the Company owned 50%. The Igaras multiple packaging operations convert predominantly carrierboard and cartonboard into cartons designed to meet customer specifications. In the Igaras beverage multiple packaging business, packaging machines capable of packaging plastic and glass bottles, cans and other primary containers are installed at beverage customer locations. Additionally, proprietary beverage cartons with high-resolution graphics are developed for use on those machines. On October 3, 2000, the Company, along with its joint venture partner, Cia Suzano de Papel e Celulose, completed the sale of the jointly-held subsidiary Igaras for approximately $510 million, including the assumption of $112 million of debt. The Company recognized a gain of $70.9 million in connection with the sale, and applied the sale proceeds to pay down debt. On October 12, 2000, the Company purchased the remaining 50% of the newly formed company for $12.5 million.

Energy and Raw Materials.

Pine pulpwood, hardwood and recycled fibers, including old corrugated containers ("OCC"), used in the manufacture of paperboard, and various chemicals used in the coating of CUK Board, represent the largest components of the Company's variable costs of CUK Board and containerboard production. The cost of these materials is subject to market fluctuations caused by factors beyond the Company's

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control. OCC pricing tends to be very volatile. With the October 1996 sale of the Company's timberlands in Louisiana and Arkansas, the Company now relies on private landowners and the open market for all of its pine pulpwood, hardwood and recycled fiber requirements, except for CUK Board clippings from the Company's converting operations. Under the terms of the sale of those timberlands, the Company and the buyer, Plum Creek Timber Company, L.P., entered into a 20-year supply agreement, with a 10-year renewal option, for the purchase by the Company, at market-based prices, of a majority of the West Monroe Mill's requirements for pine pulpwood and residual chips, as well as a portion of the Company's needs for hardwood at the West Monroe Mill. An assignee of Plum Creek supplies residual chips to the Company pursuant to such supply agreement. The Company purchases the remainder of the wood fiber used in CUK Board production at the West Monroe Mill from other private landowners in this region. The Company believes that adequate supplies of open market timber currently are available to meet its fiber needs at the West Monroe Mill.

The Macon Mill purchases most of its fiber requirements on the open market, and is a significant consumer of recycled fiber, primarily in the form of clippings from the Company's domestic converting plants as well as OCC and other recycled fibers. The Company has not experienced any significant difficulties obtaining sufficient OCC or other recycled fibers for its Macon Mill operations, which it purchases in part from brokers located in the eastern United States. OCC pricing, however, tends to be very volatile since it is based largely on the demand for this fiber from recycled paper and containerboard mills. The Macon Mill purchases substantially all of its pine pulpwood and hardwood requirements from private landowners in central and southern Georgia. Because of the adequate supply and large concentration of private landowners in this area, the Company believes that adequate supplies of pine pulpwood and hardwood timber currently are available to meet its fiber needs at the Macon Mill.

Energy, including natural gas, fuel, oil and electricity, represents a significant portion of the Company's manufacturing costs. Until the latter part of 2000, the Company's results had not been significantly affected by the volatility of energy costs. The Company entered into fixed price natural gas contracts designed to mitigate the impact of future cost increases for its natural gas requirements at its two U.S. mills through and including October 2003, and will continue to evaluate its hedge position. The Company believes that higher energy costs will continue to negatively impact its results for 2003. Since negotiated contracts and the market largely determine the pricing for the Company's products, the Company is limited in its ability to pass through to its customers any energy or other cost increases that it may incur in the future.

The Company purchases a variety of other raw materials for the manufacture of its paperboard, primarily process chemicals and coating chemicals such as kaolin and titanium dioxide. All such raw materials are readily available, and the Company is not dependent upon any one source of such raw materials.

Seasonality

The Company's business is subject to moderate seasonality with demand for its products usually increasing in the spring and summer due to the seasonality of the worldwide beverage multiple packaging markets.

Working Capital

The Company continues to focus on reducing working capital needs and increasing liquidity. The Company's working capital needs arise primarily from maintaining a sufficient amount of inventories to meet the delivery requirements of the Company's customers and its policy to extend credit to customers. The Company reviews a customer's credit history before extending credit of which the

payment terms are generally 30 days domestically, but vary internationally according to local business practices.

Research, Development and Engineering

Research, development and engineering expenses were approximately \$5.2 million, \$5.1 million and \$4.6 million in the years ended December 31, 2002, 2001 and 2000, respectively, and primarily related to packaging machines and new products.

Patents and Trademarks

As of December 31, 2002, the Company had a large patent portfolio, presently owning, controlling or holding rights to approximately 2,100 U.S. and foreign patents, with approximately 1,200 patent applications currently pending.The Company's operations are not dependent to any significant extent upon any single or related group of patents. It does not believe that the expiration of any of its patents at the end of their normal lives would have a material adverse effect on its financial condition or results of operations. The Company's patents fall into two principal categories: packaging machinery and structural carton designs.

