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HEAD OFFICE: Kingsey Falls (Québec) Canada
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FOUNDED IN 1964, CASCADES PRODUCES, CONVERTS AND MARKETS PACKAGING AND TISSUE PRODUCTS COMPOSED MAINLY OF RECYCLED FIBRES. CASCADES EMPLOYS CLOSE TO 12,500 EMPLOYEES WHO WORK IN MORE THAN 100 PRODUCTION UNITS LOCATED IN NORTH AMERICA AND IN EUROPE.

CASCADES' MANAGEMENT PHILOSOPHY, ITS MORE THAN 45 YEARS OF EXPERIENCE IN RECYCLING AND ITS ONGOING EFFORTS IN RESEARCH AND DEVELOPMENT ARE STRENGTHS WHICH ENABLE THE COMPANY TO CREATE PRODUCTS THAT ARE INCREASINGLY ENVIRONMENTALLY SOUND.

THE CASCADES SHARES TRADE ON THE TORONTO STOCK EXCHANGE UNDER THE TICKER SYMBOL CAS.

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STRUCTURE
OF THE COMPANY
SECTORS OF ACTIVITY:

TISSUE PAPER PACKAGING

- → BOXBOARD

 (including Dopaco and a participation in Reno de Medici S.P.A.)
- → CONTAINERBOARD (Norampac)
- ⇒ <u>SPECIALTY PRODUCTS</u>
 (including Metro Waste Paper Recovery Inc.)







GREEN BY NATURE ... AND A GREEN **CORPORATE STRUCTURE**

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ALAIN LEMAIRE President and Chief Executive Officer. Cascades Inc.
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2009 marked the start of a major change in direction at Cascades. After 45 years of living in a sustainable way and applying the principles of sustainable development (SD) in an informal manner, the Company took on the task of producing its first official SD plan. To accomplish this, we needed to better identify our sustainable development values and practices, in particular by publicizing our objectives in this regard and by securing a commitment from all of our stakeholders to follow this path.

THE PROCESS

We have learned a lot over the past few months. Our company's stakeholders were, from the outwhile carrying out this enormous undertaking. One thing we have discovered is that entrenching our usual practices into a system entails a review of what has defined us since the Company's inception and gives rise to certain questions about our day-to-day actions. Do any other cesses and products really in compliance with the most stringent SD standards? Do our employees feel as appreciated as we believe them to be? Are the communities in which Cascades has set up operations satisfied with our contribution? These were some of the questions we needed to answer... and the responses had to be checked and validated by third parties.

OUR PARTNERS

set, viewed as preferred participants in the thinking process required to produce our Sustainable Development Plan. Our very first step was to confer with them and poll their opinions. Their impressions and expectations incited us to modify several aspects of the path we were following. more effective—methods exist? Are our pro- thus demonstrating the relevance of our approach. One prominent example was the gaps in our sustainable development reports: we were admonished for outlining only our successes and for not including any consistent indicators or specific objectives.

THE NEXT STEPS

This sustainable development report remedies the production-related weaknesses that were brought to our attention, although only to a limited degree. Our Sustainable Development Plan, which is very close to completion, will provide evidence of the thorough re-assessment we have carried out on our practices.

Criticism, a motivating factor rather than a source of alarm, is the very basis of the principle of continuous improvement which, we believe, enables Cascades to exemplify just how accountable it is as a company.

I therefore thank you in advance for the constructive feedback you will provide us, and I invite you to join us on our course to an ever-increasing accountability.

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"CRITICISM, A MOTIVATING **FACTOR RATHER THAN A SOURCE** OF ALARM, IS THE VERY BASIS OF **OF CONTINUOUS** MPROVEMEN WHICH, WE BELIEVE, ENABLES CASCADES **JUST HOW ACCOUNTABLE IT** IS AS A COMPANY."

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OUR STAKEHOLDERS:

- → Our employees;
- → Our customers, suppliers and investors;
- → The communities in which we have set up operations;
- → Non-governmental organizations that are interested in sustainable development;
- → And any group or individual with a direct—or less direct—interest in our Company, or that is likely to be affected by our activities.

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ABOUT THIS REPORT

THE OBJECTIVE

Our intent is to be fully transparent when reporting on Cascades' progress, as well as any regression, in each of the three spheres of sustainable development: environment, social and economy.

THE TEAM

This report was made possible through the collaborative efforts of various Company departments: legal, environment, research and development, energy, transportation, human resources, finance and communications.

THE CONTENT

In compiling the source data for this report, Cascades used, as its basis, the principal parameters in effect for the paper and packaging industry as well as the government standards to which it must adhere. The Company also modeled its approach on the indicators set out in the Global Reporting Initiative (GRI).

THE PACKAGING

This report is printed on Rolland ST100, a Chlorine Free Processed paper that has been granted FSC Recycled and EcoLogo certifications, and was produced by Cascades, in Québec, entirely from recycled fibres, using biogas energy. The cover is made from another innovative Cascades product: the SaniZorbTM maternity mat for piglets, composed entirely of recycled materials, which was manufactured at Cascades Forma-Pak facility in Kingsey Falls, Québec. The substrate on the inside back cover consists of two cardboards 35 pts., made of 100% recycled materials. The cardboards are manufactured at the Cascades Papier Kingsey Falls plant and laminated at the Cascades Multi-Pro plant in Drummondville, Québec. The report was printed in two colours, using vegetable-based inks in muted shades, thus facilitating the subsequent de-inking and recycling processes.

FOR MORE INFORMATION

Throughout the report, certain performance indicators are identified with the following symbol: *(CASCADES.COM)*, which means that additional details can be accessed through www.cascades.com/sustainable-development. The intent is to reduce the bulk of the paper report.

ENVIRONMENTAL VALUE¹

for 9840 lbs. of Rolland ST100

<u>Factor</u>	<u>Value</u>
Recycled fibre	100%
Trees cut	0
Solid waste saved	2 411 kg
Chlorine bleaching	0%
Water saved	228 052 L
Renewable energy	85%
Air emissions saved	5 294 kg
Environmental certifications	3
Wranner recyclability	100%

Environmental value of paper used to print Cascades' 2009 Report on Sustainable Development





THE ORIGINS OF OUR SUSTAINABLE DEVELOPMENT PLAN

A MESSAGE FROM THE VICE-PRESIDENT, SUSTAINABLE DEVELOPMENT

In undertaking my mandate to create and implement Cascades' first sustainable development plan, my first step was to put together a steering committee to assist me. Its members' preliminary task was to perform a diagnosis of the activities related to this exercise. Out of respect for our stakeholders, we began by gathering their complete and honest opinions to guide us in our approach.

TRANSPARENCY AND CREDIBILITY

In the interest of transparency, Cascades also retained the services of a group specialized in corporate responsibility and sustainable development, part of the major auditing firm Deloitte & Touche, for this initial official consultation. Since non-governmental organizations (NGOs) enjoy the highest level of credibility in the eyes of civil society, the Company also decided to have an environmental NGO, Climate for Ideas.org, validate the SD plan development process and the commitments that ensued, in order to benefit from vital advice provided by an independent, neutral third party.

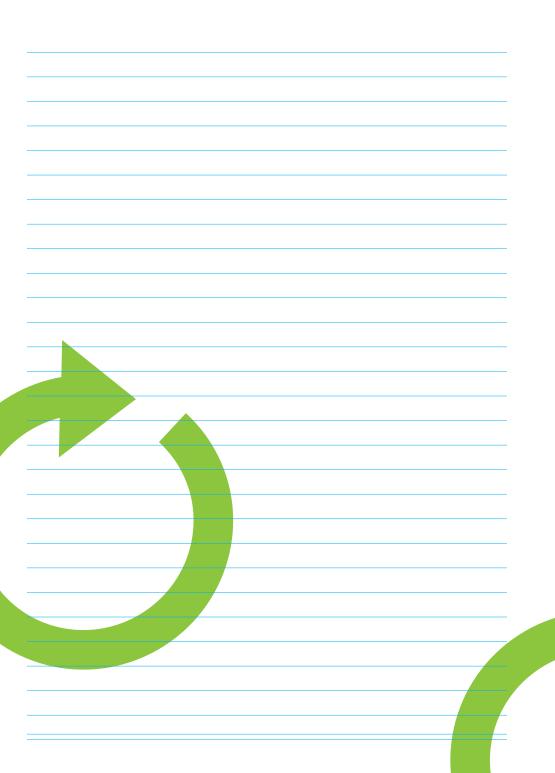


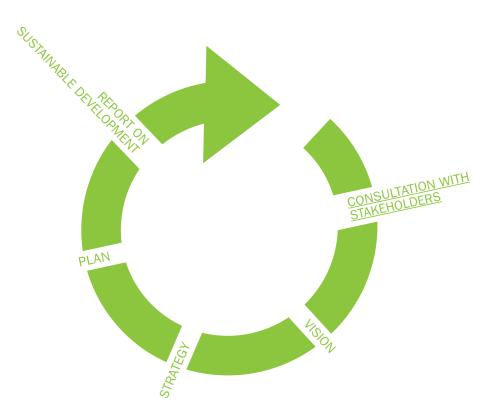
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"CASCADES HAS DEMONSTRATED **HOW SERIOUSLY** TAKES THIS ISSUE **APPROACH, USING** THE OUTCOMES OF A BEST PRACTICE IN QUEBEC."

		<u> </u>
		JAMES FORD
 	 	ME
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"CASCADES ALLOWED ALL STAKEHOLDERS TO GIVE THEIR INPUT (...). AND IS USING STAKEHOLDER INPUT AS ONE OF THE KEY DRIVERS IN FORMING ITS SUSTAINABLE DEVELOPMENT PLAN."

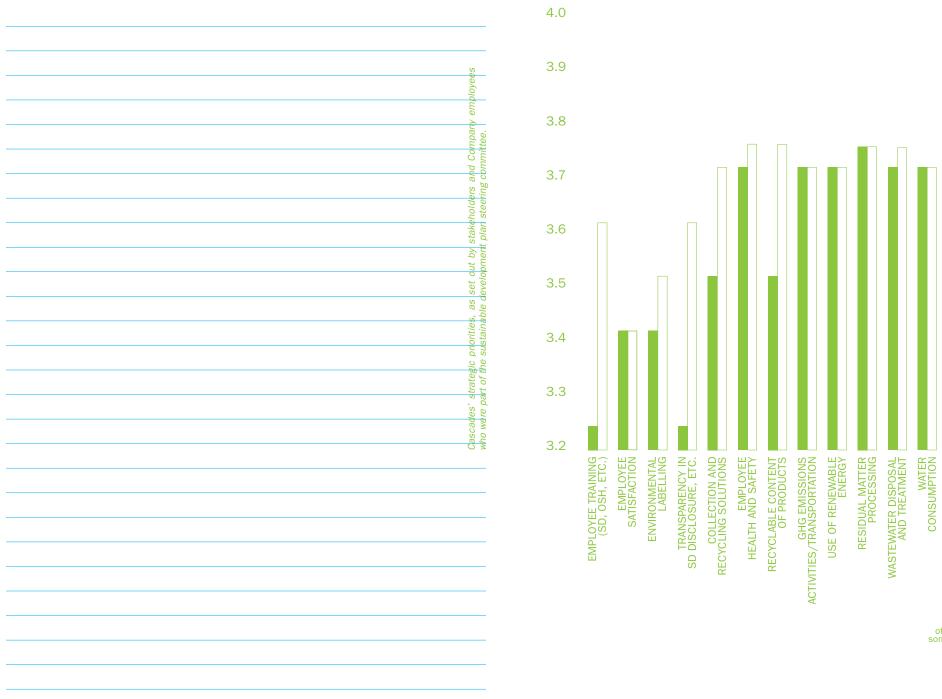




CONSULTATIONS AND RELEVANCE

Listening to our stakeholders was a key step in understanding their expectations and concerns pertaining to Cascades' various business segments and sustainable development issues. In the Fall of 2009, we conducted an on-line survey with approximately 100 people, followed by a large-scale series of direct consultations with dozens of employees, site managers, members of local communities, investors, suppliers, customers, directors and NGO representatives.

Participants responded to our invitation—to reflect on issues such as responsible procurement, product liability, governance and disclosure, as well as the impact of our activities on communities and the environment—by outlining specific strategic priorities that could be used to identify the key performance indicators essential to creating our sustainable development plan.



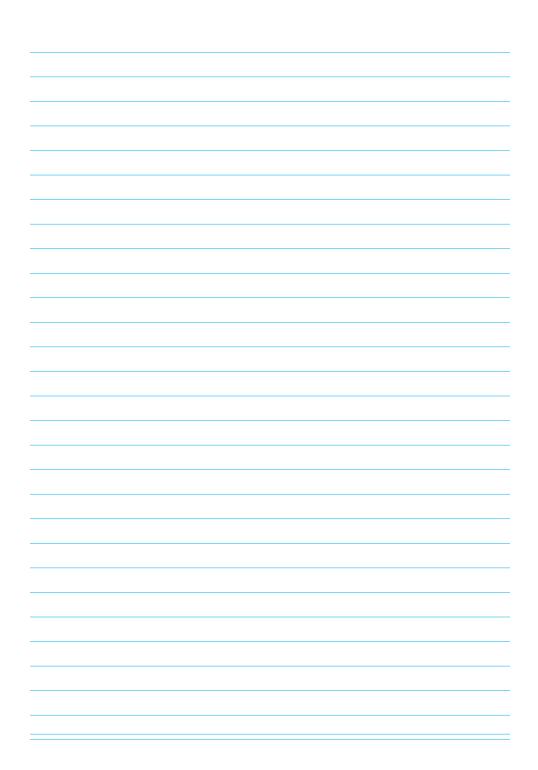
not important - 1 of little importance - 2 somewhat important - 3 very important - 4

> Cascades ■ Stakeholders □

ENERGY CONSUMPTION

PRODUCT QUALITY

RECYCLED CONTENT OF PRODUCTS



DIRECTIONS ADOPTED AND ACTIONS TAKEN

Bolstered by the contribution of all participants, we were able to present to Cascades Executive Committee a set of key orientations related to performance, leadership, transparency and relevance. These general directions will guide our next steps in the sustainable development plan creation process, in particular as we work towards setting measurable goals, consistent performance indicators and detailed action plans. Our stakeholders will, of course, validate all of these steps on an ongoing basis.

Cascades, with its first sustainable development plan, will mark a new phase in attaining its SD goals and will be able to compare its performance to that of the industry in general as well as its past achievements. While expectations are high, Cascades' Sustainable Development Plan will contribute to their fulfillment.

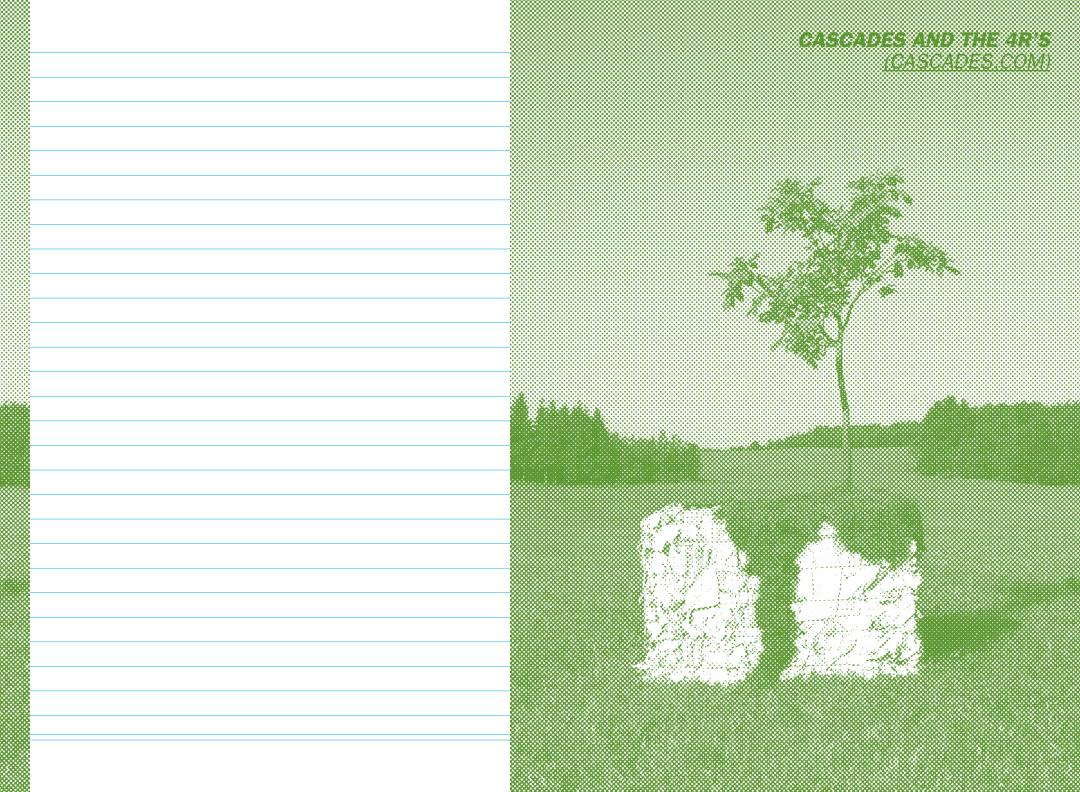
HENRY SAUVAGNAT

Vice-President, Sustainable Development, Cascades Inc.



