

economic performance

Economic stability contributes as much to sustainability as environmental and social performance, allowing continued employment, sustaining communities and offering customers long-term certainty of supply.



2007 achievements

- Above industry average for customer satisfaction in most products
- Reduction in number of customer complaints
- Assumed direct operation of Surrey Distribution Centre

2008 focal points

- Continued engagement in response to growing customer interest in sustainability
- Policy formalization on sustainable supply-chain management
- Continued business planning and policy engagement regarding fibre supply



customers

Aiming to be its customers' preferred supplier, Catalyst provides quality products and service – in which sustainability attributes are embedded – builds strong relationships, and responds promptly to problems.

Working for preferred status

Catalyst works to secure and expand its customer relations by achieving preferred-supplier status. This involves a holistic mix of products, principles and performance.

Products Catalyst offers a broad range of products that leverage the strength of its raw materials and facilities. It works continuously with customers to identify optimal product options, sometimes identifying alternative grades that offer a more advantageous combination of features for specific applications. Catalyst's strong offering in lighter basis weight grades is of growing interest, given cost and environmental benefits.

Principles Catalyst products have a strong sustainability pedigree, based on long-standing investments and commitments the company has made to reduce environmental impacts and improve other aspects of its performance.

Performance Catalyst has efficient and reliable transportation networks to get its products to customers, and provides service and technical support to ensure they perform well when they arrive. Where volumes justify, this can extend to on-site assistance with equipment audits and upgrades, waste reduction, and training.

Customer satisfaction

Catalyst engages in ongoing dialogue with its customers to ensure it is delivering on product quality and service expectations, and takes prompt corrective action when necessary.

Catalyst also participates in a number of customer and third-party evaluations, including an annual industry survey conducted by US-based MG Taylor Corporation.

Embedding principles in the product

During 2007, there was marked increase in interest and inquiries from customers regarding Catalyst's sustainability performance. In response, the company equipped its sales staff with more information and launched a new communication vehicle for customers.

Catalyst provided specific responses to a large number of survey-based and other requests, and is working on an ongoing basis with some customers and associations on more substantive assessments of supply-chain sustainability.

Catalyst found that five aspects of its sustainability pedigree are of particular interest to customers engaged in supply-chain assessment:

- expertise with lighter basis weight papers;
- use of recycled paper fibre;
- independent chain-of-custody verification of certified fibre;
- an 87 per cent renewable energy platform; and
- a light carbon footprint and availability of manufactured carbon-neutral paper.

Survey results provide Catalyst with insight on its performance relative to its peers on product quality, delivery, pricing, technical service, sales, customer service, environmental requirements, and product range and availability.

Overall evaluation results in 2007 showed the company ranked above average on coated, uncoated, and directory papers; and at industry average on newsprint.

There were fewer customer complaints in 2007 than in 2006, even though tracking of containerboard-related complaints was added. The value of claims paid remained at approximately the same level as in 2006, and at less than half the levels in 2005 and 2004.

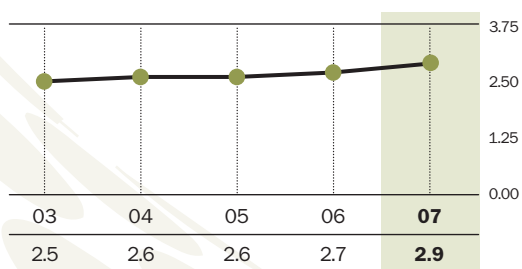
Research and development

Catalyst continued its partnership with the Pulp and Paper Centre at the University of British Columbia in 2007, through the Catalyst Grants Program. This involves \$60,000 commitments and in-kind support for each of three research projects (one of which was completed prior to 2007), which are also supported by the National Sciences and Engineering Research Council of Canada.

The second of these projects, which was completed in 2007, made use of unique aspects of the mechanical pulp refining process at Crofton Division to test new equipment that provides enhanced fibre-properties measurement.

The third project was initiated in 2007, and involves both the Crofton and Elk Falls divisions. Its objective is to overcome limitations currently inherent in the high-consistency refining stage, which is energy efficient, thereby reducing net energy use in mechanical pulping. This five-year project has also attracted substantial additional support from BC Hydro and a consortium of industry producers and suppliers.

Total payments for external R&D (\$ millions)



Distribution and transportation performance

Distribution and transportation logistics is an area of expertise supporting Catalyst's product offer and it leverages the advantage of mills that are located on the west coast.

Catalyst has a fleet of nearly 1,000 railcars; efficient access to road, rail, container and break-bulk transportation; and an in-full, damage-free, on-time delivery record of 96 per cent. Recent efforts to optimize product shipment loading have reduced costs and impacts.

In 2007, Catalyst further strengthened its capacity by assuming direct operation of the Surrey Distribution Centre, located along the Fraser River in Metro Vancouver. The large majority of Catalyst's products pass through this facility, which was formerly operated by a third-party contractor.





Managing for fibre shortages

Catalyst was not a party to the labour dispute that shut down most of British Columbia's coastal logging industry for three months during 2007 – but production, employment, revenues, and environmental performance at its operations were impacted nevertheless.