Riverwood®, Aqua-Kote®, Pearl-Kote®, Omni-Kote®, Multiboard®, Fridge Vendor®, Z-Flute® and the Company's logo are the Company's pending or registered trademarks. Its operations are not dependent upon any single trademark. The Company does not hold any material licenses.

Employees and Labor Relations

As of December 31, 2002, the Company had approximately 4,150 employees worldwide (excluding employees of joint ventures), approximately 2,950 of whom were members of unions and covered by collective bargaining agreements.

There are four unions representing the Company's U.S. employees, one of which, the Paper, Allied-Industrial, Chemical & Energy Workers International Union AFL-CIO, CLC, is associated with the West Monroe Mill and converting facility where it represents approximately 1,300 employees, and the Macon Mill where it represents approximately 300 of the 400 union employees.

At the Company's Macon Mill, the current union contract was negotiated and ratified by the union in the second quarter of 1998 and runs through December 31, 2003. Also at the Macon Mill, the International Association of Machinists and Aerospace Workers, and the International Brotherhood of Electrical Workers represent certain maintenance employees.

A new six year contract covering the West Monroe Mill was negotiated and ratified by the union on March 20, 2003 and covers the six-year period from March 1, 2003 to February 28, 2009. The contract covering employees at the adjacent converting plants was negotiated and ratified by the union in 2000 and covers the five-year period from September 1, 2000 through August 31, 2005.

The Company's other U.S. converting plants, other than its converting facility in Perry, Georgia, are represented by unions. A new six year contract covering the Clinton, Mississippi converting plant contract was negotiated and ratified by the union on April 12, 2003 and covers the six-year period from February 1, 2003 through January 31, 2009. The Cincinnati, Ohio converting plant completed negotiations for a new five year labor agreement effective from February 1, 2001 through January 31, 2006. The Fort Atkinson, Wisconsin converting plant five year labor agreement was negotiated in 2002 with the Graphic Communication Workers International Union and the International Association of Machinists for the period of September 9, 2002 through September 9, 2007 and September 30, 2002 through September 30, 2007, respectively.

The Company's international employees are represented by unions in Brazil, France, Spain, Sweden and the United Kingdom.

Environmental Matters

The Company is committed to compliance with all applicable foreign, federal, state and local environmental laws and regulations. Environmental law is, however, dynamic rather than static. As a result, costs that are unforeseeable at this time, may be incurred when new laws are enacted, and when environmental agencies adopt or revise rules and regulations. In general, the environmental laws that the Company is subject to regulate discharges and emissions of constituents to the air, soil and water, prescribe procedures for the use, reuse, reclamation, recycling and disposal of designated waste materials and impose liability and requirements relating to the cleanup of contamination. In certain instances, state environmental laws may be stricter than their federal counterparts.

The federal Clean Air Act imposes stringent limits on air emissions, establishes a federal permit program (Title V) and provides for civil and criminal enforcement sanctions. In response to these requirements, in the early 1990's the Company switched from solvent-based to water-based inks and varnishes at its converting operations in order to reduce and meet requirements with respect to emissions of volatile organic compounds. Where necessary, the Company's plants have received or submitted an application to the appropriate permitting authority for a Title V permit.

The federal Clean Water Act establishes a system of minimum national effluent standards for each industry, water quality standards for the nation's waterways and a permit program that provides discharge limitations. It also regulates releases and spills of oil and hazardous materials and wastewater and stormwater discharges. The Company's mill in West Monroe, Louisiana is the only one of the Company's facilities that is a direct discharger to a water body and a permit currently covers its discharges to the Ouachita River. The Company's other operations discharge to publicly owned treatment works and are subject to pretreatment requirements and limitations.

The federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") establishes liability for waste generators, current and former site owners and operators and others in connection with releases of hazardous materials. In several instances, the Company has been identified as a Potentially Responsible Party ("PRP") under CERCLA and similar state laws. These actions are not material.

In 1998, the U.S. Environmental Protection Agency adopted regulations (generally referred to as the "cluster rules") that mandated more stringent controls on air and water discharges from United States pulp and paper mills. Over the next three years, the Company anticipates that it will spend approximately $22 million at its two U.S. mills to comply with these regulations. These costs have not been accrued, but rather are a part of the Company's capital expenditure plan. Most of these costs are anticipated to be incurred in the first two quarters of 2005.