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LÉON MAR
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"SINCE ITS INCEPTION, CASCADES HAS CAREFULLY DEVELOPED PROCESSES AND RODUCTS THAT ARE SOUND. AS IT APPROACHES A HALF-**CENTURY OF BUSINESS OPERATIONS, THE COMPANY IS ABOUT TO SYSTEM TO** THIS SOUND ENTRENCH Y MEANS OF **A SUSTAINABLE** COMPRISING SPECIFIC MEANS IS THAT IT MEASURE CASCADES' RESULTS AND THEN IMPROVE THEM."



RECYCLING: LONG LIFE TO RAW

MATERIALS!

THE RECYCLING LOOP

Cascades helps maximize the diversion rate of its recyclable materials from the waste stream. These materials can then be converted into tissue papers, fine papers, packaging products and various consumer products, as well as furniture, which are recovered by Cascades... over and over again.

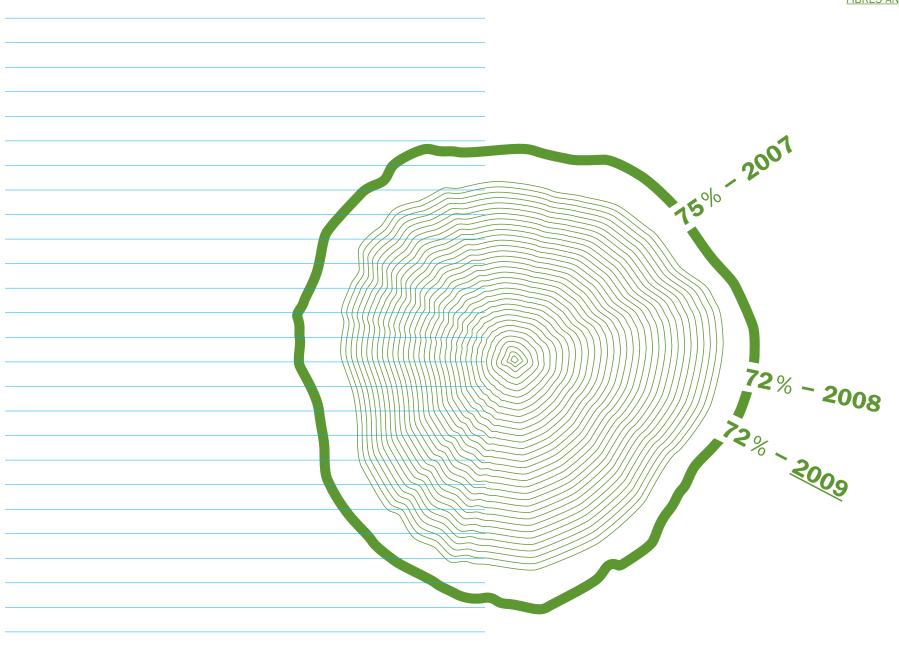
Virgin fibres are required as a starting-off point in the recycling loop. Cascades' profile is ideal in this regard, since the contribution of virgin fibres, generated for example by the operations of our European units, is critical to the very workings of its recovery operation.

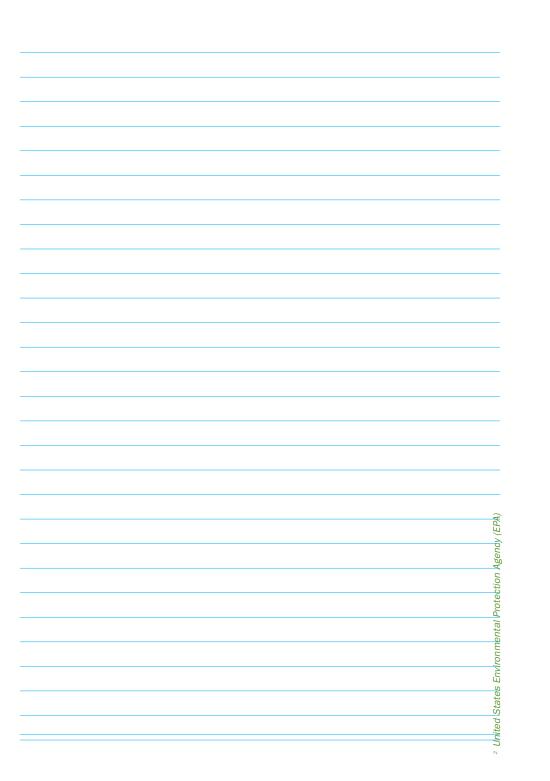
CASCADES SUPPORTS THE RESIDUAL WASTE MANAGEMENT POLICY

Cascades welcomed the residual waste management policy announced by Québec's *ministère du Développement durable, de l'Environnement et des Parcs*. In fact, the Company offered the government the use of its Candiac, Québec facilities to host the event at which this policy was announced.

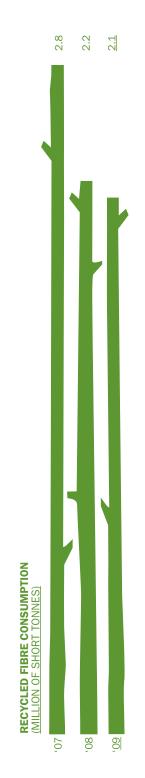
RECOVERY... AND MORE

Metro Waste and Cascades Recovery present new integrated recycling solutions. Recovery... Plus, is a customized material recovery program adapted to each type of industry, offering a variety of quantifiable methods intended to further a zero-waste environment. They also offer equipment, consulting services, work plans, etc.





ONE SHORT TONNE OF RECYCLED PAPER IS THE EQUIVALENT OF 17 TREES².



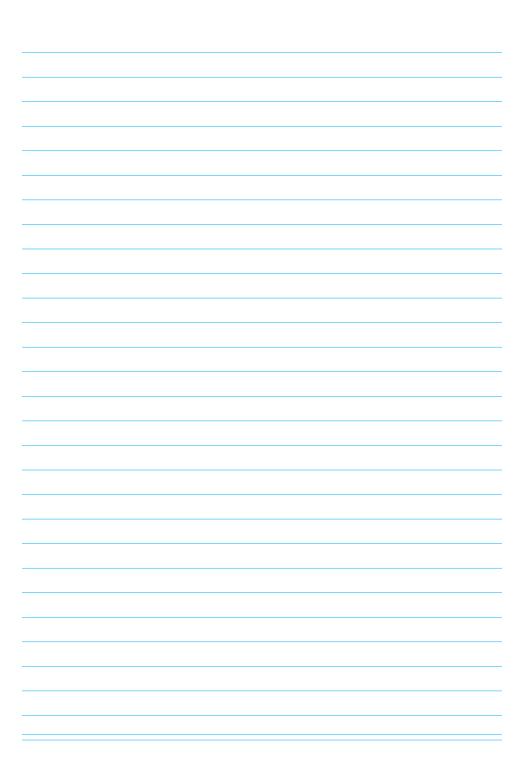
A Moore & Associates
CASCADES IS THE

OF WASTE PAPER IN CANADA AND THE 5TH IN NORTH AMERICA®.

SHORT TONNES OF RECYCLED FIBRES WERE INCORPORATED INTO ITS PRODUCTS, REPRESENTING 2,1 MILLION

Credit: IMAGE ECOteme







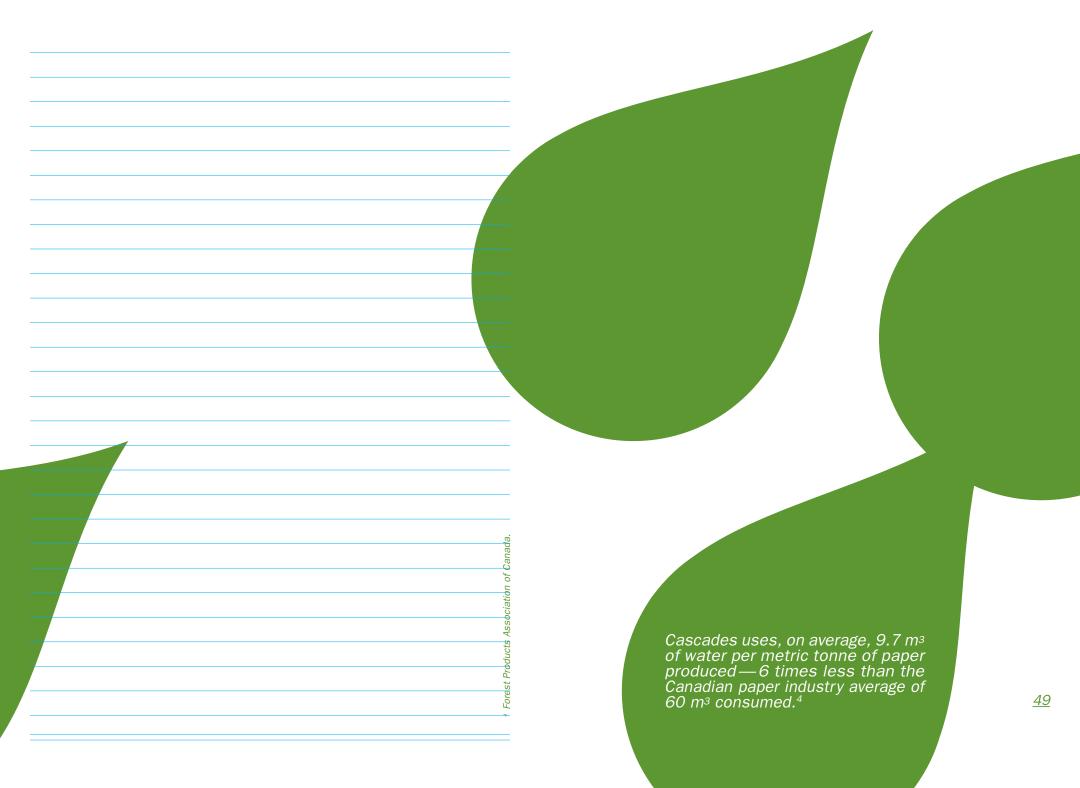
CASCADES' SOCIAL RESPONSIBILITY STARTS AT THE SOURCE

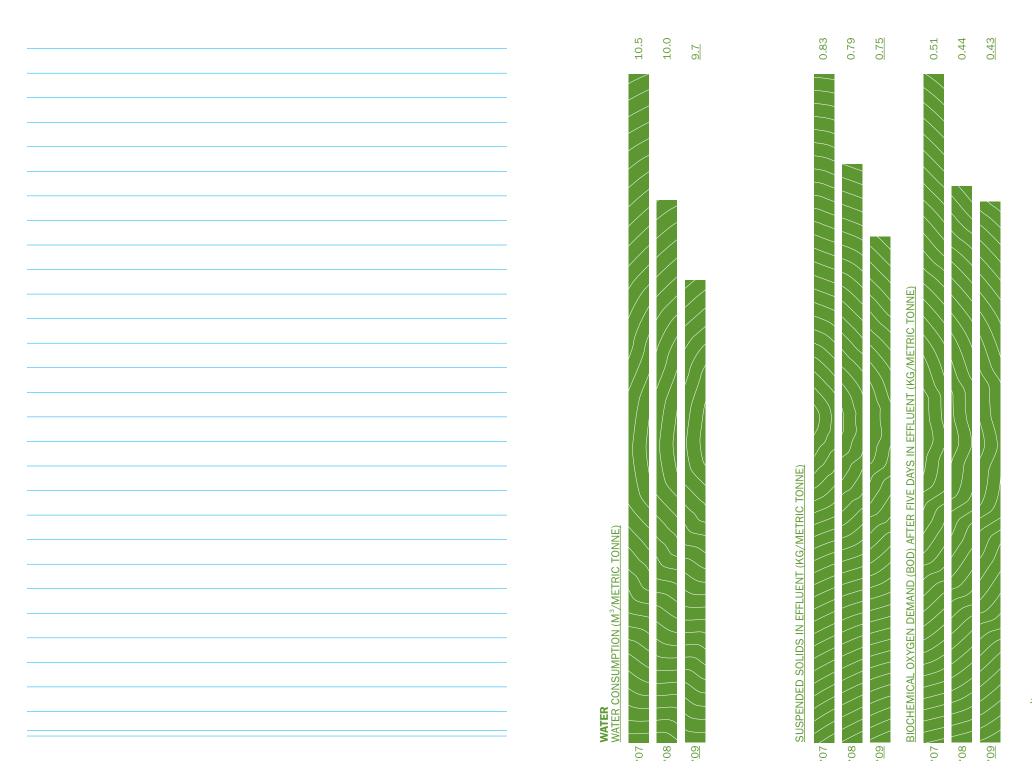
TOWARDS A "WATER INDEX"

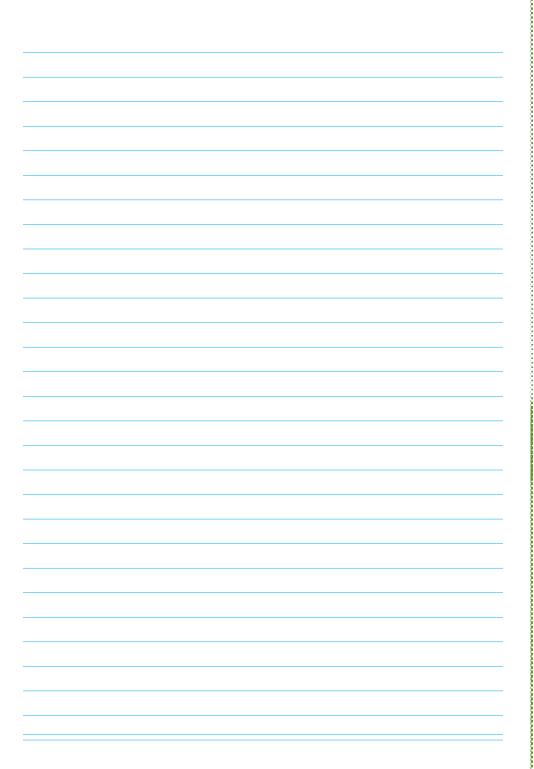
Cascades' Research and Development Centre, and its Environment Department, are part of a working group put together by CIRAIG (the Interuniversity Research Centre for the Life Cycle of Products, Processes and Services). This research group is developing a "water index"—a tool that can be used to quantify the environmental impact of our products, processes and services on water quality and availability. Progress achieved in 2009 was primarily related to the methodology to predict the impact of water shortages on human health.

INGENUITY DEPLOYED TO ADVANCE WASTEWATER RECOVERY

At the St. Marys, Ontario, Norampac plant, a team of employees has successfully implemented a closed-loop system that enables the reuse of wastewater press filtrate for producing starch adhesive. This process has served to reduce environmental waste at the facility, while also avoiding municipal surtaxes related to wastewater treatment.