Catalyst worked to build-up fibre inventory and source alternative supplies to mitigate customer impacts where possible. Nonetheless, the strike resulted in curtailment of 161,000 tonnes of production, most of which was newsprint.

Reduced production was strategically allocated. While pricing and profitability were considerations, so too were customer factors. This included the length and exclusivity of relationships, and whether customers had access to inventories or alternative supplies.

Even with the strike settled, however, fibre shortage challenges and Catalyst production curtailments continued at year-end. The timing of the strike affected preparations for winter logging on the coast, and many sawmills did not ramp up to full production due to weak housing market conditions in the U.S. and Japan.

Environmental impacts of fibre shortages are described on page 29.

In my opinion ...

"The YPA instituted an environmental web site in 2007 to highlight issues and activities of environmental interest to the public. Our members have always attempted to minimize the impact our product has on the environment and this is our first major attempt to show our significant progress. We knew that our supplier group had some impressive accomplishments that we wanted to highlight – and we chose to feature Catalyst Paper as a recognized leader. We believe it is critical that the public understands the facts about our members' directory products and will continue to increase public understanding. We appreciate the support Catalyst has given us in these efforts."

Neg Norton
President, Yellow Pages
Association, New Jersey



Customer awards in 2007

- Most Innovative Partner award from commercial printer Vertis Communications
- Gold award from telephone directory publisher AT&T Yellow Pages (won by Catalyst in nine of the past 10 years)
- Gold Supplier award from Dow Jones and Company, owner of the Wall Street Journal, recognizing the Crofton Division



economic contributions

Sustainable operations on the scale of Catalyst's are a major contributor to economic activity and well-being within the communities where mills are located with cascading benefits in the province as a whole.

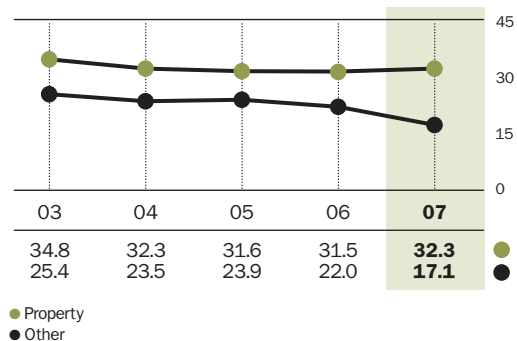


Contributing to local and provincial economies

Catalyst contributes significantly to the economies of the communities and the province within which it operates, in the form principally of payroll, tax payments and purchases from suppliers. In 2007, these amounted to:

- payroll of \$304 million, providing income for an employee population of 3,038;
- property and other taxes paid of \$49.4 million, supporting the provision of public services by all levels of government; and
- approximately \$831 million in total purchases from some 4,000 suppliers, a significant proportion located within British Columbia.

Property and other taxes paid
(\$ millions)



During 2007, Catalyst purchased a diverse range of products and services from suppliers ranging from large multi-nationals to small proprietor-owned enterprises. Particularly noteworthy procurement-based economic impacts included:

- energy purchases of \$213 million, including electricity purchases of \$152 million which made Catalyst the largest customer of the province's public energy utility, BC Hydro; and
- fibre and wood waste purchases of \$350 million, representing eight per cent of the provincial harvest and making Catalyst one of the largest customers of the British Columbia forest industry.

Working with suppliers

Catalyst suppliers are located mainly in Canada and the United States. In addition to energy and wood fibre, major purchases include chemicals, fossil fuels, transportation, machinery, and a range of professional and consulting services.

Formal policies guide purchases of major inputs such as energy and fibre, and the use of certified fibre is subject to independent chain-of-custody tracking within Catalyst's facilities. All purchases are also subject to Catalyst's Code of Corporate Ethics and Behaviour.

Procurement decisions are based on factors which include the environmental and safety impacts associated with the products in question.

Catalyst has developed a detailed Sustainable Supply Chain Management Questionnaire for suppliers outside of North America. It addresses factors including human rights, freedom of association, and forced and child labour.

Catalyst's current practice is to complete this questionnaire during onsite inspections involving at least two Catalyst employees. Development of a policy formalizing this practice was initiated in 2007.

Safeguarding access to a key input

Sawdust, residual chips, pulp logs and other fibre comprise the main raw material for pulp and paper production – and also the biomass feedstock with which Catalyst generates large volumes of energy (referred to as “hog fuel”).

Self-generation of energy from this carbon-neutral and renewable source is a vital element of Catalyst's environmental performance and economic competitiveness.

There is growing recognition of the importance of biomass as an energy source, particularly given British Columbia's aggressive greenhouse gas (GHG) reduction targets. Policies were under development at year-end with a view to encouraging biomass recovery and energy generation, and increasing competition for supplies was already evident.

During 2007, Catalyst provided input to the British Columbia government on such policies. It urged due regard for its need for continued cost-effective access to biomass and for the role its existing operations can play in the effective use of this resource.