The Company is involved in environmental investigation and remediation projects for certain properties currently or formerly owned or operated by the Company, and at certain waste disposal sites. Some of these projects are being addressed under federal and state statutes, such as CERCLA and analogous state laws. The Company's costs in certain instances cannot be reliably estimated until the remediation process is substantially underway or liability has been addressed. The Company accrues reserves for these contingencies when the liability is probable and the costs are reasonably estimable. The Company has accrued the following amounts for environmental losses as of December 31, 2002: approximately $0.5 million for the Line Avenue Site described below, approximately $0.3 million for the Shoreline Refinery Site described below, and approximately $0.1 million for general environmental matters. The Company is not aware of any material unaccrued loss that is reasonably estimable where liability is probable. The Company believes that based on current information and regulatory requirements, its accruals for environmental matters are adequate. However, there can be no assurance

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that the Company will not incur significant costs in excess of accrued amounts in connection with remediation activities and other environmental matters.

In late 1995, the Louisiana Department of Environmental Quality (the "DEQ") notified the Predecessor of potential liability for the remediation of hazardous substances at a former wood treatment site in Shreveport, Louisiana (known as the Line Avenue Site) that the Predecessor or its predecessors previously operated. In August 2001, the Company entered into an agreement with the DEQ and the landowners to remediate the site. The agreement required the removal of soils containing wood-treating constituents in excess of regulatory standards, consolidation of these soils in a sub-portion of the site, capping of the sub-portion, land use restrictions, future operations and maintenance ("O&M") to ensure the integrity of the cap, long-term monitoring of the groundwater, and a recorded prohibition on the use of on-site groundwater. The Company contracted with a qualified contractor to remediate the site at a cost of approximately $1.3 million. In addition, each of the O&M and groundwater monitoring costs for the initial five years are expected to be approximately $0.1 million (no such costs are estimated beyond the initial five-year period). As of December 31, 2002, all of the required soil excavation and consolidation has been completed. The Company expects to complete construction of the cap by July 2003. As of December 31, 2002, the Company has paid its contractor approximately $0.6 million to remediate the site. The Company has been reimbursed approximately half of these costs from a PRP that has entered into a settlement agreement with the Company.

On July 6, 2000, the Company and the DEQ entered into a Settlement Agreement for remediation of a site in Caddo Parish, Louisiana (known as the Shoreline Refinery Site). The principal contamination at this site was an approximately 5 acre impoundment of oil-based sludge that appeared to originate from an oil refinery that was operated by prior operators. The remedial action contemplated by the Settlement Agreement required the neutralization, stabilization and consolidation of sludges and soils at the site, capping of the consolidated materials, the establishment of a vegetative cover, and five years of post-closure care of the capped area. The Company contracted to complete the remedial action in accordance with the terms of the Settlement Agreement. In a November 26, 2002 letter to the Company, the DEQ stated that all required construction activities were accomplished and that the five-year post-closure care and reporting period would commence. The Company conveyed the property to its contractor on October 22, 2000. Based on the terms of the settlement agreement, the DEQ's November 26, 2002 letter and the fact that the property has been sold to the Company's contractor, the Company does not expect to incur additional costs in connection with this site.

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ITEM 2. PROPERTIES

Headquarters

The Company's executive offices are located in Atlanta, Georgia where Riverwood currently leases approximately 70,000 square feet of office space.

Manufacturing Facilities

A listing of the major plants and properties owned, or leased, and operated by the Company is set forth below. The Company's buildings are adequate and suitable for the business of the Company. The Company also leases certain facilities, warehouses and office space throughout the United States and in foreign countries.

Type of Facility and Location(1)	Floor Space in Square Feet	Principal Products Manufactured or Use of Facility

Type of Facility and Location(1)	Floor Space in Square Feet	Principal Products Manufactured or Use of Facility
Paperboard Mills:		
West Monroe, LA	1,535,000	CUK Board; linerboard; corrugating medium; kraft paper
Macon, GA	756,000	CUK Board; linerboard
Norrköping, Sweden	417,000	WLC board
Converting Plants:		
West Monroe, LA (2 plants)	621,000	Beverage cartons
Cincinnati, OH	241,800	Beverage cartons
Clinton, MS	210,000	Beverage cartons
Perry, GA(2)	130,000	Beverage cartons
Ft. Atkinson, WI	120,000	Beverage cartons
Bristol, Avon, United Kingdom	428,000	Beverage cartons; cartonboard
Igualada, Barcelona, Spain	131,000	Beverage cartons; cartonboard
Beauvois en Cambresis, France	70,000	Cartonboard
Le Pont de Claix, France	120,000	Cartonboard
Jundiai, Sao Paulo, Brazil	95,216	Beverage cartons; cartonboard
Packaging Machinery/Other:		
Crosby, MN	188,000	Packaging machinery engineering design and manufacturing
Marietta, GA	64,000	PDC Research and development; packaging machinery engineering design and carton engineering design
Igualada, Barcelona, Spain	22,400	Packaging machinery engineering design and manufacturing
Kennesaw, GA	62,500	Development and small scale manufacturing facility for Z-Flute® product