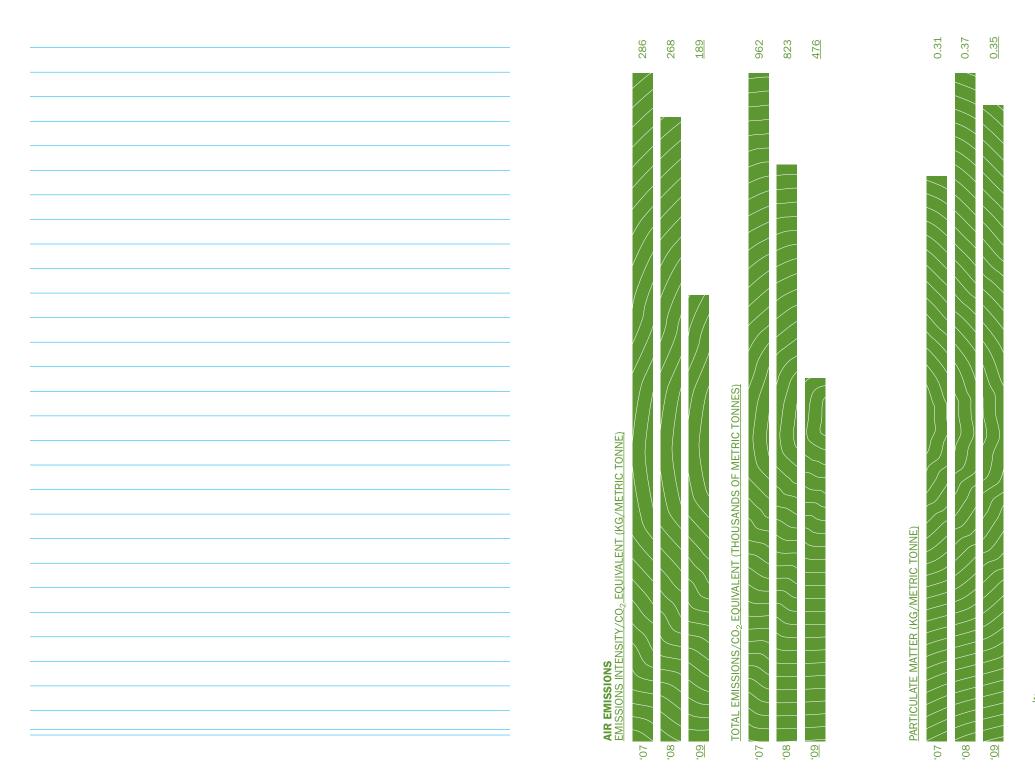


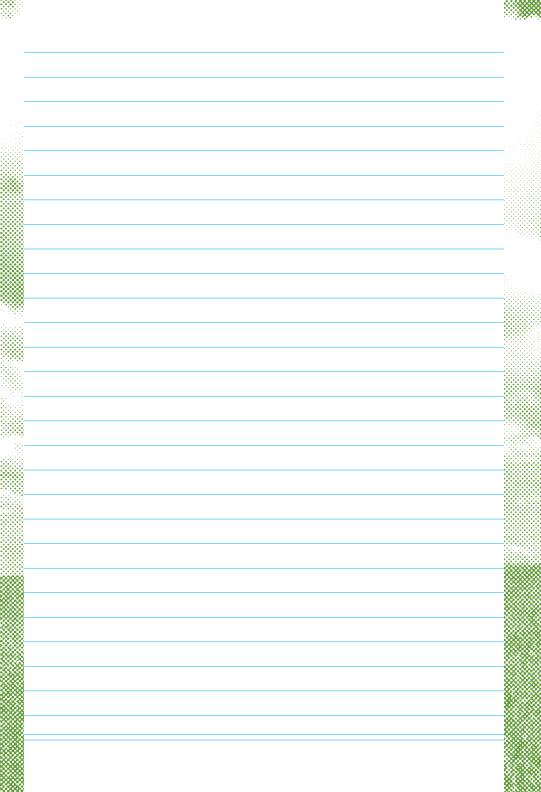


THE LOWEST LEVEL OF POLLUTION EMISSIONS POSSIBLE

CARBON NEUTRALITY... AN UNACHIEVABLE GOAL!

The Cascades Fine Papers Group asserted, in all honesty, that it is not carbon neutral, since carbon dioxide is an unavoidable by-product of paper manufacturing. This being said, the Group recognizes the importance of emitting the lowest level of CO_2 possible, and has in fact accomplished this task. It has achieved one of the lowest CO_2 emission rates in the industry, without needing to purchase carbon credits.





2005-2012 ENVIRONMENTAL OFFICTIVES

RESIDUAL MATTER: VALUE ENSURED

INTERVIEW WITH LÉON MARINEAU

Vice-President, Environment, Cascades Inc.

RECYCLING PROGRAM: CASCADES SETS AN EXAMPLE

In 2009, Cascades' Environment Department noted that the level of employee participation in the Company's recycling program was unsatisfactory. A set of new measures were therefore adopted, with the objective to relaunch the program and recover a greater quantity of materials. Léon Marineau, Vice-President, Environment, describes the overall situation.

What is the nature of the recycling program?

LM: It enables the recovery of 19 types of residual matter that are typically generated in a plant. These materials are grouped into three categories: hazardous and non-hazardous materials, and household waste. The program concerns all of Cascades' production units.

What are the 19 categories? (CASCADES.COM)

Why does recovery need further impetus in the Cascades units?

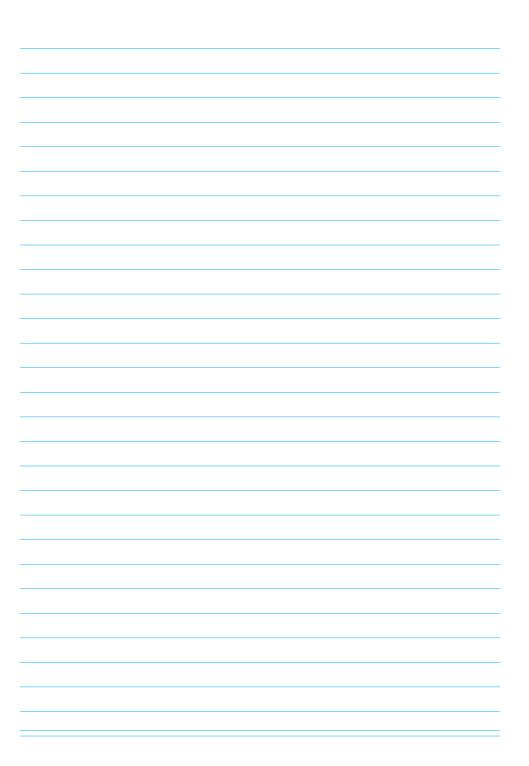
LM: Because there is no end to the recovery of residual matter—it is a day-to-day task that requires employee commitment. We are still finding recoverable resources in waste receptacles in our plants. By recovering more of this type of matter, we are respecting Cascades' values, we are having a positive impact on the environment and we are passing on to future generations a better living environment.

What goals are you targeting by improving this program?

LM: We are working to achieve four interdependent objectives: greater employee participation in the program, more responsible management of residual matter, less buried waste and more recovered matter.

What measures will be taken in 2010 in order to meet these objectives?

LM: We have lots of them! The recovery of plastics, glass and metal will be mandatory in all units. We will also publish a recovery best practices guide, we will assess performance in our plants, carry out audits in the less efficient plants and increase the frequency of our internal communications in order to remind everyone of the importance of recovery.



CASCADES FACILITIES RECOVER, ON AVERAGE, 63% OF THEIR WASTE.





ENERGETIC MEASURES!

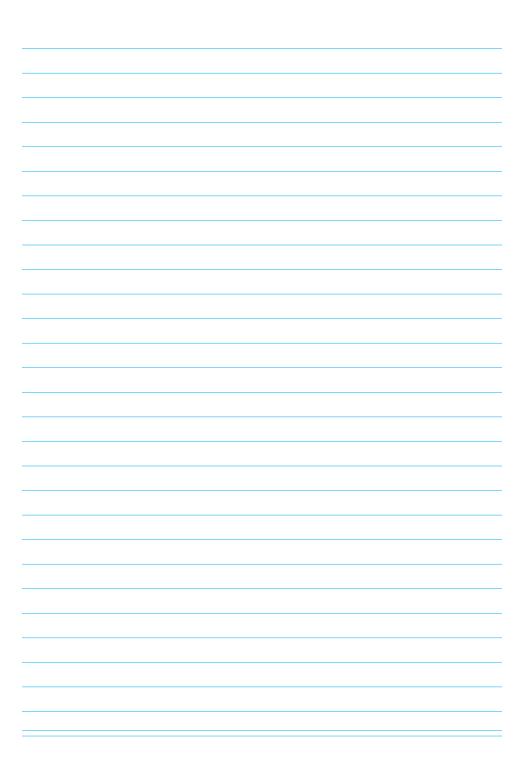
For the first time since 2005, Cascades was unsuccessful in improving its energy efficiency, reducing it by 1.4%, which translates into 390,000 GJ or \$3.8 million.

WINNING ENERGY EFFICIENCY INITIATIVES

The Company is nonetheless continuing its efforts and, in 2009, 26 energy efficiency projects in Cascades plants were financed through the Company's Energy Investment Fund. This Fund, which was created in 2004, is dedicated solely to energy efficiency in our manufacturing facilities. Through these projects, Cascades has succeeded in reducing its energy expenditures by \$3.05 million, which represents 1.02% of Cascades' total consumption. More specifically, the Company will save 283,000 gigajoules through these initiatives, thereby avoiding 12,334 tonnes in greenhouse gas emissions.

Among Cascades' most significant energy-saving achievements is the Schenectady, New York plant's use of recovered heat, which is extracted from the compressor through the cooling system to keep the building warm.

OTHER "ENERGETIC" INITIATIVES! (CASCADES.COM)

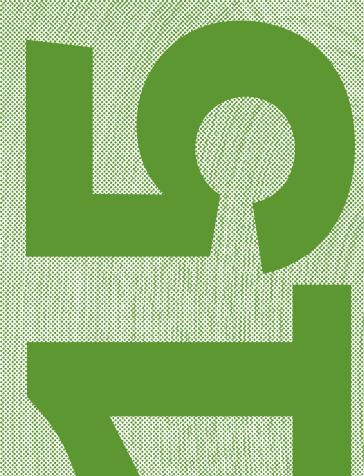




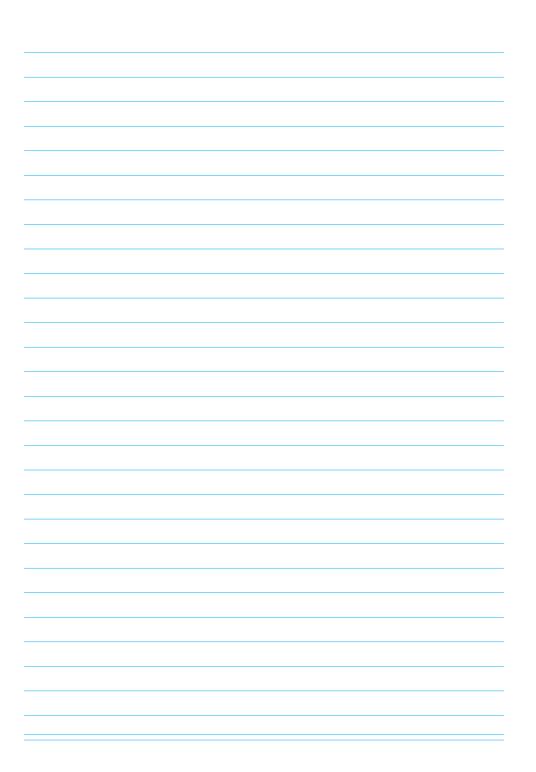
NORTH AMERICAN PAPER MANUFACTURER THAT EMPLOYS A GROUP OF ENERGY EFFICIENCY SPECIALISTS. THE

IS COMPRISED OF

Credit: IMAGE ECOterre







ENERGY CONSUMPTION BY FUEL TYPE (GJ/TONNE) (CASCADES.COM)



TRANSPORTATION: MORE MILEAGE, LESS POLLUTION

A RANGE OF SOLUTIONS

In 2009, Cascades deployed significant efforts to reduce the use of gasoline vehicles at its production units and surrounding areas. Specific measures included outfitting its facilities with preferential parking spots for bicycles and implementing a program encouraging employees to carpool or ride their bikes to and from work. The Company also advocated the use of energy-efficient vehicles in its rental fleet and of delivery tricycles in its production plants.

→ ÉNERGIA AWARD

Cascades Transport was presented with the award in the Transportation category, during the 20th Énergia gala that was organized by the Association québécoise pour la maîtrise de l'énergie.

→ AIR PUR AWARD

Cascades Transport was named one of the finalists for the *Air pur* award, which is presented jointly by the *Association des mandataires en vérification mécanique du Québec* (Québec association for mechanical inspection agents) and *L'Écho du Transport* magazine. This recognition is granted to a carrier that sets itself apart through diligent, environmentally sound maintenance of its vehicle fleet.

INITIATIVES THAT GO THE DISTANCE!

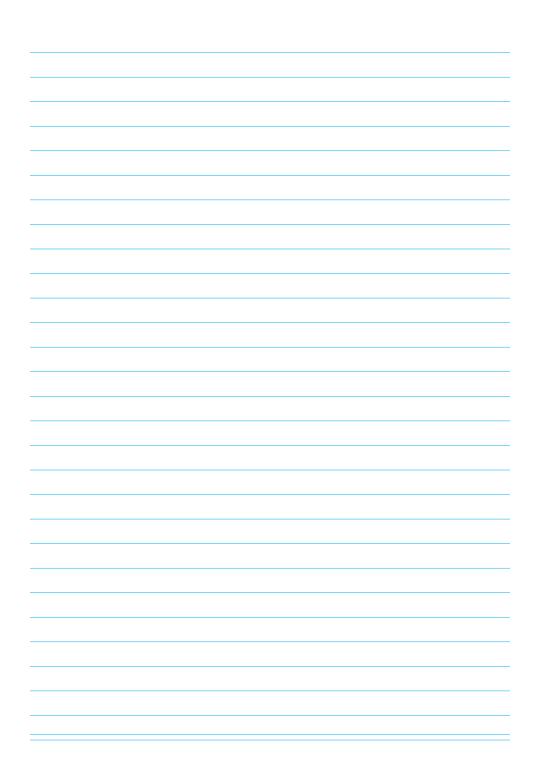
The speed limit for Cascades Transport trucks was reduced to 105 kmph.

All Cascades Transport trucks have been equipped with on-board computers, so the Company can become familiar with truckers' driving habits. It can then use the data collected to correct a behaviour that significantly raises gasoline consumption and that is therefore indirectly harmful to the environment. Key behaviours of this nature are driving at excessive speeds, sudden braking and idling.

Cascades Transport has secured two double road train trucking permits that are valid for Ontario. This type of rig, comprised of a truck tractor attached to two 53-feet trailers, enables a reduction in fuel consumption and greenhouse gas emissions. Cascades Transport's double road trains have been in operation since November 2009.

Cascades Transport has set energy-efficient standards for its purchases. Trucks must present a streamlined profile and be equipped with back-up heating, single tires and disk brakes. Trailers must be equipped with single tires and streamlined side skirts, which make a 5% savings in diesel possible. All of the Company's 2009 vehicle purchases meet these requirements. To ensure compliance with environmental standards, the engines in all trucks bought in 2009 are fitted with Exhaust Gas Recirculation (EGR), which significantly reduces greenhouse gas emissions.

Cascades Transport, a contributor to the Innovation Transport Project, participated for a second year in evaluation tests for potentially energy-efficient technologies.



AWARENESS-BUILDING IN THE INTEREST OF ACCOUNTABILITY

AN ACTIVE, SOCIALLY RESPONSIBLE COMPANY

Cascades took a stand on a number of society debates in 2009. The Company expressed agreement with the Québec government's strong policy regarding residual matter management presented last November, and went one step further by advocating for the inclusion of a greater percentage of recycled matter in government purchases. As Cascades was less affected than a number of businesses by the financial crisis, the Company's position was to support the use of concrete measures to help the pulp and paper industry through that period.

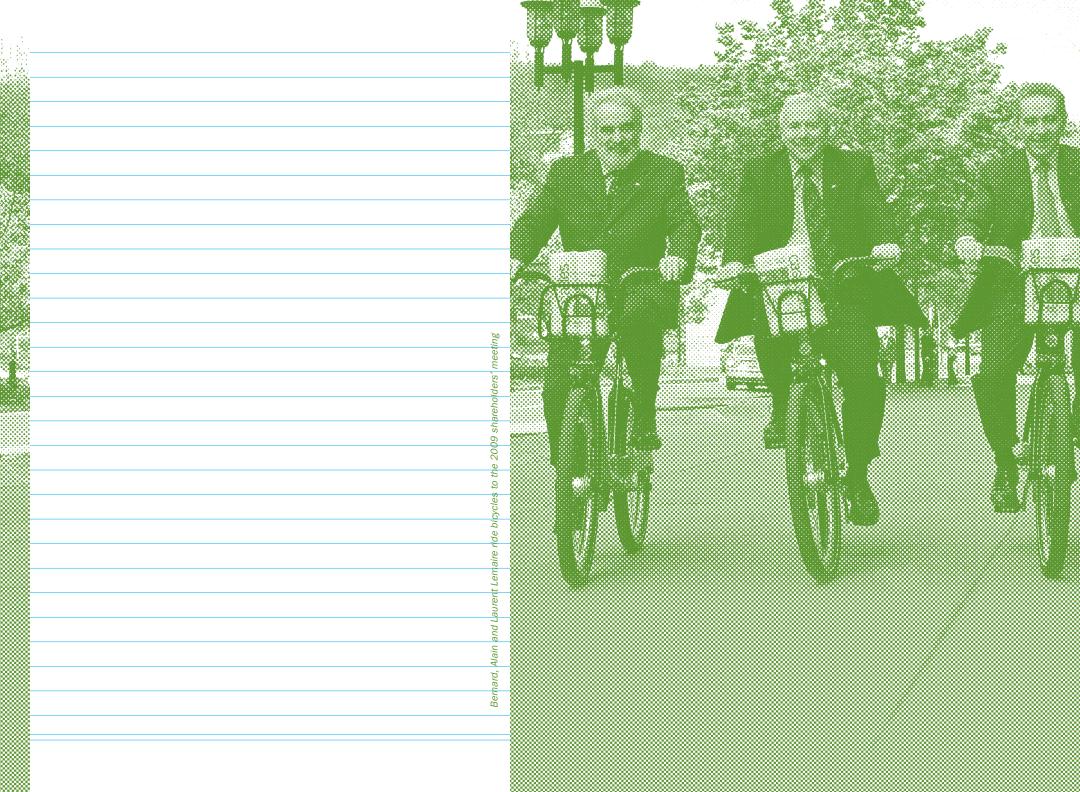
KNOCKING ON WOOD!

