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ASPI’s 2012 Customer Alignment Meeting will be hosted by Domtar and take place in Charlotte, North Carolina, September 10-12. Attendees will have the opportunity to network with their industry peers as well as top level Domtar executives and other industry leaders.

As in past Customer Alignment Initiative meetings, Domtar’s top executives will spend a full day sharing how suppliers can support Domtar’s corporate strategic directions (see page: 3 for speakers and program.) At the meeting, Domtar will share its purchasing philosophy, or guiding principles, from which they rarely deviate and which have made the company a “customer of choice” with their suppliers.

ASPI’s Customer Alignment Initiative began in 2007 to assist paper manufacturers in aligning their suppliers’ capabilities with their own evolving tactical and strategic financial requirements. In turn, suppliers have the opportunity to improve their understanding of a major customer in their customer base.

Companies that have hosted the Customer Alignment Initiative in the past include Verso, New Page and MeadWestvaco.

Visit www.aspinet.org to register for this event.

Purchasing has developed credibility, gained confidence of stakeholders throughout the organization, and is involved in almost all activites with the company. We are proud of what we have achieved, and continue to strive for excellence.

—Jim Thomas, V.P. Purchasing and Materials Management/
Domtar, founded in 1848, has grown from an English company focused on preserving decaying lumber, to an international company of Pulp and Paper, Distribution and Personal care. With revenues of $5.6 billion in 2011, Domtar is now the second largest integrated manufacturer and marketer of uncoated free sheet in the world.

In 2011, 85% of Domtar's revenue came from the Pulp and Paper segment, approximately 14% was from the Distribution segment, and approximately 1% was from the Personal Care segment, which was formed on September 1, 2011, with the acquisition of Attends.

**Pulp and Paper**

Domtar produces 4.3 million metric tons of hardwood, softwood and fluff pulp each year. The majority of the pulp is consumed internally to manufacture paper and consumer products, with the balance being sold as market pulp. Domtar also purchases papergrade pulp from third parties, optimizing the logistics of their pulp capacity while reducing transportation costs.

Domtar is the largest integrated marketer and manufacturer of uncoated freesheet paper in North America. They have 10 pulp and paper mills with an annual paper production capacity of approximately 3.5 million tons of uncoated freesheet paper. Domtar’s paper manufacturing operations are supported by 15 converting and distribution operations including a network of 12 plants located offsite of paper making operations. Also, they have four manufacturing operations and one offsite converting and distribution operations and two stand-alone forms manufacturing operations. Approximately 78% of their paper production capacity is in the U.S., and the remaining 22% is located in Canada.

Domtar produces market pulp in excess of their internal requirements at their three non-integrated pulp mills in Kamloops, Dryden, and Plymouth as well as their pulp and paper mills in Espanola, Ashdown, Hawesville, Windsor, Marlboro and Nekoosa.

**Distribution**

Domtar’s distribution business involves the purchasing, warehousing, sale and distribution of various products and those of other manufacturers. These products include business, printing and publishing papers and certain industrial products. These products are sold to a wide and diverse customer base, which includes small, medium and large commercial printers, publishers, quick copy firms, catalog and retail companies and institutional entities.

Domtar's distribution business operates in the U.S. and Canada under a single banner and umbrella name, Ariva. Ariva operates throughout the Northeast, Mid-Atlantic and Midwest areas from 17 locations in the U.S., including 13 distribution centers serving customers across North America. The Canadian business operates in two locations in Ontario, in two locations in Quebec; and from two locations in Atlantic Canada.

**Personal Care**

Domtar’s Personal Care segment involves the manufacturing, sale and distribution of adult incontinence products.

The products are distributed in four channels: acute care, long-term care, home care, and retail. Attends operates in Greenville, North Carolina. Anevy, Sweden, and two distribution facilities in Scotland and Germany.

**Domtar continues to transform**

Domtar has grown by continually refocusing its operations to accommodate the changing times and new technology.

Domtar is among the most cost-competitive papermakers in North America. Their strengths include the best workforce in the industry, efficient assets, high-quality products, strong brands, and a seasoned management team with proven expertise.

Domtar has fulfilled its commitment to achieve FSC chain-of-custody certification for all of its operations, most of which are also Sustainable Forestry Initiative (SFI) Fiber Sourcing certified as well as SFI and PEFC chain-of-custody certified.

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Sales of the FSC-certified Domtar EarthChoice® family of papers, officially launched in 2005, continue to grow. In 2009, Domtar celebrated the sale of its millionth ton of FSC-certified product, providing powerful testimony to its longstanding and continued commitment to sustainability. This brand is unique in the paper industry for the support it has garnered from environmental groups, including Rainforest Alliance and WWF-Canada. All EarthChoice products proudly display the FSC logo and Rainforest Alliance seal and represent the widest range of environmentally responsible papers in North America and quite possibly in the world.