(1) The Company leases the facilities in Marietta, Georgia (3 facilities; leases expire on January 31, 2007, April 30, 2003 and April 30, 2003); Kennesaw, Georgia (lease expires on June 30, 2006); Clinton, Mississippi (part only; lease renewable annually); Beauvois en Cambresis, France (lease expires on December 31, 2006); Le Pont de Claix, France (lease expires on May 1, 2003); and Igualada, Barcelona, Spain (2 facilities; leases expire on May 1, 2004 and October 18, 2010). Generally, leases are subject to extension or renewal at the option of the parties to the lease agreement. The Company owns all other facilities listed.

(2) The facility located in Perry, Georgia is leased from the Middle Georgia Regional Development Authority in consideration of the issuance of industrial development bonds by such entity.

ITEM 3. LEGAL PROCEEDINGS

The Company is a party to a number of lawsuits arising out of the ordinary conduct of its business. While there can be no assurance as to their ultimate outcome, the Company does not believe that these lawsuits will have a material impact on the results of operations, cash flows or financial condition of the Company.

The Company has been a plaintiff in actions filed in the U.S. District Court for the Northern District of Georgia against MeadWestvaco, successor by merger to Mead, and R.A. Jones claiming infringement of the Company's patents for its packaging machines and seeking damages sufficient to compensate for such infringement. The patents in suit were found infringed but invalid by a jury in a trial against R.A. Jones in August 2001. This finding of invalidity as to U.S. Patent Nos. 5,666,789 and 5,692,361 was appealed to the Court of Appeals for the Federal Circuit (the "CAFC"). The suit against MeadWestvaco was dismissed by mutual agreement, subject to being refiled, pending the outcome of the appeal of the decision in the case against R.A. Jones. The CAFC vacated the holding of invalidity as to U.S. Patent Nos. 5,666,789 and 5,692,361 and remanded to the District Court for determination of proper inventive entity. The finding of infringement was affirmed by the

CAFC. Further proceedings consistent with the decision of the CAFC follow in the District Court.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of 2002, there were no matters submitted to a vote of security holders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

There is no established public trading market for the Class A Common Stock or Class B Common Stock of the Company. The shares of Class A Common Stock and Class B Common Stock were held of record by 51 stockholders and one stockholder, respectively, at December 31, 2002. The Company did not pay any dividends on either class of Common Stock during 2002 or 2001. The Company's debt instruments restrict the ability of the Company to pay dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources Covenant Restrictions."

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ITEM 6. SELECTED FIVE-YEAR FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of the Company and Notes thereto included elsewhere in the Form 10-K.

	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998
			(In thousands of dollars)		
OPERATIONS					
Net Sales	$ 1,247,314	$ 1,201,613	$ 1,192,362	$ 1,174,665	$ 1,196,221
Income from Operations (b)(d)(f)	140,612	107,266	213,554	115,587	23,893
Income (Loss) before Cumulative Effect of a Change in Accounting Principle (a)(b)(d)(f)	(11,262)	(65,058)	31,347	(59,547)	(144,089)
Net (Loss) Income (a)(b)(d)(e)(f)	(11,262)	(65,557)	31,347	(59,547)	(144,089)
FINANCIAL POSITION (as of period end)					
Total Assets (d)(f)	$ 1,957,672	$ 2,001,096	$ 2,094,433	$ 2,343,771	$ 2,405,342
Long-Term Debt, less current portion (d)	1,423,664	1,523,082	1,516,881	1,730,898	1,680,415
Redeemable Common Stock	6,951	8,061	8,061	7,202	6,205
Shareholders' Equity (f)	125,575	196,715	277,038	260,277	324,510
ADDITIONAL DATA					
Additions to Property, Plant and Equipment (c)	$ 56,042	$ 57,297	$ 62,062	$ 66,018	$ 48,551
Research, Development and Engineering Expense	5,227	5,111	4,554	4,078	5,570

Notes:

(a) Net (Loss) Income for the years ended December 31, 2002, 2001 and 2000 included a Loss on Early Extinguishment of Debt of $11.5 million, $8.7 million, and $2.1 million, respectively (see Note 20 in Notes to Consolidated Financial Statements).

(b) Net (Loss) Income for the years ended December 31, 2000 and 1998 included a (credit) charge for the global restructuring program, which was focused in the Company's European operations, of $(2.6) million and of $25.6 million, respectively.

(c) Includes amounts invested in packaging machinery and capitalized interest.

(d) On October 3, 2000, the Company, along with its joint venture partner, completed the sale of the jointly-held subsidiary Igaras for approximately $510 million, including the assumption of $112 million of debt. The Company recognized a gain of approximately $70.9 million in connection with the sale (see Note 6 in Notes to the Consolidated Financial Statements).