Alain Lemaire was a participant in *Coalition BOIS Québec*, which encourages the use of wood in building construction. Mr. Lemaire supported their goal to increase the presence of wooden beams in commercial buildings, since this material prevents the release of carbon into the atmosphere, unlike other materials.

SUSTAINABLE EVENTS

While this practice has not yet been entrenched into a formal system at Cascades, events that meet the criteria of sustainable events are on the rise within the organization. On-line invitations and reusable dishes are two examples of practices that are being used more commonly throughout the Company.

Cascades also participated in a public enquiry conducted by the *Bureau de normalisation du Québec* (Québec standards office), in order to implement a certification for sustainable events.



SHOOTS OF GROWTH AT SIMPLEGREENACTION.CA

This awareness-building website, launched by Cascades in May 2007, was enhanced in 2009 with the addition of a new "Education" section, intended primarily for parents and teachers of primary and high school students. Visitors will find a wealth of interesting tools, including:

- → Printable cards presenting environmentrelated activities that can be carried out with the students;
- → A green citizen's calendar;
- → Tips to promote the adoption of green practices in schools;
- → Educational videos featuring environmentally-themed school projects;
- → A newsletter created exclusively for parents and teachers who are interested in receiving the latest website updates.

PLANT SOON TO BE



ENVIRONMENTAL CERTIFICATIONS

CASCADES TISSUE GROUP – LACHUTE PLANT SOON TO BE LEED® CERTIFIED

The new expansion of Cascades' Lachute. Québec mill will soon be the first manufacturing facility in North America's paper industry to be granted LEED® certification for new construction and major renovations. Most of the materials used when building the expansion are environmentally sound or derived from a recovery process. As such, the new building features a harmonious integration of two architectural components from the Saint-Julien church in Lachute: the stained-glass windows and the main bell tower. The frame of the new structure, made using 1,000 m³ of wood, was built by Chantier Chibougamau, an ISO 14001 and FSC (Forest Stewardship Council) certified company that collects wood residue in order to maximize its use. According to Coalition BOIS Québec, each cubic meter of wood used is equal to 0.9 tonnes of CO₂ not released into the atmosphere.

CASCADES SCORES WITH THE FSC!

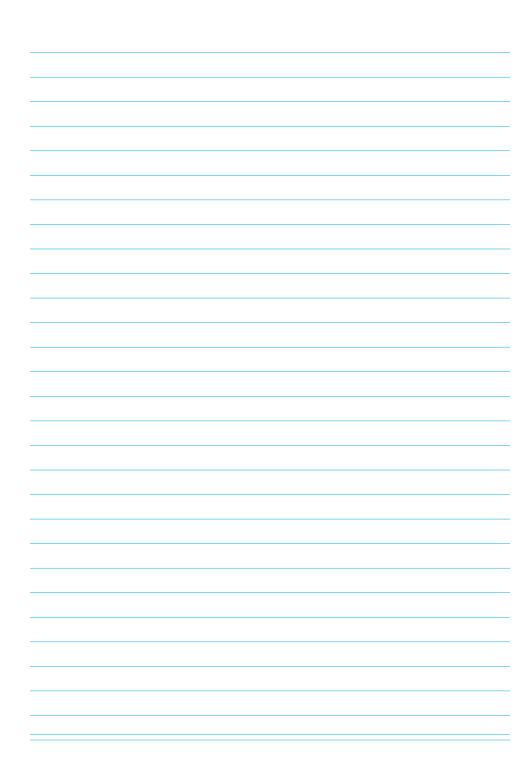
In December 2009, 38 Norampac production units in North America were granted FSC multi-site Chain of Custody certification, for both container-board and boxboard manufacturing facilities and plants involved in making corrugated products and folding carton converting activities.

Kraft papers made at the East Angus, Québec facility were also granted either FSC Recycled or FSC Mixed Sources certification, thus enhancing the varied line of products available to industrial and food packaging converting facilities, as well as to plants that produce construction materials and postal envelopes.

To learn more about Norampac and Cascades FSC certifications, visit http://info.fsc.org.

KINGSEY FALLS RECEIVES TOP DISTINCTION!

Cascades was granted a Level 3—Performance certificate by State corporation *RECYC-QUÉBEC* for its Kingsey Falls industrial complex. This distinction, the highest level of the *ICI ON RECYCLE!* (WE RECYCLE) program, recognizes all actions undertaken by the Company to ensure responsible management of residual matter. One key requirement is an 80% reuse rate for potentially recoverable residual matter, which Cascades exceeded with a 99.2% score.



ENVIRONMENTAL AWARDS AND DISTINCTIONS

A GREEN EMPLOYER!

Cascades achieved a ranking on the list of Canada's Greenest Employers in 2009—a form of recognition granted by Mediacorp to employers that make environmental values a part of their corporate culture and demonstrate initiative in this area.

"ENERGETIC" PERFORMANCE

Cascades Fine Papers Group was rewarded for its environmental performance at the first Pulp and Paper International (PPI) Awards. The Rolland facility ranked among the finalists in the Environmental Strategy of the Year — Mill category. The group also received an award in the Advanced Use of Bio-Energy category, for its project involving the use of biogas as an energy source. The PPI Awards honour the leadership and strategic vision of companies operating worldwide within the pulp and paper industry.

REAMS OF EXCITEMENT!

Cascades' 100% recycled and recyclable ream wrapper garnered an award at the 2009 Greener Containers, Packaging and Printed Matter: Today's Reality, Today's Opportunities! recognition ceremony, organized by *Éco Entreprises Québec*.



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"WE ARE CONVINCED— **NOW MORE THAN EVER—THAT HUMAN RESOURCES MANAGEMENT CAN ONLY BE HANDLED** FROM A SUSTAINABLE DEVELOPMENT PERSPECTIVE. BY PROVIDING OUR **EMPLOYEES WITH AN OPPORTUNITY TO GROW** WITHIN THE COMPANY AND OFFERING THEM PROGRAMS AND WORKING CONDITIONS THAT ARE IN LINE WITH **OUR CURRENT AND FUTURE CAPABILITIES.**"

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WORKFORCE PROFILE

12,403Total number of employees⁵

14Average seniority

44Average age

124

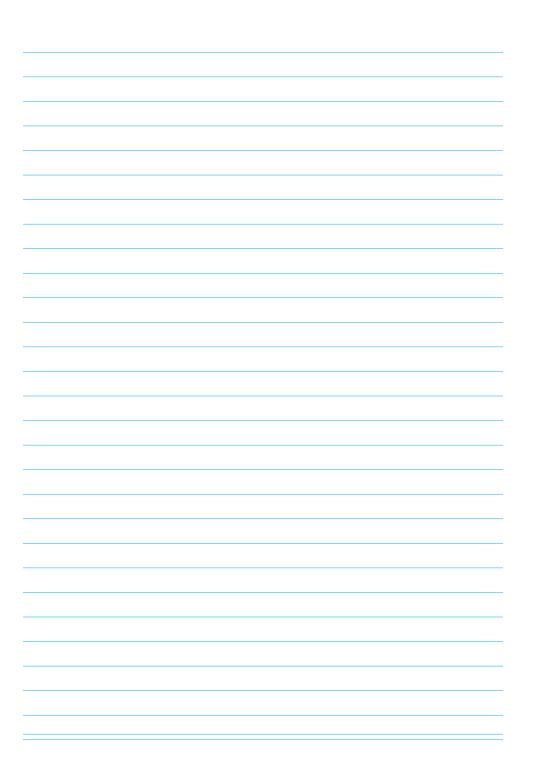
Interns hired

445 Students hired

Cascades has distinguished itself over the past several years by its decentralized, participative style of management, its simplified hierarchical structure and its "open-door" philosophy, coupled with the transparency of its information and the accountability of its employees. These well-entrenched values reflect the Company's respect for its employees and inspire all its actions with regards to human resources management.

This management style is applied to the four main branches of human resources: organizational development, employer-employee relations, health and safety in the workplace, and compensation and benefits.

° Percentage of contract workers not marked, nol discernible seasonal variation.	
GEOGRAPHIC BREAKDOWN OF EMPLOYEES (CASCADES.COM). UNIONS (CASCADES.COM)	
WORKFORCE PROFILE IOTAL NUMBER OF EMPLOYEES* '07	13,998
	12,529
60.	12,403
COMPENSATION TOTAL COMPENSATION/GROSS EARNINGS, BENEFITS AND PROFIT-SHARING (\$ MILLION)	955
80.	918
60,	915







FIRST, POST INTERNALLY...

All management-level job vacancies are posted in the European and North American production units, in order to favour promotions within the organization. Any Company employee who might aspire to take on new responsibilities or acquire foreign work experience can therefore apply for the job.

Cascades' policy of favouring promotions within the Company opens the door to a vast array of career options. The somewhat hierarchical structure of positions within our units means that employees can take on varied responsibilities and also apply for management positions when job openings come up at this level.

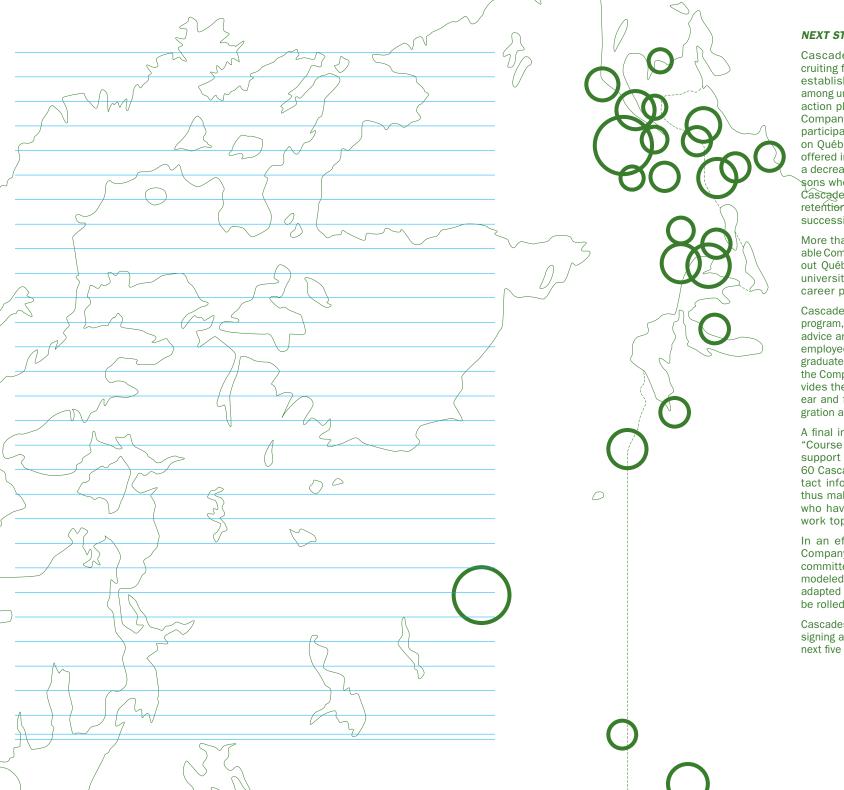
Performance evaluations are conducted annually for employees who are paid weekly—a process that reflects their ambitions over the short, medium and long term. This practice helps Cascades ultimately find out more about its employees' aspirations, and positions the Company to work with them to achieve professional and personal growth, thus enabling them to acquire the skill set needed for the positions to which they aspire.

In 2009, 38.9% of openings for key jobs that are paid weekly were filled from within the organization. Over a three-to five-year horizon, 50% of key positions are expected to be filled in this manner.

In an effort to support the Company's growth, the Alain Lemaire Skills Development Centre team also assists the Cascades Group's production units in working to build the knowledge of individuals and manage cultural or organizational adaptation.

Cascades also continued implementation of its succession plan in 2009. Supplementing the workforce required for our day-to-day business, approximately 100 employees are therefore training for key positions currently held by 950 individuals, thus comprising a succession team that will ensure the continuance of our corporate culture.

Integration Days also help to ensure that our corporate culture is passed on to new managers. Approximately one hundred employees receive this type of onboarding training annually.



NEXT STEP: RECRUITMENT

Cascades left nothing to chance when recruiting from outside the organization in 2009, establishing itself as an employer of choice among university students. Armed with a specific action plan that was used first in Québec, the Company pursued various options, including participation in some 15 recruitment activities on Québec campuses. Fewer internships were offered in 2009 than in 2008, thus undergoing a decrease of 9.5%. Despite that, the 124 persons who did an internship in 2009 supported Cascades in its objective to increase its intern retention rate, in order to direct them toward succession positions.

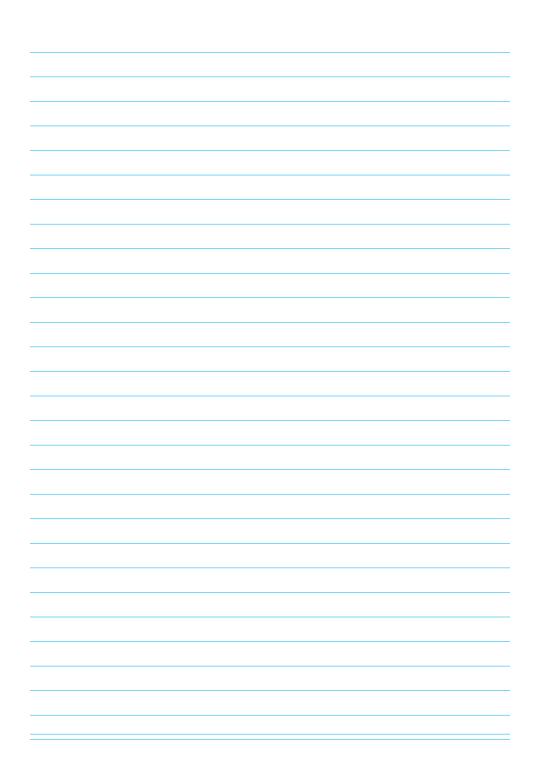
More than 80 employees—who became valuable Company ambass adors—travelled throughout Québec in 2009 to introduce Cascades to university students and talk about their own career paths.

Cascades has also implemented a mentoring program, in the belief that nothing can match the advice and coaching provided by an experienced employee when it comes to perfecting a young graduate's skills. Every recent graduate hired by the Company is paired up with a mentor who provides the new employee with support, a willing ear and feedback. This practice facilitates integration as well as knowledge transfer.

A final initiative launched by Cascades is the "Course Work" program, intended to provide support to university students. Approximately 60 Cascades employees have posted their contact information on the Company's website, thus making themselves available to students who have chosen Cascades as their course work topic.

In an effort to increase awareness of our Company among our American neighbours, a committee is looking into a response strategy, modeled on our success in Québec, that will be adapted as needed for the U.S. This strategy will be rolled out during 2010.

Cascades has also taken on the challenge of designing an outside recruitment strategy over the next five years, for English Canada.



TRAINING THAT MEASURES UP TO ASPIRATIONS

As demonstrated by the various accomplishments outlined below, 2009 was marked by a wealth of training programs and support tools intended for use by our managers and for those identified as candidates for succession.

- → Competency maps for 13 key positions, and a learning management system intended to support the objectives set out in them. One example is the preparation of a guide intended for controllers and the development of an implementation strategy.
- → An on-line training program, covering the various products manufactured by Cascades, for use by the Company's 425 sales representatives, to increase inter-Group sales.
- → A "leadership" program, intended to help build the leadership abilities of employees in key positions (e.g., plant manager), has been launched and is now being fully realized; 21 plant managers will have completed their training by February 2010.
- → A series of conferences and training sessions on innovation, for 120 employees.
- → First draft of a "Cascades management practices" guide to coordinate activities in the production, sales, finance and human resources departments more effectively and consistently, Company-wide.

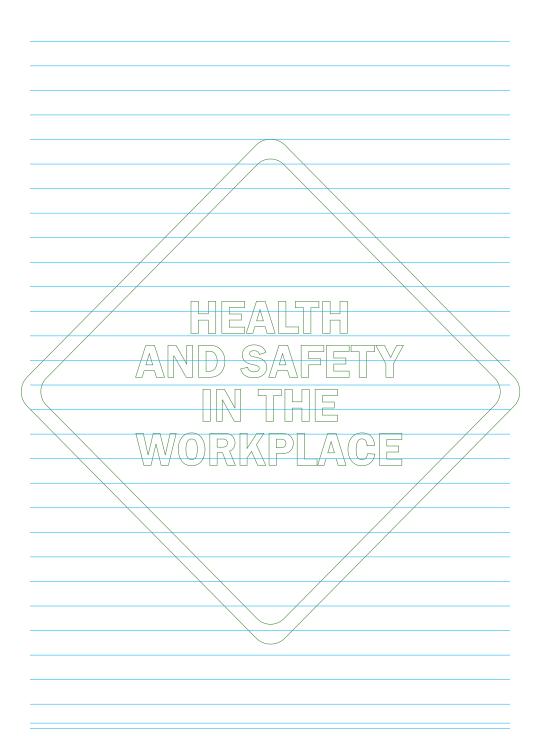
EMPLOYER-EMPLOYEE RELATIONS

Cascades employees are at the crossroads of a well-established internal communications network that promotes sound work relations. Its various components include a quarterly, *The Cascadeur*; our intranet site, the C zone; Alain Lemaire's blog; and the assured presence of Company managers in the various production facilities.