Sustainability

Domtar knows that sustainability is about having a vision aimed at balancing economic, environmental and social concerns in daily work. As Domtar began to notice this rising trend with their customers, they chose to stand behind that vision by offering pulp and paper products that provide performance today and can make a difference tomorrow.

As a trusted industry leader in environmental responsibility, Domtar is dedicated to helping make sense of sustainability for customers and stakeholders. Domtar has created a variety of tools to equip anyone who wishes to explore the life cycle of paper, look inside common paper myths, provide and review position papers on hot environmental topics and more.

For more on Domtar’s sustainability efforts, see page 8.

Domtar Speakers at the 2012 Customer Alignment Meeting

Domtar Speakers:
Jim Thomas – V.P. Purchasing and Materials Management
Mike Edwards – Senior V.P. Pulp and Paper Manufacturing
Michael Fagan – President, Domtar Personal Care Division
Martin Lorrion – V.P. Manufacturing Region 1
Roger Brear – Sr., V.P. Operations Support
Bill MacPherson – Director of Central Engineering
Bruno Marcoccia – Director of Research & Development
Jack Bray – V.P. Manufacturing Region 2
Bill Edwards – V.P. Mill Manager, Marlboro
Dennis Askew – V.P. Mill Manager, Plymouth
Kathy Wholley – Director of Advertising & Communications

Allen Bohn – Maintenance and Engineering Manager, Plymouth
David Struhs – V.P. Sustainability
Pascal Bosse – V.P. Corporate Communications and Investor Relations

Additional Speakers:
Soile Kilpi – Director, Pöyry Management Consulting
Kevin Mason, CFA – Managing Director—Equity Research Associates

Visit www.aspinet.org to register for this event.
Domtar Expands into Nanotechnology

Too small to see but too big to ignore, nanotechnology is helping improve products that we use every day and creating new, exciting products for the future. Also—and not least of all—it could be a potential savior of the pulp and paper industry.

While there are a lot of nano materials, the one most relevant to our wood-based industry is nanocrystalline cellulose, a renewable, recyclable and abundant nano material made of cellulose fibers from the pulp manufacturing process. Currently the paper industry uses nanotechnology in two ways: to enhance current products and create new ones, and to discover ways that cellulose fibers can be used for products outside the industry.

Cellulose is the world’s most abundant natural polymer and has crystalline properties that allow colored films to be produced without pigments. Nanocellulose also has a very high elastic modulus making it extremely stiff—10 times the high tensile strength of steel—and a thermal expansion 100 times lower than steel. Films can be produced that are 80% - 90% transparent, and barrier properties will allow control of oxygen transfer. Potential applications are endless and best of all, it is highly biodegradable. Researchers around the world are looking into making stronger paper, better coatings, improved barrier properties, and replacing petroleum-based polymers, all with nanocellulose.

**MAKING IT PAY**

One of the first pulp and paper companies to recognize and capitalize on nanocellulose is CelluForce, a joint venture of Domtar Corporation and FPInnovations, created in July 2010 to manufacture nanocrystalline cellulose (NCC) at a 35,000 sq ft commercial demonstration plant currently under construction on the site of Domtar’s pulp and paper mill in Windsor, Quebec, Canada, and staffed by about 30 employees from the Windsor mill. The $42 million project, of which $32 million came in the form of government support, began operations earlier last year.

CelluForce plans to sell the extract, under the trademarks of “Impact” and “Allure,” to clients in the paint and coatings, bioplastics and textile industries. Addition of NCC can make products up to 10 times stronger, according to Jean Moreau, the company’s CEO and former vice president of finance with Domtar, and who now spends much of his time looking for market applications for the CelluForce product. “We’re bringing a virtually non-toxic bio-product to market for industries that will no longer need to use environmentally harmful chemicals in the manufacture of their products,” he says.

Moreau notes that the new venture differs from the manufacture of traditional pulp and paper products because "the input is pulp and the output is NCC, which is a specialty chemical ingredient.”

**UP AND RUNNING**

CelluForce’s objective was to produce 1 ton/day of NCC starting in 2012, which would be a significant achievement according to Moreau who says that up until now, the largest quantity produced is 3 kilos per week. “We are the only and first semi-commercial facility,” he says. “It will be a new process so there will be a lot of challenges to get the process from a lab perspective, up and running commercially.”

CelluForce uses dry hardwood pulp from the Windsor opera-
Domtar expands into nanotechnology

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Domtar expands into nanotechnology

and converts it to NCC using a revolutionary technological breakthrough developed by FPInnovations (FPI). When the liquid slurry is dried, the product looks like tack powder and ships in bags and on pallets. A little NCC goes a long way. When added to a coating or polymer, the dosage required is very small and one ton of NCC can produce about 50 tons of finished products.

According to Moreau, pulp and paper applications are at a minimum right now. “Some pulp and paper companies are knocking on our door such as from the packaging side where we can enhance film or barrier aspects or strength,” he says. "On the coating side, at this point it is really a specialty product.”

One interesting potential application that Moreau cites is for use in security papers. As NCC has “needles” that lean in one direction, it could be used to make paper that can shift colors and be virtually impossible to copy.