(e) Net Loss for the year ended December 31, 2001 included a charge of $0.5 million, net of tax, for the cumulative effect of a change in accounting principle for derivatives.

(f) During the fourth quarter of 2002, the Company changed its method of determining the cost of inventories from the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method. Prior to 2002, the majority of the Company's operations used the LIFO method of valuing inventory. The Company has concluded that the FIFO method will result in a better measurement of current inventory costs with revenues because the Company's operations have realized and expect to continue to realize cost reductions in its manufacturing operations. The Company applied this change by retroactively restating its financial statements as required by Accounting Principles Board Opinion No. 20, "Accounting Changes," which resulted in an increase to the accumulated

deficit as of January 1, 1998 of approximately $6.8 million (see Note 27 in Notes to the Consolidated Financial Statements).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Riverwood Holding, its wholly-owned subsidiary RIC Holding and the corporation formerly named CDRO Acquisition Corporation were organized to acquire the Company's predecessor, the corporation formerly named Riverwood International Corporation. Riverwood Holding, RIC Holding and CDRO Acquisition Corporation were incorporated in 1995 under the laws of the State of Delaware. On March 27, 1996, Riverwood Holding, through its wholly-owned subsidiaries, acquired all of the outstanding shares of common stock of the corporation formerly named Riverwood International Corporation, which the Company refers to as RIC. On such date, CDRO Acquisition Corporation was merged into RIC (the "Merger"). RIC, as the surviving corporation in the merger, became a wholly-owned subsidiary of RIC Holding. On March 28, 1996, RIC transferred substantially all of its properties and assets to the corporation formerly named Riverwood International USA, Inc., other than the capital stock of Riverwood International USA, Inc., and RIC was merged into RIC Holding. Thereupon, Riverwood International USA, Inc. was renamed Riverwood International Corporation.

In connection with the Merger, the Company entered into a credit agreement that provided for senior secured credit facilities consisting of a term loan facility and a $400 million revolving credit facility. Such credit agreement, term loan facility and revolving facility, as in effect prior to the August 10, 2001 amendment and restatement discussed below, are referred to herein as the "Prior Credit Agreement", the "Prior Term Loan Facility" and the "Prior Revolving Facility", respectively. In addition, Riverwood International Machinery, Inc., a wholly-owned subsidiary of Riverwood, entered into a credit agreement providing for a $140 million secured revolving credit facility (the "Machinery Facility") for the purpose of financing or refinancing packaging machinery. In connection with the Merger, the Company also completed an offering of $250 million aggregate principal amount of $10^{1}/_{4}$% Senior Notes due 2006 (the "1996 Senior Notes") and $400 million aggregate principal amount of $10^{7}/_{8}$% Senior Subordinated Notes due 2008 (the "1996 Senior Subordinated Notes" and together with the 1996 Senior Notes, the "1996 Notes").

On July 28, 1997, the Company completed an offering of $250 million principal amount of $10^{5}/_{8}$% Senior Notes due 2007 (the "Initial Notes"). The net proceeds of this offering were applied to prepay certain revolving credit borrowings under the Prior Revolving Facility (without any commitment reduction) and to refinance certain tranche A term loans and other borrowings under the Prior Credit Agreement. A registration statement under the Securities Act of 1933, as amended, registering senior notes of the Company identical in all material respects to the Initial Notes (the "Exchange Notes") offered in exchange for the Initial Notes became effective October 1, 1997. On November 3, 1997, the Company completed its exchange offer of the Initial Notes for the Exchange Notes. The Initial Notes and the Exchange Notes are referred to herein as the

1997 Notes.

In connection with the sale of Igaras on October 3, 2000, the Company entered into Amendment No. 5 dated September 12, 2000, effective October 3, 2000, to the Prior Credit Agreement. Pursuant to the amendment, the Company applied $145 million of the sale proceeds to term loan maturities under the Prior Term Loan Facility. The Company recognized a loss on the early extinguishment of debt of approximately $2.1 million, net of tax of nil, in the fourth quarter of 2000. The Company applied the remaining portion of the proceeds (approximately $48 million) to the Prior Revolving Facility (without any commitment reduction). In connection with Amendment No. 5, the Company canceled its Machinery Facility.