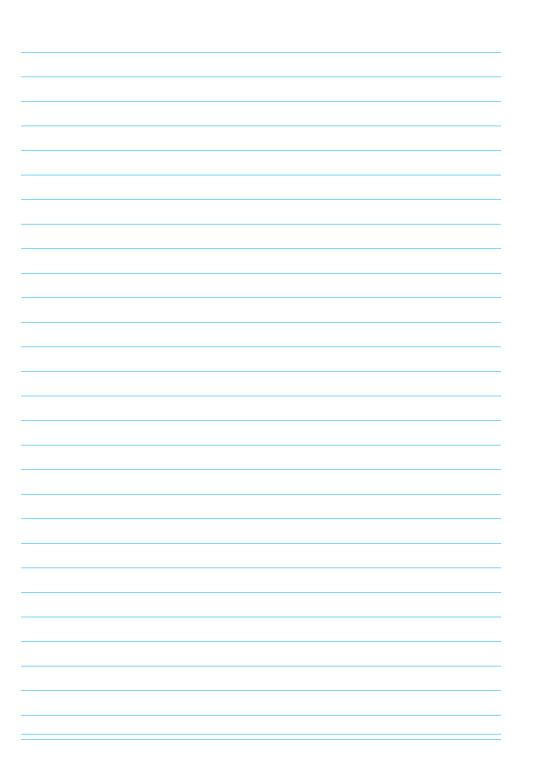
Employee commitment is encouraged, especially through a propitious company culture. It takes on various forms, including, in particular, team meetings and health and safety committees.

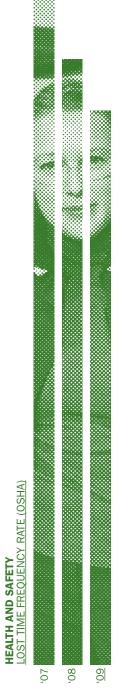
To facilitate the attainment of two important sustainable human resources management objectives—the employee retention rate and the transfer of knowledge—Cascades employees are offered a range of benefits that include new forms of work, such as short time work, part-time work, flexible schedules and phased retirement.





Building employee awareness on health and safety has become paramount. Management and employees, supported by behaviour observation programs and various awareness-building initiatives, are invited to adopt cautious behaviour and healthy lifestyles.





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FRONT-LINE MANAGEMENT

The Cascades team responsible for the management of the pandemic influenza A(H1N1) introduced Company-wide measures to minimize the risk of contamination for employees, as well as the impact of flu on our business activities. The crisis response plan covered the entire supply chain, from raw materials to customers. A communications plan helped provide reassurance to employees and their families, as well as to our suppliers and customers. The H1N1 flu strategy prepared Cascades for other potential social service—and health—related stressors.

EMPLOYEE HEALTH: AN ESSENTIAL

"A HEALTHY MIND IN A HEALTHY BODY" TRANSLATES INTO "HEALTHY FROM HEAD TO TOE".

FROM HEAD...

Cascades' employee assistance program, which is available to our employees and their spouses and dependent children, provides access to quality care for dealing with personal, family or work-related problems.

... TO TOE!

Cascades also attaches great importance to the physical fitness of its employees. In an ongoing effort to promote a healthy, active lifestyle, the Company organizes sports tournaments and offers financial assistance to employees who register at fitness centres. Cascades also sends its employees a monthly newsletter, *InfoHealth*, and, for the past five years, has been organizing the "Healthy from head to toe" (CASCADES.COM) contest in Kingsey Falls, Québec—an initiative that promotes the adoption of a good lifestyle through physical activity and healthy eating.

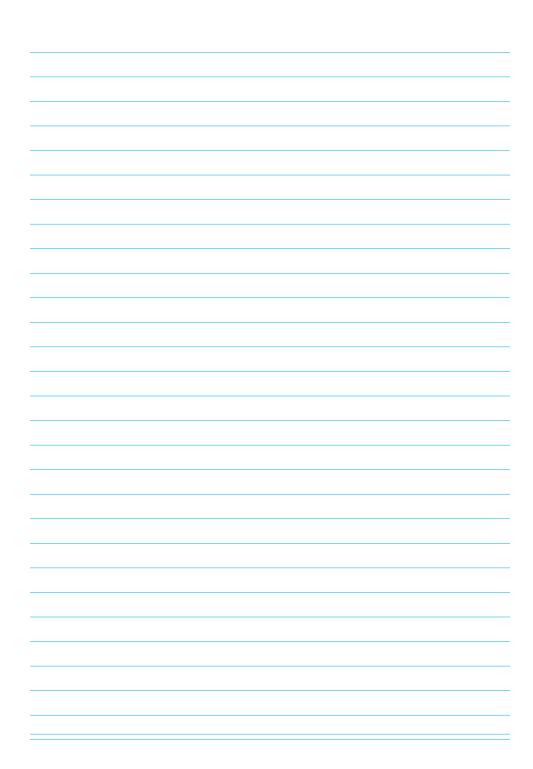
COMPENSATION AND BENEFITS

One aspect of employee accountability at Cascades is their contribution to the costs of benefits. A key outcome of this contribution is better control of future costs, which is beneficial to all.

In almost all of our production units, employees at all levels of the organizational hierarchy contribute between 10% and 35% of the costs of premiums to their group insurance plan. More than two-thirds of our employees are covered by a defined contribution plan rather than a defined benefit pension plan.

Employee compensation is, moreover, comprised of a base amount plus a variable amount. Profitsharing has been in existence since the inception of Cascades. This form of appreciation for the employees' contribution to the Company's success remains a token of recognition that creates a sense of belonging, extending beyond the financial benefit.

Finally, the share purchase plan offers all Canadian employees an opportunity to become shareholders in the Company. Employees can contribute up to a maximum of 5% of their salary to the plan. Cascades adds 25% to these contributions, provided the employee keeps the shares for at least two years.



<u>HUMAN RESOURCES</u> AWARDS AND DISTINCTIONS

FIRST-CHOICE SUCCESSION EMPLOYER

Cascades is listed, in the Mediacorp Career Directory, as one of Canada's best employers for recent college and university graduates.

THE CASCADEUR RANKS AMONG THE BEST

From a pool of entries submitted by organizations around the world, *The Cascadeur* achieved significant distinction, ranking sixth among recipients of the League of American Communications Professionals' award for best internal corporate communication tool. This reward was complemented by Gold in the "print quarterly" category!

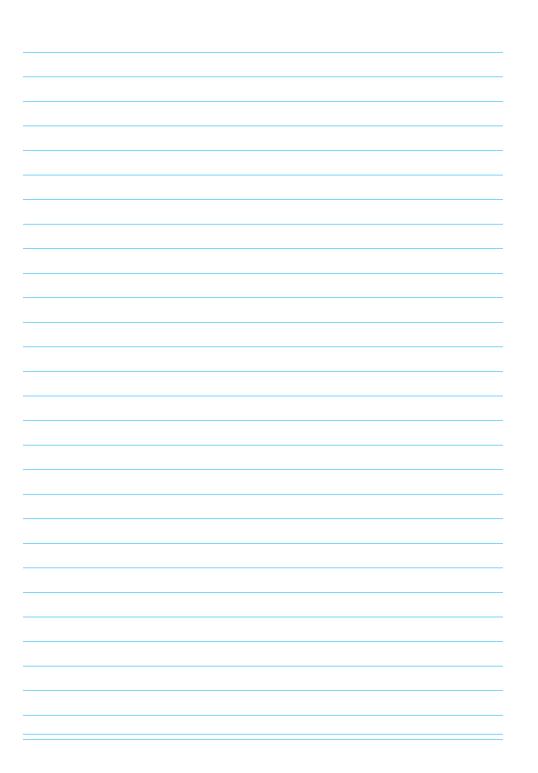


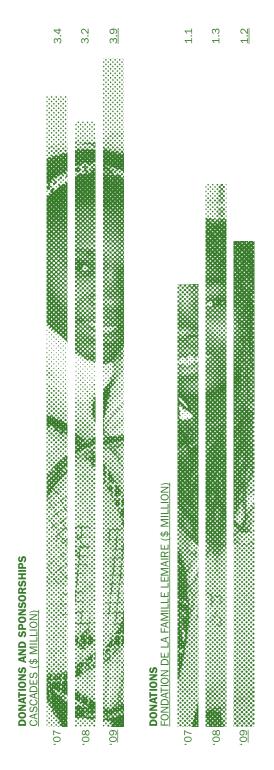
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"CASCADES HAS ALWAYS, AS A MATTER OF COURSE, INVESTED IN THE COMMUNITIES WHERE IT OPERATES, IN PARTICULAR BY PROVIDING SIGNIFICANT FUNDING IN THE FORM OF DONATIONS AND SPONSORSHIPS.A FEW YEARS AGO, THE COMPANY ADOPTED A SET OF MANAGEMENT PRACTICES AND DEFINED ITS TARGET INVESTMENT CHANNELS. CASCADES HOPES TO CONTINUE DOWN THIS ROAD AND, IN ADDITION, STRENGTHEN ITS COMMITMENTS."

COMMUNITY INVOLVEMENT: GIVING BACK TO OUR LOCAL







<u>ENVIRONMENT AND</u> SUSTAINABLE DEVELOPMENT

Cascades has partnered with the Centre for Sustainable Development in downtown Montréal, a structure nearing completion that will house eight organizations that are working to protect the environment.

"Cascades, a frontrunner in recovery and recycling, has raised the environmental standards for the industry and affirmed its role as #1 protector of the environment. The Company thinks and acts for the generations of tomorrow, so it can build a mortgage-free future."

SIDNEY RIBAUX

President, Centre for Sustainable Development

For the fourth year running, Cascades has reiterated its support for Action RE-buts, organizer of the *Semaine québécoise de réduction des déchets* (Québec Waste Reduction Week).

"Cascades' various actions are a concrete illustration of the issues that Action Re-buts advocates: ecological waste management is something all of us—including ordinary citizens, companies and municipalities—can do."

THE ACTION RE-BUTS TEAM

Organizer, Semaine québécoise de réduction des déchets

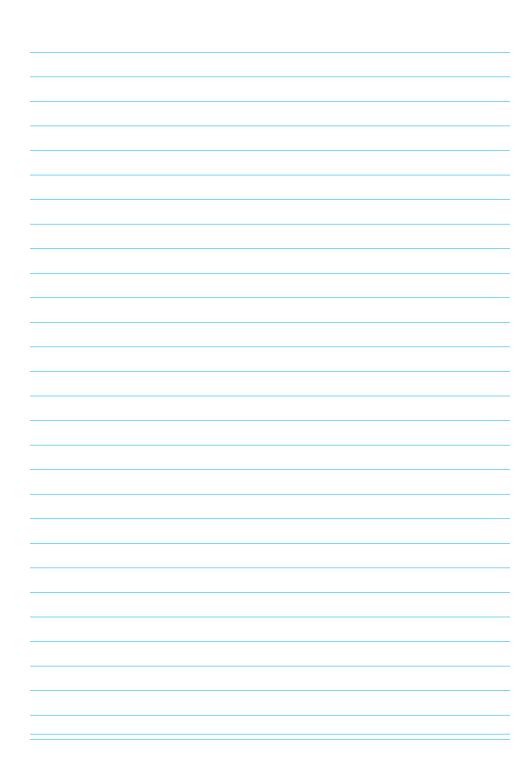
EDUCATION AND ENTREPRENEURSHIP

Cascades has been working with the Fondation de l'entrepreneurship since 2002, to draw out values such as self-sufficiency, creativity, responsibility and solidarity among those wishing to ensure Québec's economic and social development.

"We are proud of our relationship with Cascades, and the support we receive from a partner of this stature—a jewel in the crown of Québec's economy, exemplifying perfectly how entrepreneurship, leadership and innovation can go hand-in-hand with sustainable development. Cascades' consistently renewed commitment to the Fondation de l'entrepreneurship speaks to the high calibre of this incredible team that shares the Fondation's determination to build an even more entrepreneurial, vibrant and thriving Québec."

MARIO GIRARD

Chair and Chief Executive Officer Fondation de l'entrepreneurship



SPORTS AND PHYSICAL ACTIVITY

Cascades has partnered with the Québec Foundation of Athletic Excellence, offering bursaries to promising student athletes, often relatively unknown, who receive limited financial support. The Company invested \$59,000 in funding the aspirations of 13 young hopefuls.

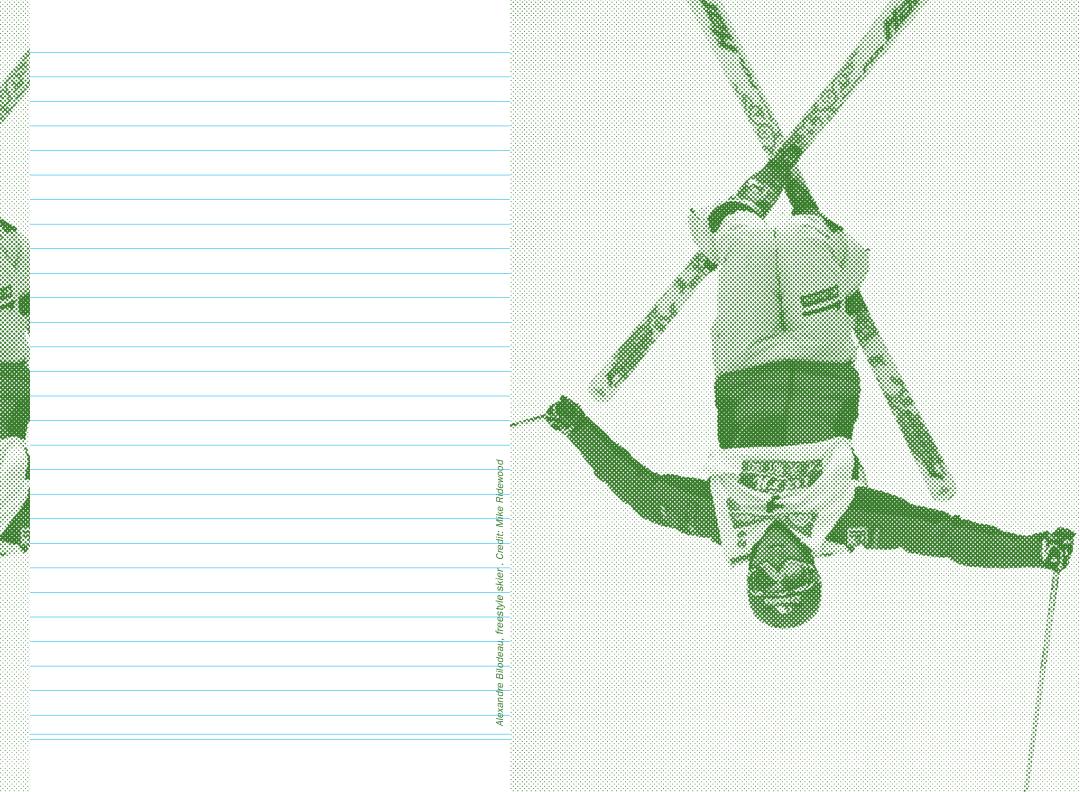
"For the past five years, Cascades has been a prestige-level sponsor of the Québec Foundation of Athletic Excellence, and has created the Cascades bursary program to support young Québec athletes.

A number of Cascades bursary recipients have already distinguished themselves on the international scene. These athletes include freestyle skier Alexandre Bilodeau, cross-country skier Alex Harvey and biathlete Jean-Philippe Le Guellec.

Cascades' record as a visionary in business also extends to its approach in support of athletes. Becoming involved in a promising athlete's career at a very early stage means that the Company can make a real difference. These athletes are role models for our youth, and Cascades is a model of community involvement."

PIERRE DUBÉ

Executive Director, Québec Foundation of Athletic Excellence



Cascades is proud of the success of the athletes it supports, like Alexandre Bilodeau, who excelled at freestyle skiing all through the 2008-2009 winter season. Alexandre, a nine-time medal winner in eleven World Cup championships, has garnered two other prestigious titles: Canadian champion and 2009 world champion.

"Cascades is a prominent company that has always made social and community development a priority. It recognizes the virtues of sports and physical activity, investing in both family sporting activities and help for Olympic-calibre athletes. I myself have been a recipient of their support for more than eight years now, and they have contributed greatly to my success in freestyle skiing on the international scene."

ALEXANDRE BILODEAU

Freestyle skier

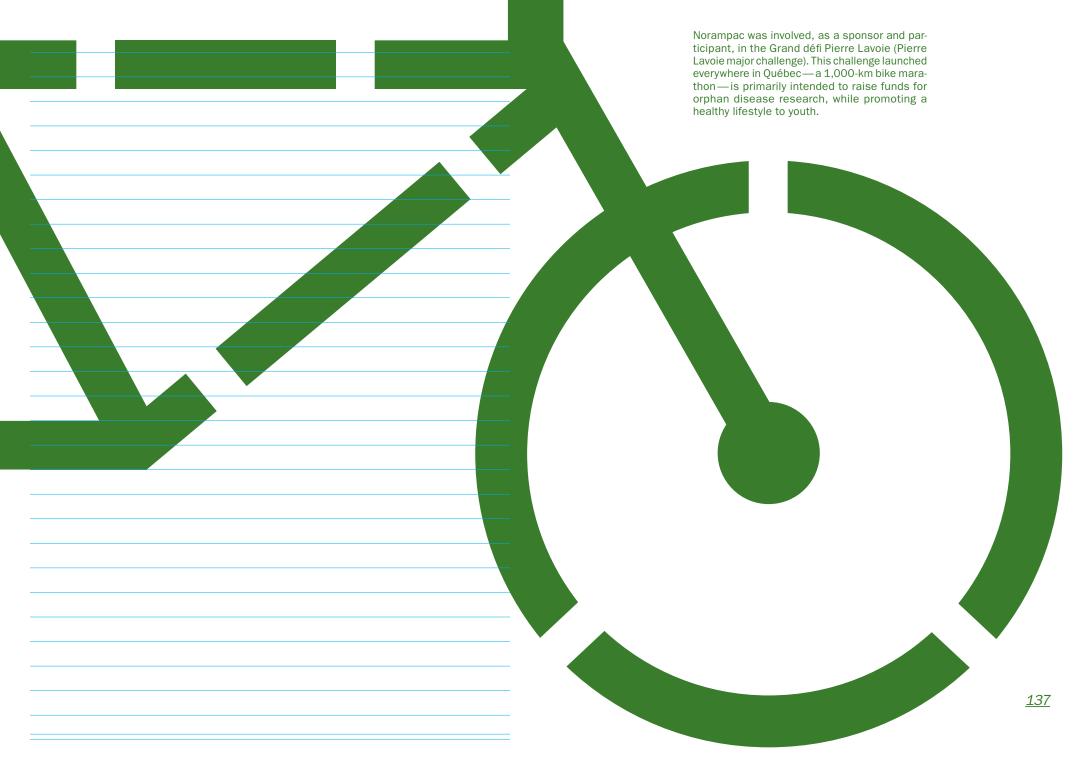
SOCIAL AND COMMUNITY DEVELOPMENT (CASCADES.COM)

Cascades' President and Chief Executive Officer, Alain Lemaire, participated—along with 60 dedicated employees—in the Leucan Shaved Head Challenge®, raising a record \$48,000 in aid for a specific cause: children stricken with cancer.

"Employees and managers in the various Cascades Kingsey Falls and Drummondville business units showed a tremendous commitment during the 2009 Shaved Head Challenge®. It is hard to find the right words to express our thanks when collaborating with a group like this, that participates with all its heart... On behalf of the Leucan children and their families, I want to say 'thank you for your continued help in bringing smiles to children's faces!"

CLAUDIA BOISVERT

Project Manager, Leucan Mauricie-et-Centre-du-Québec

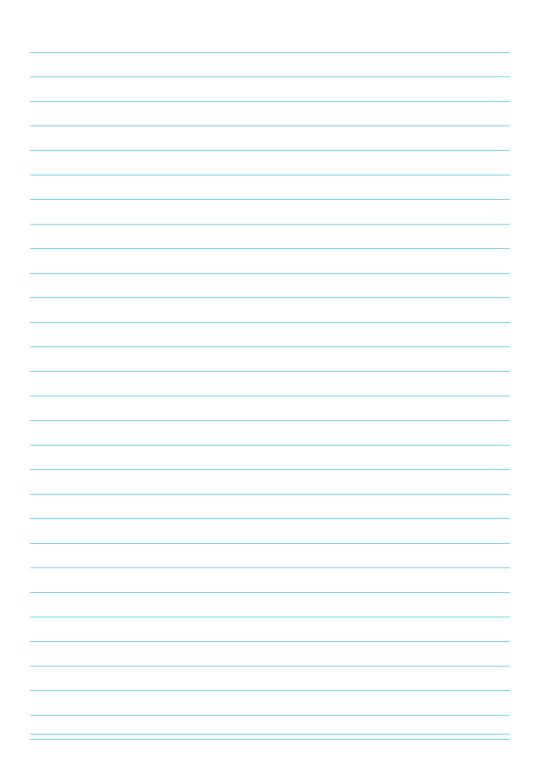


"Norampac was one of the first corporate partners in the Grand défi Pierre Lavoie, even before we knew that the venture would be a success. We salute the Company's visionary stance—it is the mark of a true leader.

Norampac's commitment to sustainable development dovetails with our own values. Both Norampac and the Grand défi Pierre Lavoie are working to modify people's behaviour on an enduring basis, to create a sustainable society for future generations. This community of ideals is what makes Norampac such a valuable partner in the Grand défi Pierre Lavoie."

PIERRE LAVOIE

Founder of the Grand défi Pierre Lavoie



MARATHONER TAKES SPORT TO THE NEXT LEVEL!

Sylvain Bernier, a packer at the Cascades Conversion plant in Kingsey Falls, Québec is an ultramarathon runner in his spare time. In 2009, he took part in the "Étudiants dans la course" program—an initiative launched by the Fondation pour la promotion de la pédiatrie sociale du Dr Gilles Julien (Dr. Gilles Julien's Foundation for the promotion of social pediatrics). The Foundation's purpose is to support teenagers from disadvantaged homes by providing them with one year of marathon training. Sylvain met with the young people who had been selected for this program, and shared his life experience with them while touching on the importance of perseverance.

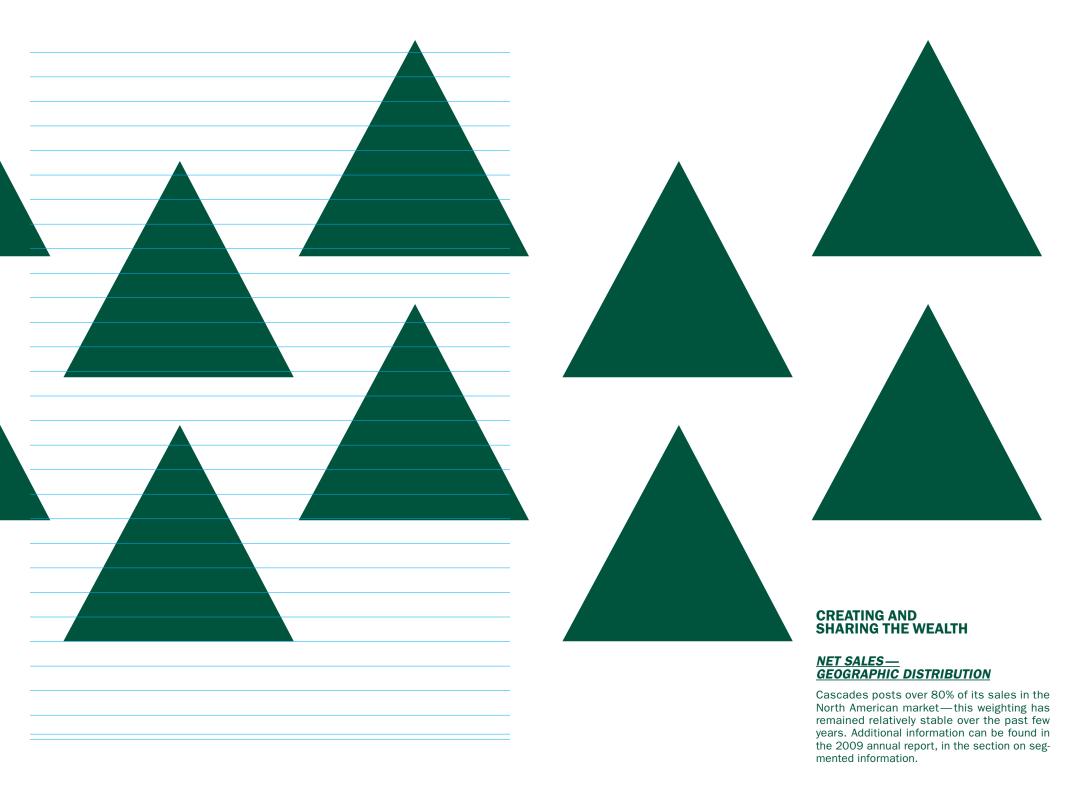
FONDATION DE LA FAMILLE LEMAIRE

This Foundation, which was created in 2002 by Cascades' founders, the Lemaire brothers, is managed independently of the Company. Its mission is to support organizations and institutions that operate primarily in the fields of health and education. In 2009, the Foundation donated a total of \$1.2 million to almost 40 organizations.



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"CASCADES HAS ALWAYS **SOUGHT TO STRIKE THE** RIGHT BALANCE BETWEEN RESPECT FOR ITS MULTIPLE **PARTNERS AND THE ECONOMIC VALUE IT CREATES IN THE ASSETS** UNDER ITS MANAGEMENT. THE COMPANY THEREFORE **CONTINUES TO WORK JOINTLY WITH ITS SUPPLIERS** TO REDUCE ITS VARIOUS **EXPENDITURES, WHILE ENSURING THAT ITS EMPLOYEES ARE OFFERED COMPETITIVE COMPENSATION** AND BENEFITS, AND TO OPTIMIZE THE RETURN ON ITS ACTIVITIES BY **USING BEST MANAGEMENT** PRACTICES."



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ECONOMIC VALUE GENERATED (\$M)⁷

In 2009, the direct economic value generated by Cascades decreased by \$199 million, or 5%, mainly as a result of lower net sales. These weaker sales are explained by the drop of our shipments and our selling prices in most of our segments.

NET SALES	4,033	4,025	3,877
FINANCIAL REVENUES ⁸	5	5	4
PROCEEDS FROM ASSET DIVESTITURE ⁹	37	52	2
TOTAL	<u>4,075</u>	4,082	3,883



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ECONOMIC VALUE DISTRIBUTED (\$M)¹⁰

Cascades' economic value distributed also declined, by \$301 million, while our operating expenses, like the cost of our raw materials, energy and chemical products fell by 12%. Employee compensation slightly increased as a result of an acquisition, while our income taxes increased due to an improvement in profitability.

PRODUCTION COSTS ¹¹	2,738	2,762	2,444
EMPLOYEE COMPENSATION ¹²	955	958	968
PAYMENTS TO CREDITORS AND SHAREHOLDERS ¹³	122	119	117
PAYMENTS TO GOVERNMENTS ¹⁴	21	22	30
COMMUNITY INVESTMENTS ¹⁵	3	3	4
TOTAL	3,839	3,864	<u>3,563</u>

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¹⁶ Not adjusted to reflect discontinued pperations, equals the difference between
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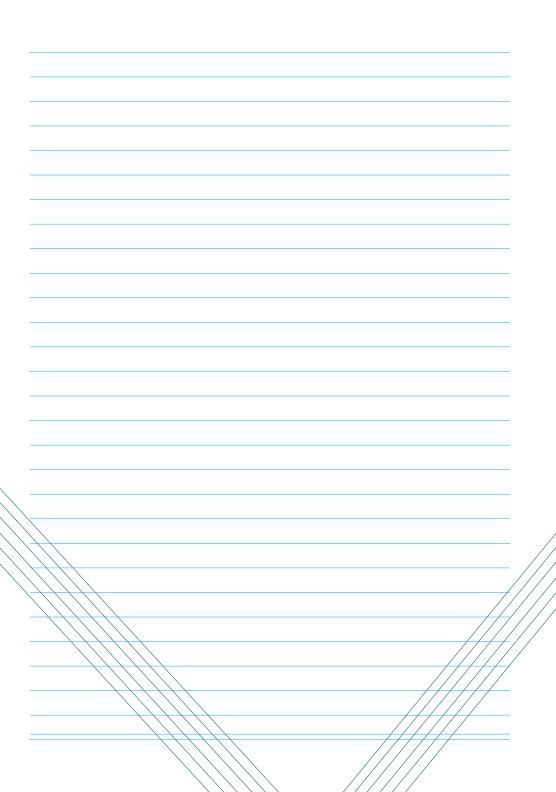
ECONOMIC VALUE RETAINED (\$M)¹⁶

Given the larger decrease in value distributed compared to the value generated, Cascades' economic value retained increases by \$102 million or 47% in 2009.

VALUE CREATED	4075	4082	3883
<u>VALUE</u> DISTRIBUTED	(3,839)	(3,864)	(3.563)

TOTAL 236 218 320



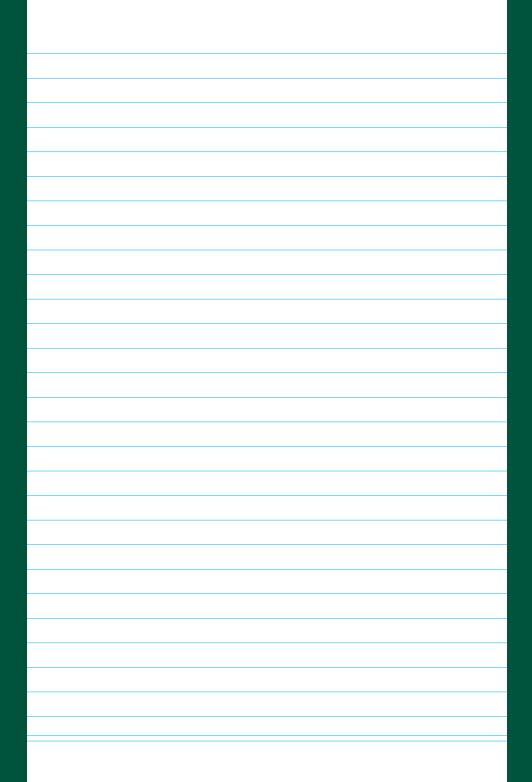


AN HISTORIC YEAR

Following a somewhat challenging year in 2008, Cascades' results rebounded considerably in 2009, reaching new heights in the Company's history. Operating income before depreciation and amortization rose by \$159 million, or 52%, to \$465 million. The main factors underlying this significant increase are an improved control of fixed costs, an improvement in the performance of boxboard and tissue assets, a strong growth in demand for green products and a drop in diverse variable costs and the Canadian dollar.

CASCADES SEES ITS STOCK RISE

Two rating agencies—Standard & Poor's and Moody's Investors Service—raised the outlook for Cascades' rating from negative to stable over the past year. This new assessment reflects the improved balance sheet and financial performance posted by the Company, despite a challenging economic setting.



SUCCESSFUL REFINANCING

Cascades refinanced its long-term debt in late 2009 by issuing US\$750 million and CAN\$200 million in notes. These instruments, with maturity dates in 2016, 2017 and 2020, was used to retire debt that matures in 2013.

STRATEGIC ACOUISITIONS

Cascades entered into three important transactions this year. The first, at close to \$60 million, was its acquisition of Atlantic Packaging's tissue division, enabling Cascades to increase its annual production capacity of tissue paper by approximately 10%.

Another two acquisitions were completed through Cascades' subsidiary Metro Waste Paper Recovery Inc.: the Canadian assets of Sonoco Recycling and the Yorkshire Paper Corporation's recovery assets. Through these two transactions, the Company increased its collection capacity by 20%, bringing it to 1.4 million tonnes of recycled fibres yearly.

OUR 19™ RECOVERY UNIT!

Cascades also created additional growth in the recovery sector with the opening—once again through Metro Waste—of a sorting facility in Calgary, Alberta. This centre, among the largest and most cutting-edge in Canada, is expected to handle 140,000 tonnes of matter yearly.

<u>ACCLIMATIZATION</u> FOR IMPROVED GROWTH

Cascades maintains that climate change represents a financial risk that needs to be recognized and minimized. The Company has therefore, as a point of honour, been an active participant in the Carbon Disclosure Project (<u>CASCADES.COM</u>) since 2006.

PENSION PLANS THAT KEEP WORKING

Cascades injected \$48 million into its employees' pension plans in 2009. While two categories of pension plans are maintained, most of our employees are covered by defined contribution plans and a smaller number of them are covered by defined benefit plans. In both cases, Cascades works diligently to ensure profitability of the plans' assets. Monies paid into the defined benefit plans, for example, are placed in a separate fund that is maintained and managed independently of the Company's other resources. As at December 31, 2009, the fair value of these pension plan assets was \$33 million lower than their liabilities.



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SUMMARY OF PENSION PLANS¹⁷

CASH CONTRIBUTIONS

MADE BY

CASCADES (\$M)

Additional information about Cascades' pension plans (financial position, main actuarial assumptions, asset distribution, etc.) is provided in Cascades' 2009 annual report, in Note 16 of the Financial Statements.