On June 21, 2001, the Company completed an offering of $250 million principal amount of $10^{5}/_{8}$% Senior Notes due 2007 (the "Initial 2001 Notes"). The Initial 2001 Notes were sold at a price of 103% of par. The proceeds from this offering of approximately $251.5 million, net of approximately $6 million of transaction fees and expenses, were applied to prepay a portion of the outstanding borrowings under the Prior Term Loan Facility. During the second quarter of 2001, the Company recorded a non-cash charge to earnings of approximately $2.8 million related to the write-off of the applicable portion of deferred debt issuance costs on the term loans. In connection with this offering, on June 6, 2001, the Company entered into Amendment No. 6 to the Prior Credit Agreement. The amendment modified certain financial and other covenants, including minimum Credit Agreement EBITDA requirements, in the Prior Credit Agreement to reflect recent financial results and market and operating conditions. A registration statement under the Securities Act registering senior notes of the Company identical in all material respects to the Initial 2001 Notes (the "Exchange 2001 Notes") offered in exchange for the Initial 2001 Notes became effective on August 27, 2001. On October 5, 2001, the Company completed its exchange offer of the Initial 2001 Notes for the Exchange 2001 Notes. The Initial 2001 Notes and the Exchange 2001 Notes are referred to herein as the 2001 Notes.

On August 10, 2001, the Company entered into an amendment and restatement of the Prior Credit Agreement (the "Senior Secured Credit Agreement") with certain lenders providing for senior secured credit facilities with aggregate commitments not to exceed $635 million (together with the 2002 Term Loan Facility referred to below, the "Facilities"), including a $335 million term loan facility (the "2001 Term Loan Facility") and a $300 million revolving credit facility (the "Revolving Facility"). The proceeds of the initial borrowings under the Facilities of approximately $386 million, including $51 million under the revolving facility, were applied to repay in full the outstanding borrowings under the Prior Term Loan Facility and the Prior Revolving Facility and to pay approximately $12 million of the $14 million of fees and expenses incurred in connection with the amendment and restatement of the Prior Credit Agreement. During the third quarter of 2001, the Company recorded a non-cash charge to earnings of approximately $6.0 million related to the write-off of the applicable remaining deferred debt issuance costs on the Prior Term Loan Facility and the Prior Revolving Facility.

In April 2002, the Company entered into an amendment of the Senior Secured Credit Agreement which provided for a new, tranche B, term loan facility of $250 million ("2002 Term Loan Facility"). The 2002 Term Loan Facility was drawn on April 23, 2002 and the proceeds, together with borrowings under the Revolving Facility of approximately $12.0 million, were used to redeem the 1996 Senior Notes which occurred on May 23, 2002 and to pay related fees, costs and expenses. In the second quarter of 2002, the Company recorded a non-cash charge to earnings of approximately $3.0 million related to the write-off of the remaining deferred debt issuance costs on the 1996 Senior Notes and a charge of approximately $8.6 million related to the call premium paid upon redemption of the 1996 Senior Notes.

On May 3, 2002, Holding filed a Form S-1 registration statement with the Securities and Exchange Commission for the registration under the Securities Act of 1933 of $350 million of its common stock in a proposed initial public offering. As of December 31, 2002, the Company had deferred approximately $1.9 million of costs associated with this proposed transaction. On March 27, 2003, Holding filed with the SEC an application to withdraw the registration statement. As a result, the Company will record an approximate $1.9 million charge in the first quarter of 2003.

On March 25, 2003, Holding, Riverwood Acquisition Sub LLC, a Delaware limited liability company and a wholly-owned subsidiary of Holding ("Merger Sub") and Graphic Packaging International Corporation, a Colorado corporation ("Graphic") entered into an Agreement and Plan of Merger (the "2003 Merger Agreement"). Pursuant to the 2003 Merger Agreement and other related transaction documents, Graphic will merge with and into Merger Sub (the "2003 Merger"). Prior to consummation of the 2003 Merger, Holding will effect a stock split. In connection with the 2003 Merger, the shareholders of Graphic will receive one share of Holding common stock and associated

Holding shareholder rights for each share of Graphic common stock and associated Graphic shareholder rights they own immediately prior to the 2003 Merger. Upon completion of the transaction, holders of Holding common stock will own 57.5% and holders of Graphic common stock will own 42.5% of the common stock of Holding, each calculated on a fully diluted basis. The 2003 Merger Agreement has been approved by the respective Boards of Directors of Holding and Graphic. Consummation of the 2003 Merger is subject to customary closing conditions, including approval by Graphic's shareholders and regulatory approvals.

In connection with the execution of the 2003 Merger Agreement, Holding and certain major shareholders of Graphic entered into a Voting Agreement dated March 25, 2003 (the "Voting Agreement") pursuant to which such shareholders agreed to vote for the 2003 Merger and against any other transaction involving Graphic. In addition, pursuant to the Voting Agreement and as a condition to the effectiveness of the 2003 Merger, the holder of Graphic's 10% Series B Convertible Preferred Stock (the "Preferred Stock") has agreed to convert all of the outstanding shares of the Preferred Stock into Graphic common stock in exchange for a payment of the present value of future dividends on the Preferred Stock that would have been payable by Graphic from the effective time of the 2003 Merger until the Preferred Stock could have been redeemed by Graphic.