<u>DEFINED</u> <u>CONTRIBUTION</u> <u>PLANS</u>			
CASH CONTRIBUTIONS MADE BY CASCADES (\$M)	21	21	20
<u>DEFINED</u> BENEFIT PLANS			
VALUE OF ASSETS (\$M)	626	476	531
CASH CONTRIBUTIONS MADE BY CASCADES (\$M)	41	31	28
TOTAL FOR BOTH PLANS			

<u>62</u>



<u>52</u>

<u>48</u>

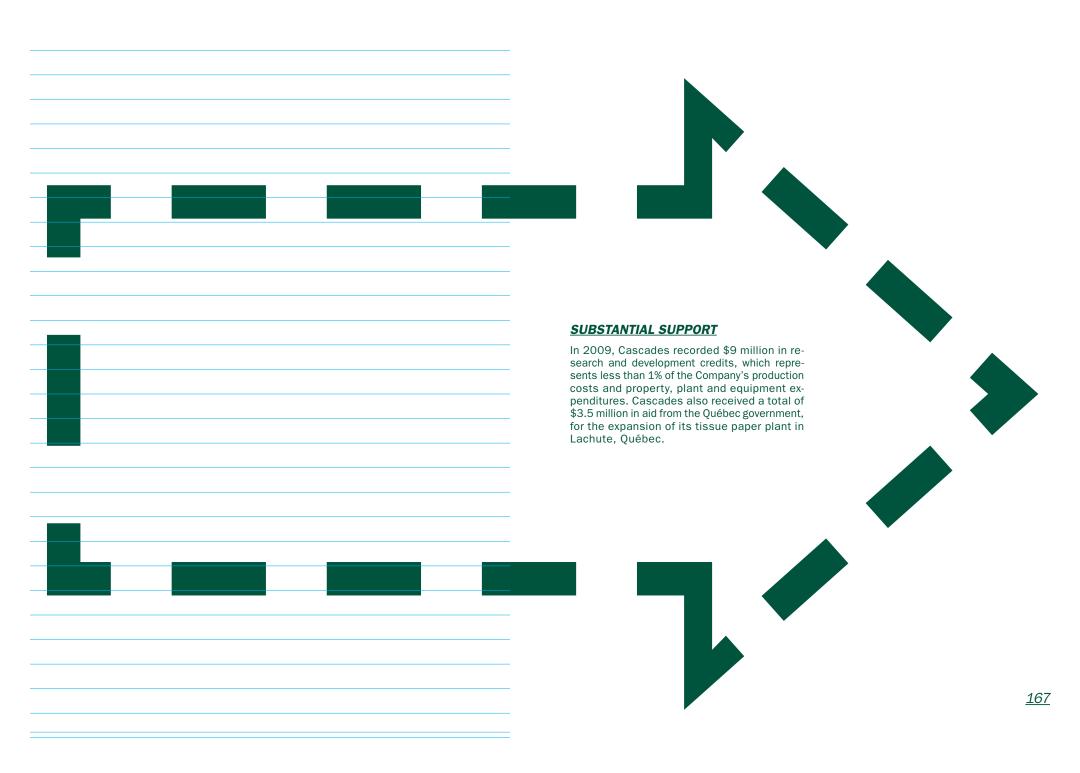
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¹⁸ Assets as at December 31 of the year in question.
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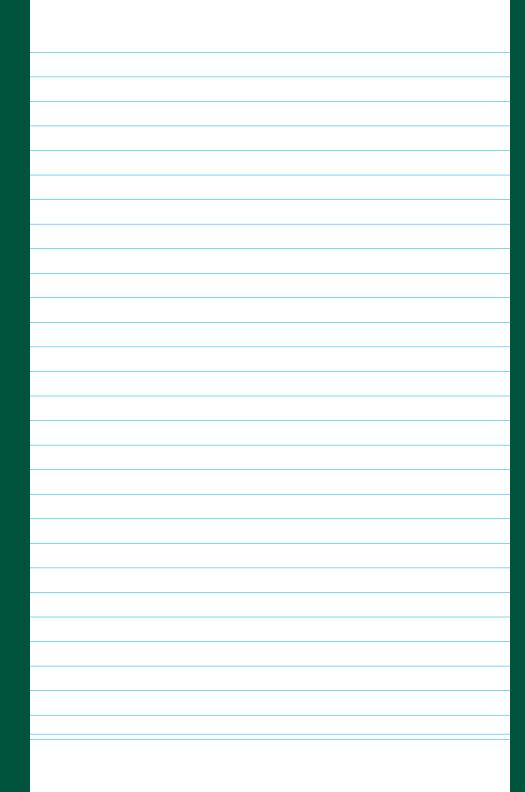
FINANCIAL POSITION— DEFINED BENEFIT PLANS¹⁸

Compared to the previous year, notwithstanding a 12% growth in the value of assets of our defined benefit plans, the deficit of these plans increased by \$16 million as a result of the decrease in the discount rate used for the actuarial valuation of the plans' liability.

VALUE OF PLAN ASSETS	626	476	531
PLAN LIABILITIES	629	493	564
FINANCIAL POSITION (DEFICIT)	(<u>3</u>)	(<u>17</u>)	(<u>33</u>)







<u>A COMMITMENT TO—</u> AND WITH—OUR STAKEHOLDERS

RESPONSIBLE PURCHASING

Because the environmental, social and economic impact of a company's activities extend beyond the walls of its own production facilities to encompass its suppliers, Cascades has developed a variety of initiatives geared to ensure responsible procurement.

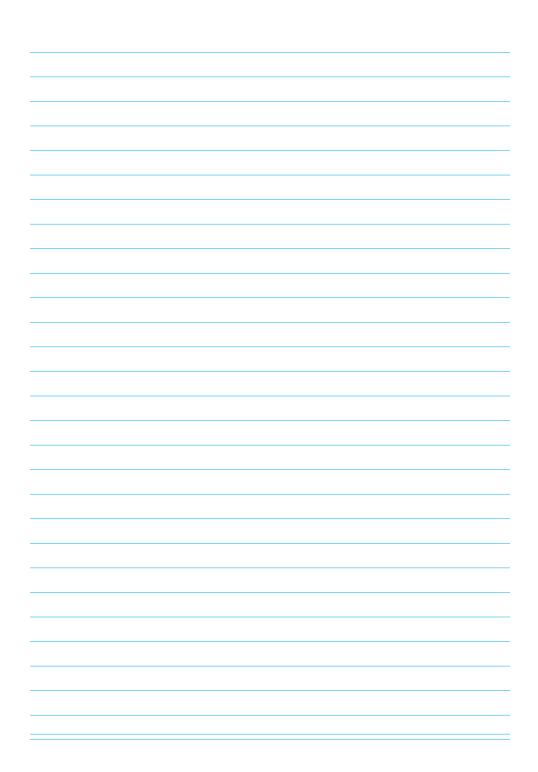
One of Cascades' main current initiatives is the formalization of its responsible purchasing practices. This process was begun in the summer of 2009, when the Company sent all of its chemical product and other production materials suppliers a questionnaire regarding their sustainable development practices. More than 60 suppliers completed the survey.

Cascades then undertook an assessment of these practices, based on its own values, taking into account the following five criteria:

- → Product responsability;
- → Respect for the environment via reduced consumption of water and energy, gas emissions, waste and the use of recycling;
- → Respect for its workers and commitment to the community;
- → Economic longevity of the company;
- → Transparent governance.

When sourcing pulp, Cascades is turning increasingly to FSC certified products, so as to ensure a reliable chain of custody. In 2009, 78% of the Company's fine papers for printing and writing bore either the FSC Recycled or FSC Mixed Sources certification, and this practice was extended to all products in the container-board group and unbleached kraft papers in the same year.

Cascades also encourages its suppliers to carry out internal projects in sustainable development, in partnership with its plants.



A NATURAL PARTNERSHIP

Because Cascades and the Université de Sherbrooke (Québec) share lofty sustainable development ambitions, the two organizations have entered into a partnership modeled on those beliefs. These two "green giants" will now work together to implement a variety of responsible measures related primarily to supply, research and development, intern and graduate placements, and awareness-building for sustainable development and recovery.

OUR MISSION: CUSTOMER SATISFACTION

The Cascades Tissue Group has set up a Webbased customer complaint and feedback system. This platform provides its manufacturing facilities with access to standardized, updated information on customer satisfaction. (CASCADES.COM)

The Cascades Fine Papers Group carried out an extensive survey among its purchasers. This poll, which revealed a 90% satisfaction rate, also provided the Company with an opportunity to seek customers' opinions on various topics, including product compliance with sustainable development criteria. The results also demonstrated the high level of importance attached to our products' environmental attributes (recycled content and biogas energy).

CASCADES 2009 FINANCE AWARDS AND DISTINCTIONS **IR MAGAZINE CANADA AWARDS 2009** Cascades was presented with the Best investor relations award in the forest products sector, and Didier Filion, the Company's Director, Investor Relations, was named Best investor relations officer—small or mid-cap. NUMBER WINNER **A** A RESOLUTELY DAZZLING ACHIEVEMENT! Resolutely Cascades, the Company's 2009 annual report that was produced jointly with CASCADES 2009 Ardoise Design Communications received a Silver at the ARC Awards, in the Overall Annual Report—Paper Manufacturer and Related Products category. Cascades also received an award of excellence in the Forest Products category at the Chartered Accountants of Canada's Corporate Reporting Awards.



INNOVATION DRIVES GROWTH

Cascades embraces innovation: The Company set up a research and development centre, in 1985, that has now evolved into Canada's largest private R&D centre within the pulp and paper industry.

Cascades placed 55th on the 2009 Re\$earch Infosource list of Canada's Top 100 Corporate R&D Spenders. The Company allocates considerable resources to the centre's activities on a year-to-year basis.



INTERVIEW WITH ROGER GAUDREAULT, GENERAL MANAGER, RESEARCH AND DEVELOPMENT

Roger Gaudreault, Cascades' General Manager, Research and Development, has authored approximately 20 scientific manuscripts and has completed post-doctoral studies, co-supervised by Harvard and McGill Universities, on the aggregation kinetics of colloids. He shares with us his view of the role that sustainable innovation plays within the organization.

How do you define innovation within Cascades?

— **RG:** An innovation is a new product, process or method (marketing, operating procedure, design, etc.), which creates a competitive edge for Cascades. The innovation must also be a first within a given country or continent, or worldwide.

How does Cascades ensure that its innovations are sustainable?

— **RG:** Cascades has incorporated a sustainable development "filter" into its innovation management system, which ensures that all ideas chosen meet sustainability criteria (environmental, social and economic) before they become innovation projects. To meet the environment criterion, for example, the main characteristics (innovation guidelines) are the use of raw materials with a high content of recycled matter, and the use of clean energy (biogas, wind energy, etc.) and green chemistry, as well as the product's recycling potential.

What are the basic principles underlying Cascades' leadership in sustainable innovation?

- **RG:** The acronym **i-LEAD**, coupled with the sustainable development "filter", best summarize these innovation (i-) principles:
- **★ LEADERSHIP** is critical to innovate quickly and effectively;
- **► E**MBRACE change, to maintain a competitive advantage;
- → ADAPT, in order to remain a leader when changes occur at unprecedented speed;
- → DISCOVER "Blue Ocean" new market opportunities (a business strategy that results in growth in a segment where competition does not yet exist).

What does the importance that Cascades' research centre (RDC) has acquired mean to you?

— **RG:** First of all, I feel an immense sense of pride, since the RDC has continued to grow despite a challenging economy; next is the evidence of how much importance management attaches to research and development; and finally, it points to Cascades' leadership in innovation. In this regard, I was invited to speak at several national and international events in 2009, including one organized by the Conference Board of Canada.

What main message regarding innovation would you like to share with Cascades employees?

— **RG:** We must innovate while being in line with sustainable development. Although new products can lead to revenue sources, this is not necessarily a guarantee of the Company's continuity. We therefore need to add another word: "sustainability", as in "sustainable innovation equals sustainable prosperity". Finally, Cascades has followed the path of sustainable development and innovation since its inception, and we want to maintain our leadership and continue to be an example in this area.

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2009 proved a fruitful year for new product development at Norampac. A number of products saw the light due to a recently implemented internal innovation management system, which served as a conduit for transforming our employees' good ideas into concrete results for the Company. Here are some examples:

- → <u>A recycled and recyclable pizza box liner</u>: A single-face corrugated board made almost entirely of recycled fibres that is resistant to oil and grease, including omega-3. This liner is placed at the bottom of the pizza box, to keep the crust dry.
- NorShield™: A waxless box, to be used for packaging refrigerated foods. A new waterproofing process, certified by the Canadian Food Inspection Agency and the Food and Drug Administration, makes NorShield™ boxes the ideal alternative to the traditional waxed box. While remaining waterresistant, these boxes are now repulpable, recyclable and can be manufactured from 100% recycled fibres. The traditional waxed box is the second-largest source of waste by volume sent to landfills.
- → <u>High Concora (HC) Medium</u>: A corrugating medium, lighter than ordinary paper but equally resistant. Enables production of more lightweight boxes that use less fibre but are just as resistant.
- → <u>Ecobistro™</u>: Packaging products for take-out foods, made from recycled fibres. This practical and strong yet attractive packaging is the optimal alternative to traditional fast-food containers.

PAPER IS MORE HYGIENIC The Cascades Tissue Group conducted a thorough review of the scientific literature, to settle the controversy surrounding the use of paper towels versus heated air dryers in public washrooms. The review brought to light the considerable benefits of paper, which prevents the spread of bacteria more effectively than hand dryers. In mid-October, the Cascades Tissue Group launched a major information campaign on this topic, using printed posters, commercials and a website (www.cascades.com/bacteria). This campaign was recognized by the League of American Communication Professionals (LACP), which presented the Company with a Magellan Award—the LACP's tribute to the best communications campaigns. Cascades was awarded Gold in the Product/Service Communications: Other (Corporation/For-Profit Organization) category, with a total score of 96%. The Cascades Tissue Group also innovated by creating a dry anti-bacterial hand paper towel. It offers additional protection by immediately destroying any bacteria remaining on the hands, thus minimizing the risk of contamination through its continued impact. 185

RICH IN RECYCLED FIBRE

The Cascades Fine Papers Group increased post-consumer fibre content —from 30% to 50%—in its Rolland Opaque, Rolland ST and Rolland Hitech papers, thus creating a more environmental alternative for high-quality digital and commercial printing.

NEW IN FELT!

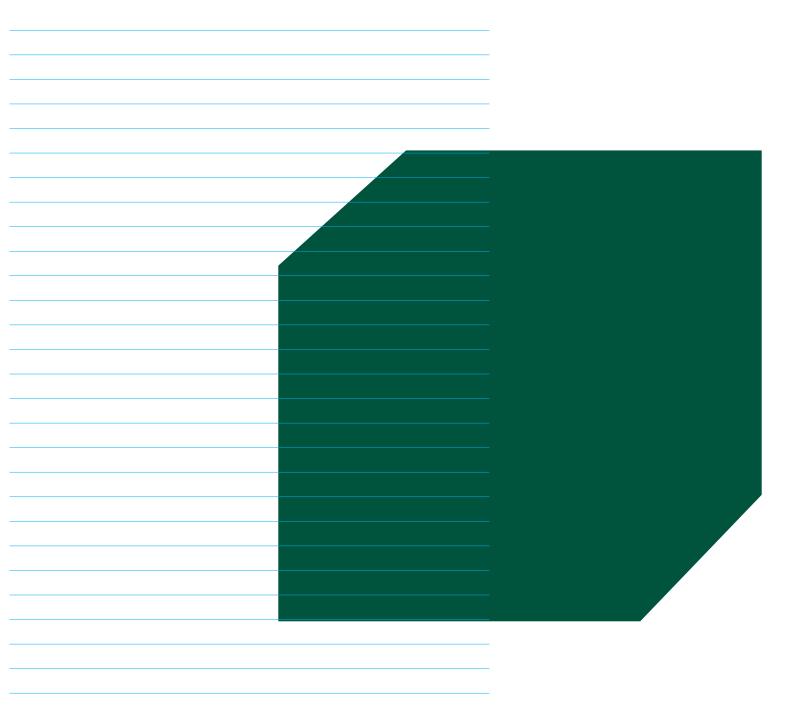
The Cascades Lupel plant developed a linoleum felt made entirely from recycled fibres—a world first in this product category.

ULTRA-CELL 30™

The Cascades Moulded Pulp Inc. production facility designed a new type of egg carton that allows a 10% increase in the container load being transported.

COMBINING AESTHETICS AND SUSTAINABILITY

The Re-Plast facility created Perma-Deck® Advantage +, a new series of walnut-coloured double-grooved boards made of 100% recycled plastic. These boards, which are more durable than wood and look almost like the real thing, are an attractively priced replacement product. They are manufactured using post-consumer plastic sourced from selective collection and factory waste. The product will last more than 50 years, and can then be recycled. Each year, the Notre-Dame-du-Bon-Conseil, Québec plant recovers 1 million kg of plastic, which is then used to manufacture durable goods.

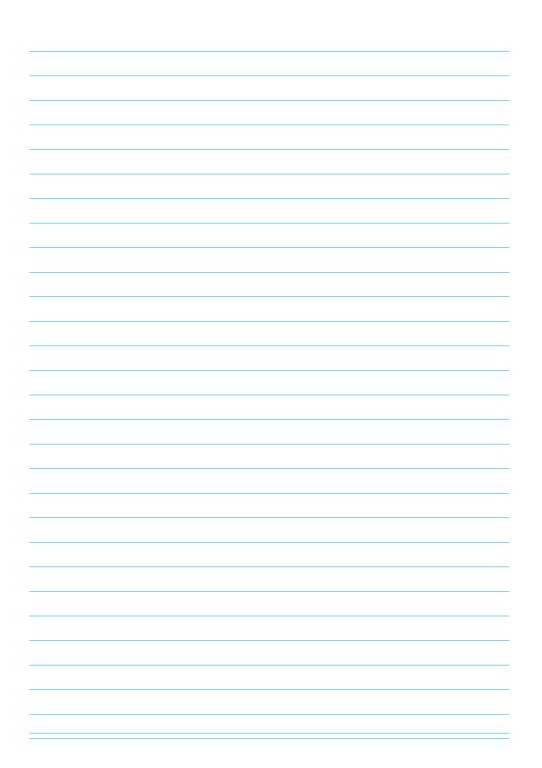


INNOVATION AWARDS AND DISTINCTIONS

NORAMPAC: A FOUR-TIME WINNER

Norampac was a three-time award recipient at the 2009 PAC Leadership Awards. The attractive and innovative design of its beer can four-pack carton, created for the Steam Whistle Company, won Gold in the Paperboard category. Additionally, the company's NorShieldTM waxless box was honoured twice, winning Gold in the Products — Made in Canada: Raw Materials category and Best of Show in the Sustainable Packaging category.

Norampac was also presented with the "green innovation" award, for its NorShield™ box, at the 2009 gala of the Association de la recherche industrielle du Québec (Industrial research association of Québec).



<u>GOVERNANCE AND SUSTAINABLE</u> DEVELOPMENT – A PERFECT MATCH

Cascades' Board of Directors and management believe that quality corporate governance helps ensure that the Company is effectively run and investor confidence maintained. In order to stay the course in this regard, Cascades regularly reviews its governance practices, to remain in compliance with applicable legislation and to improve Company efficiency.

EXPERIENCED, HIGHLY TRAINED DIRECTORS

The composition of the Board of Directors should be carefully determined, since its responsibilities include ensuring good corporate governance, among other things. Cascades draws on the expertise of a highly experienced team of directors, and recognizes the importance of independent directors. Seven of the 13 current Board members are independent. They meet at least once yearly, in the absence of non-independent directors and senior management. New BoD members are also offered an orientation and training program, to familiarize themselves with Cascades' activities as well as the issues and challenges it faces.

SUMMARY OF BOARD OF DIRECTORS' RESPONSIBILITIES

THE BOARD, WHICH IS ELECTED BY THE SHAREHOLDERS, PERFORMS THE FOLLOWING FUNCTIONS:

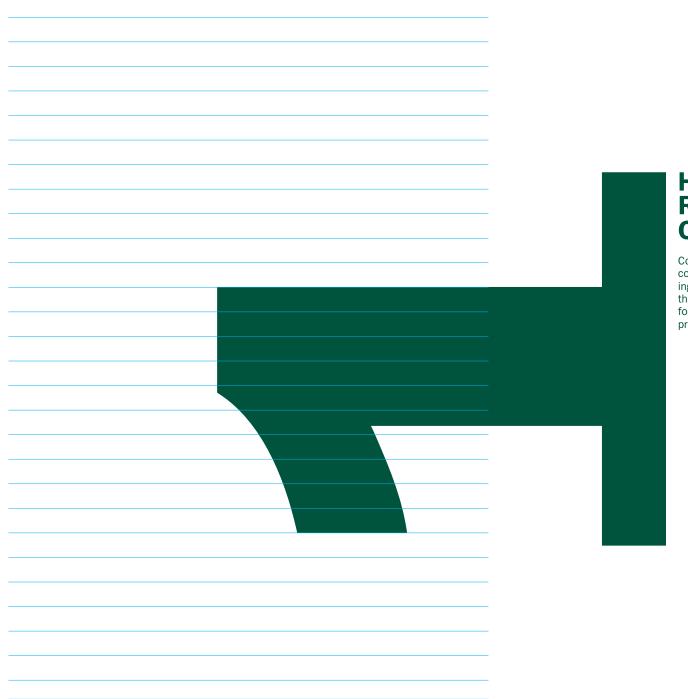
- → Adoption of the process for establishing and assessing the Company's strategic plan;
- → Identification of the main risks the Company must face, and implementation of the appropriate procedures for managing them;
- → Planning the succession and assuming responsibility for appointing, training and evaluating the performance of senior managers;
- → Ensuring the integrity of accounting and information management internal control mechanisms;
- → Selection of the President and Chief Executive Officer;
- → Regular evaluations of its own performance and that of its committees and of its members.

MAIN COMMITTEES OF THE BOARD OF DIRECTORS

IN CARRYING OUT ITS MANDATE, THE BOARD IS ASSISTED BY FOUR MAIN COMMITTEES:

AUDIT

ENVIRONMENT, HEALTH
AND SAFETY COMMITTEE



HUMAN RESOURCES COMMITTEE

Comprised of three independent Directors, this committee is charged with reviewing and making recommendations to the Board concerning the President and Chief Executive Officer's performance and compensation and that of the principal members of senior management.



AUDIT COMMITTEE

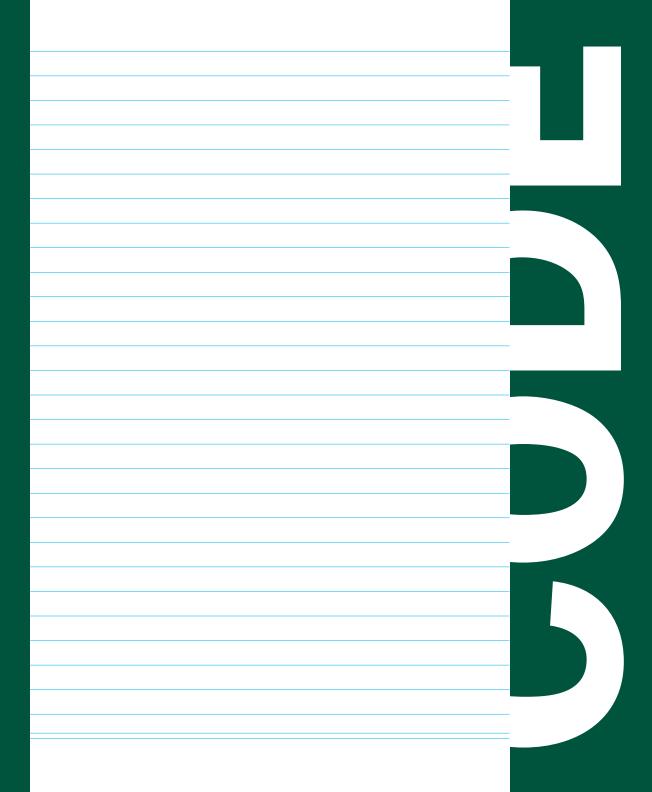
Made up of four independent Directors with a financial expertise, this committee helps the Board fulfill its mandate of overseeing the following:

- → Quality and integrity of the Company's financial statements
- → Presentation and communication of financial information
- → Internal and financial control mechanisms
- → Skills, performance and independence of the Company's external auditors
- → The internal audit function and process

The full text of the Audit Committee Charter is available on the Company's website (<u>CASCADES.COM</u>).







CODE OF ETHICS—AN ESSENTIAL TOOL FOR RUNNING A RESPONSIBLE COMPANY

Corporate social responsibility means, among other things, compliance with the highest form of ethical principles and promoting them to employees. Cascades' Code of Ethics is addressed to Directors, managers and employees, who participate in a certification process and on-line training that covers the Code's content and the Company's expectations in this regard.

The Code of Ethics sets out the general principles that govern acceptable behaviour in all of our relationships including relationships with customers, suppliers, partners and communities. In 2009, given important legislative changes and the need to update certain chapters, the Code was given a face lift.

GOVERNANCE AWARDS AND DISTINCTIONS

Cascades distinguished itself at the Canadian Institute of Chartered Accountants Reporting Awards, as a recipient of honours in the Forest Products category. "Cascades' corporate governance disclosures include a code of conduct that surpasses its competitors", announced the judging group. This competition recognizes excellence and best practices in corporate reporting.

SUSTAINABLE DEVELOPMENT WINS OUT!

CASCADES IS REWARDED

The Company was presented with the Grand Prix Bilan social (Social responsibility report grand prize) for its entire approach to sustainable development, at the Prix québécois de l'entreprise citoyenne (Québec corporate citizen awards). This competition, organized by Korn/Ferry International, public relations firm National and *L'Actualité* magazine, is intended to recognize innovative and intrepid business ethics and sustainable development actions taken by Québec businesses.

Cascades was named one of the 50 most socially responsible companies in Canada, on the 2009 list released by Jantzi Research and *Maclean's* magazine.

Cascades also ranked 15th among Canada's Best 50 Corporate Citizens 2009, a list published by *Corporate Knights* magazine.

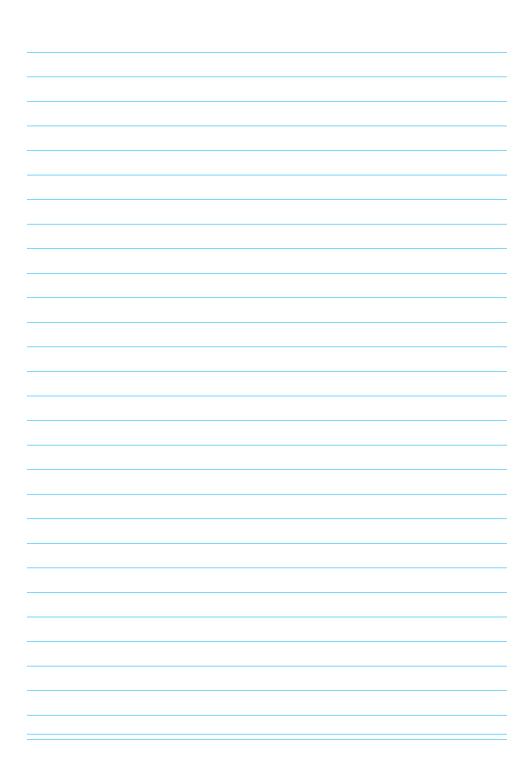
ADMIRABLE CASCADES!

Cascades ranked 20th among the 150 companies most admired by Québecers, in a list compiled jointly by Léger Marketing and *Commerce* magazine. This exceptional feat represents a 21-place advance over the Company's previous ranking!

A PURE GOLD SD REPORT

Cascades' 2008 Report on Sustainable Development, produced jointly with the Paprika graphic and strategic design firm, garnered a number of honours.

- → A Platinum winner at the LACP 2009 Spotlight Awards, in the Print: Sustainability/Community Report category, as well as 12th place in the Top 100 Communications Materials component of this competition
- → Silver at the 2009 ARC Awards, in the Social and Public Responsibility Report, Paper
- → Manufacturer and Related Products category Honors at the Galaxy Awards, in the Annual Reports: Corporate Responsibility AR category
- → Multiple recognition for design, including the Grafika 2010 Grand Prize for a single—or two colour annual report, recognition from the Type Directors Club, Silver in the GRAPHIS 100 Best Annual Reports, inclusion among the Top 10 annual reports in COUPE 2009 International Design + Image and a ranking in the 2009 Communication Arts Design Annual 50



PERFORMANCE INDICATORS 19

FIBRE SUPPLY	Units	2007	2008	2009
Recycled fibre consumption	Millions of short tonnes	2.8	2.2	2.1
,	% of total	75%	72%	72%
Virgin fibre consumption	Millions of short tonnes	0.7	0.6	0.6
S	% of total	18%	21%	20%
Virgin pulp consumption	Millions of short tonnes	0.2	0.2	0.2
	% of total	7%	7%	8%
Total fibre supply	Millions of short tonnes	3.7	3.0	3.0
<u>WATER</u>				
Water consumption	m³/metric tonne	10.5	10	9.7
Suspended solids returned to effluent	kg/metric tonne	0.83	0.79	0.75
Biochemical oxygen demand (BOD) after five days in effluent	kg/metric tonne	0.51	0.44	0.43
ATMOSPHERIC EMISSIONS				
CO ₂ equivalent emissions intensity	kg/metric tonne	286	268	189
Total emissions CO ₂ equivalent	Thousands of metric tonne	962	823	476
Particulate matter	kg/metric tonne	0.31	0.37	0.35
RESIDUAL MATERIAL				
Beneficial use of residue	% of total generated	73%	62%	63%
Residual material produced	kg/metric tonne	262	288	324
ENERGY CONSUMPTION ²⁰				
Natural gas	Millions of GJ	13	11	9
	% of total	37%	34%	33%
Electricity	Millions of GJ	9	8	8
	% of total	26%	25%	28%
Other	Millions of GJ	13	13	11
	% of total	37%	41%	39%
Total energy consumption	Millions of GJ	35	32	28
Energy consumption for papermaking activities	GJ/metric tonne	10.47	10.39	10.27

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The 2009 data regarding the environment, consumption of fibres and human resources exlcudes the participation of Cascades in Reno de Medici S.P.A., whereas the finance related data includes it.
 These data were developed using a weighted average based on total gigajoule consumption in each plant.

PERFORMANCE INDICATORS

WORKFORCE PROFILE	Units	2007	2008	2009
Total number of employees ²¹	Employees	13,998	12,529	12,403
Men	Employees	n/a	10,465	10.312
Women	Employees	n/a	2,064	2.091
Average seniority	Years	13	13	14
Average age	Years	42	44	44
Interns	Employees	156	137	124
Students	Employees	666	611	445
GEOGRAPHIC BREAKDOWN OF EMPLOYEES				
Canada	% of total	61%	63%	64%
United States	% of total	29%	31%	30%
Europe	% of total	10%	6%	6%
COMPENSATION				
Gross earnings	\$ million	661	626	611
Benefits	\$ million	252	255	257
Profit-sharing	\$ million	42	37	46
Total compensation	\$ million	955	918	915
TRAINING				
Number of hours spent on training	Thousands of hours	390	333	290
Number of employees trained	Employees	9,954	9,203	8,130
Amount invested in training	\$ million	13	11	10
	% of total payroll	1.8%	1.7%	1.5%
HEALTH AND SAFETY ²²				
Lost time frequency rate (OSHA)	Per 200,000 hours worked	8.2	6.6	5.4
DONATIONS AND SPONSORSHIPS				
By Cascades inc.	\$ million	3.4	3.2	3.9
By la Fondation de la famille Lemaire	\$ million	1.1	1.3	1.2
SELECTED FINANCIAL DATA				
Economic value created 23	\$ million	4,075	4,082	3,883
Economic value distributed 24	\$ million	(3,839)	(3,864)	(3,563)
Economic value retained 25	\$ million	236	218	320
Defined benefit pension plan assets 26	\$ million	626	476	531

²¹ Percentage of contract workers not marked, no discernible seasonal variation.

²² Excluding restricted activities. Data from the last three years include Dopaco, as well as the European plants of La Rochette and Djupafors.

²³ Not adjusted to reflect discontinued operations. Includes net sales, financial revenue (including interest, dividends and royalties received) and proceeds from asset divestitures (company and asset divestitures).

Not adjusted to reflect discontinued operations. Includes production costs (expenses incurred by the organization for outside purchases of raw materials, components, employee compensation and services), employee compensation (gross earnings, benefits and profit-sharing), payments to creditors and shareholders (dividends paid out to common shareholders and interest on short- and long-term debt), payments to governments (cash payments on taxes, including income taxes) and community investments (donations and sponsorships).

²⁵ Not adjusted to reflect discontinued operations, equals the difference between economic value created and distributed.

²⁶ Assets as at December 31, 2009.

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This report is printed on Rolland ST100, a Chlorine Free Processed paper that has been granted FSC Recycled and EcoLogo certifications, and was produced by Cascades, in Québec, entirely from recycled fibres, using biogas energy.











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The cover is made from another innovative Cascades product: the SaniZorb™ maternity mat for piglets, composed entirely of recycled materials, which was manufactured at Cascades Forma-Pak facility in Kingsey Falls, Québec.

The substrate on the inside back cover consists of two cardboards 35 pts., made of 100% recycled materials. The cardboards are manufactured at the Cascades Papier Kingsey Falls plant and laminated at the Cascades Multi-Pro plant in Drummondville, Québec.







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Additional information on the Global Reporting Initiative, supplementing our sustainable development report, can be found at www.cascades.com/sustainable-development.

For more information or to send in a comment on any aspect of sustainable development at Cascades, please contact Valérie Demers, Sustainable Development Project Manager, at valerie_demers@cascades.com.

Consult our annual report on line at www.cascades.com.

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