General

The Company reports its results in two business segments: Coated Board (relating to the Company's coated unbleached kraft paperboard ("CUK Board") used in its beverage multiple packaging and consumer products packaging businesses) and Containerboard. The Coated Board business segment includes (1) the production and sale of CUK Board for cartons from the Company's West Monroe, Louisiana and Macon, Georgia mills and white lined chip board ("WLC") from its paper mill in Norrköping, Sweden; (2) carton converting plants in the United States, Europe and Brazil; and (3) the design, manufacture and installation of packaging machinery related to the assembly of cartons for beverage and non-beverage consumer products applications. The Containerboard business segment includes the production and sale of linerboard, corrugating medium and kraft paper from paperboard mills in the United States. The Company intends to stop producing linerboard as it continues to shift production capacity to higher margin CUK Board.

The table below sets forth EBITDA as defined in the Company's Senior Secured Credit Agreement, which we refer to as "Credit Agreement EBITDA". Credit Agreement EBITDA as presented below is a financial measure that is used in the Company's Senior Secured Credit Agreement. Credit Agreement EBITDA is not a defined term under accounting principles generally accepted in the United States and should not be considered as an alternative to income from operations or net income as a measure of operating results or cash flows as a measure of liquidity. Credit Agreement EBITDA differs from the term "EBITDA" (earnings before interest expense, income tax expense, and depreciation and amortization) as it is commonly used. In addition to adjusting net income to exclude interest expense, income tax expense, and depreciation and amortization, Credit Agreement EBITDA also adjusts net income by excluding certain other items and expenses, as specified below. The Company's Senior Secured Credit Agreement requires it to comply with a specified debt to Credit Agreement EBITDA leverage ratio and a specified consolidated Credit Agreement EBITDA to interest expense ratio for specified periods. The specific ratios are set out under " Financial Condition, Liquidity and Capital Resources" below.

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Borrowings under the Senior Secured Credit Agreement are a key source of the Company's liquidity. The Company's ability to borrow under the Senior Secured Credit Agreement is dependent on, among other things, its compliance with the financial ratio covenants referred to in the preceding paragraph. Failure to comply with these financial ratio covenants would result in a violation of the Senior Secured Credit Agreement and, absent a waiver or amendment from the lenders under such agreement, permit the acceleration of all outstanding borrowings under the Senior Secured Credit Agreement.

The calculation of Credit Agreement EBITDA for the periods indicated is set forth below.

In thousands of Dollars

For the Year Ended December 31, 2002		
Net (Loss) Income	$	(11,262)
Income Tax Expense (Benefit)		(4,664)
Interest Expense, Net		146,057
Depreciation and Amortization		133,840
Equity in Net Earnings of Affiliates		(1,028)
Other non-cash charges(A)		12,656
Dividends from equity investments		612
Loss on early extinguishment of debt		11,509
Credit Agreement EBITDA(B)	$	287,720

In thousands of Dollars

For the Year Ended December 31, 2001		
Net (Loss) Income	$	(65,557)
Income Tax Expense (Benefit)		6,627
Interest Expense, Net		157,966
Depreciation and Amortization		137,143
Equity in Net Earnings of Affiliates		(993)
Other non-cash charges(A)		18,886
Dividends from equity investments		710
Loss on early extinguishment of debt		8,724
Cumulative effect of a change in accounting		499
Credit Agreement EBITDA(B)	$	264,005
For the Year Ended December 31, 2000		
Net (Loss) Income	$	31,347
Income Tax Expense (Benefit)		3,009
Interest Expense, Net		180,437
Depreciation and Amortization		143,541
Equity in Net Earnings of Affiliates		(3,356)
Other non-cash charges(A)		(62,144
Dividends from equity investments		5,083
Loss on early extinguishment of debt		2,117
Credit Agreement EBITDA(B)	$	300,034

Notes:

(A)
Other non-cash charges include non-cash charges for pension, postretirement and postemployment benefits, and amortization of premiums on hedging contracts deducted in determining net income.

(B)
Credit Agreement EBITDA is calculated in accordance with the definitions contained in the Company's Senior Secured Credit Agreement. Credit Agreement EBITDA is defined as

consolidated net income (exclusive of non-cash charges resulting from purchase accounting during the periods subsequent to the March 1996 merger) before consolidated interest expense, consolidated income taxes, consolidated depreciation and amortization, and other non-cash charges deducted in determining consolidated net income, extraordinary items and the cumulative effect of accounting changes and earnings of, but including dividends from, non-controlled affiliates.

Business Trends and Initiatives

The Company's net sales, income from operations and cash flow from operations are influenced by sales volume and selling prices for its products and raw material and energy costs, and are affected by a number of significant business, economic and competitive factors. Many of these factors are not within the Company's control. Historically, in the Coated Board business segment, the Company has experienced stable pricing for its integrated beverage carton products, and moderate cyclical pricing for its cartonboard, which historically has been principally sold in the open market. The Company's cartonboard sales are affected by competition from competitors' CUK Board and other substrates solid bleached sulfate ("SBS"), recycled clay coated news ("CCN") and, internationally, WLC as well as by general market conditions.

In the Containerboard business segment, conditions in the cyclical worldwide commodity paperboard markets have a substantial impact on the Company's Containerboard sales. During 2002, the Company elected to take 32 days, or approximately 18,000 tons, of linerboard, CUK Board and medium market related downtime at its U.S. mills that resulted in approximately $3.7 million of under-absorbed fixed costs. The Company expects to take 14 days, or approximately 5,000 tons, of medium market related downtime during 2003 on its medium machine, but the amount of downtime could change depending upon market conditions. The downtime results from a number of factors, but principally a weak containerboard market and production above planned rates. As a result of expected downtime during 2003, the Company estimates the impact on earnings at its U.S mills to be approximately $1.0 million related to the under-absorption of fixed costs.

Energy, including natural gas, fuel oil and electricity, represents a significant portion of the Company's manufacturing costs. During 2002, the Company's financial results were not negatively affected by energy costs when compared to 2001. Until the latter part of 2000, the Company's results had not been significantly affected by the volatility of energy costs. The Company entered into fixed price natural gas contracts designed to mitigate the impact of future cost increases for its natural gas requirements at its two U.S. mills through and including October 2003, and will continue to evaluate its hedge position.

In the fourth quarter of 2002, the Company was notified by Coca-Cola Enterprises ("CCE") that CCE will not renew its supply contract with the Company. Under this contract, which expires on March 31, 2003, the Company supplies to CCE beverage cartons made from the Company's CUK Board, packaging machines and related services. The Company's supply contracts with its independent Coca-Cola bottling company customers are not subject to CCE's non-renewal notification. CCE's action did not impact the Company's 2002 results of operations. The impact on the Company's 2003 results of operations will depend, in part, on the extent to which the Company supplies beverage cartons to CCE during a phase-out period in 2003 after the current supply contract expires, which the Company continues to discuss with CCE. The Company continues to explore opportunities to replace the volumes that it will lose as a result of CCE's decision by seeking to increase sales to existing and new customers and to develop new applications for its CUK Board. The Company continues to evaluate the impact of these developments and the recent increase in beverage market competitiveness on its future pricing for its beverage packaging products. The Company can provide no assurances that it will be able to replace all or any portion of the volumes it had expected to supply to CCE in 2003 and future periods or that it will be able to maintain current pricing levels on its beverage packaging products. If the Company cannot replace such volumes, the Company estimates that its volumes will be negatively

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impacted by approximately 17,000 tons in 2003 and 36,000 tons in 2004 and thereafter. In 2002, the CCE business represented approximately 5% of the Company's consolidated net sales.

The Company is pursuing a number of long-term initiatives designed to improve productivity and profitability. The Company realigned its business into commercially-focused operating units, implemented a global restructuring program, implemented a number of cost saving measures and effected several management changes. The Company is continuing to implement a global Total Quality Systems ("TQS") initiative which uses statistical process control to help design and manage all types of activities including production and maintenance.

In addition, the Company is continuing to implement a strategy focused on the expansion into the high-growth segments of the consumer products packaging market. The Company is targeting segments of the non-beverage consumer products packaging market where it intends to capitalize on its expertise in beverage multiple packaging.

The Company expects capital expenditures will range from $110 million to $120 million in 2003 as the Company invests to improve its process capabilities, in packaging machinery, and to comply with environmental cluster rules. See " Environmental and Legal Matters." The Company is accelerating certain capital driven cost reduction projects that will deliver benefits in 2004 and 2005. The Company continues to evaluate its current operations and assets with a view to rationalizing its operations and improving profitability, in particular with respect to its international converting assets and strategy. Finally, the Company is continuing to focus on reducing working capital and increasing liquidity.

Packaging machinery placements during 2002 increased approximately 27% when compared to 2001 as a result of a 16% increase in packaging machinery orders in 2001 when compared to 2000. The Company expects packaging machinery placements for 2003 to be comparable to 2002. The Company has been and will continue to be selective in future packaging machinery placements to ensure appropriate returns.

Outlook

The Company expects that its 2003 full year income from operations will be comparable to its 2002 income from operations, although no assurance can be given in this regard. The achievement of this expectation is dependent upon (among other things) a number of profit improvement initiativ