According to Moreau, Domtar is leading the way on this product because when FPI knocked on the door, “John D. Williams and his management team had the vision to realize that it is a risky start up as it is new technology, but realized that we are part of an industry that is going down at the pulp and paper level and we need to invest in new technologies. This is just one of a number in the pipeline.

“If we are successful on the technical side, we could be looking at a significant market size in the range of several ten thousands of tons, which looks quite small, but as a specialty product with nice pricing, it could be a very interesting business venture,” said Moreau. "Being the first plant up and running in the world give us a great advantage."

According to Moreau, the demo plant is ultimately just to demonstrate the characteristics of the product. If successful, the company will build new commercial plants around the world.

“We believe we are at the level to create a new market, almost an extension of the pulp market,” concludes Moreau. “Taking it to a different level allows us to bring wood fiber into a totally different environment.”

REFERENCES:


A Business Case for Sustainability
Sustainable growth is a prerequisite for future profitability and survivability at AkzoNobel.

By: Fredrick M. Clark

Andrew Savitz, author of *The Triple Bottom Line*, described the sustainability sweet spot as the common ground shared between a company’s business interest and its non-financial stakeholders. He went on to say, “Business leaders with a superficial understanding of sustainability, think of it as a distraction from their main purpose, a chore they hope can be discharged quickly and easily.”

This perception was pervasive 7 or 8 years ago when self-imposed Corporate Social Responsibility was the main driver for sustainability and many CEOs thought philanthropic activities were sufficient. Today, shareholder pressure has become the dominant driver for a company’s sustainability initiatives. Ernst & Young recently found that half of all shareholder resolutions this year will be sustainability-related. Financial performance now shares the corporate boardroom with safety, energy, CO₂ emissions, water, waste, product stewardship and regulatory affairs.

In fact, sustainability and long-term shareholder value go hand in hand. Figure 1 from Sustainable Asset Management (SAM), describes the asset performance of companies ranked as Sustainability Leaders versus those who are Sustainability Laggards.

The dark blue line tracks the cumulative outperformance of Portfolio 1 "Sustainability Leaders" versus the overall sample of companies. The light blue line tracks the cumulative underperformance of Portfolio 5 "Sustainability Laggards" versus the broader sample.

The green line tracks the outperformance of an investment strategy that consists of maintaining the sustainability leaders on a

Figure 1. Asset Performance of leaders and laggards. Source: Sustainable Asset Management

Figure 2. CO₂ emissions in AkzoNobel value chain

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long position and short-selling the sustainability laggards.

THE CASE AT HOME

At AkzoNobel, we define sustainability as the simultaneous and ethical pursuit of delivering profitable economic growth, lowering our environmental footprint, and developing the talent of our people.

In order to create value for our customers, employees, shareholders, and society at large, we have ambitious sustainability targets to:

- Remain in the top three in the Dow Jones Sustainability Indexes (DJSI).
- Reduce our total recordable injury rate to 2.0 injuries per million hours and be Top 5 in Safety versus our peers.
- Deliver a step change in people development.
- Diversify our workforce with 20% of executives from high-growth economies.
- Foster key supplier partnerships delivering footprint reduction.

We are focusing on long-term performance and by 2015 our ambition is:

- That Eco-premium solutions (toxicity, energy efficiency, land use, emissions, etc) will make up 30% of revenue.
- To reduce our cradle-to-gate carbon footprint by 10% (25% by 2020).
- To achieve sustainable fresh water use at 100% of our manufacturing sites.
- To deliver 30% improvement in our operational eco-efficiency.
- Reduce VOC’s in products.

Many sustainability rating methodologies evaluate how companies link remuneration to these targets and ambitions. At AkzoNobel we embrace this concept and link executive bonuses to performance in the leading sustainability index (SAM/DJSI). Overall, AkzoNobel has ranked 1st or 2nd in the Chemical Sector of the SAM/DJSI since 2006.

We have adopted the approach of climate change mitigation and set aggressive carbon reduction ambitions of 25% by 2020.

Water sustainability is accelerating in the manufacturing arena and AkzoNobel has instituted a rigorous water sustainability process for operational sites which require risk management with respect to watershed, supply reliability, efficiency, compliance, supply economics, and social context. Our target is 100% water sustainability.

Sustainability has generated opportunities for innovation in our company. The infrastructure challenges (low rail transportation) in Brazil have been minimized by establishing Chemical Islands for sodium chloride and chlorine dioxide production close to our customer facilities, and in some cases, co-located with our customers. We also continue to develop eco-friendly products like our decorative paint that has solar reflectance properties and can reduce internal house temperatures by 5°C.

Fredrick M. Clark is VP Sustainability, North America & Andinas, AkzoNobel Pulp and Performance Chemicals. He can be contacted at fredrick.clark@akzonobel.com.
Everyone has seen the phrase, “Don’t Print This Email,” and they hesitate. Why? Because, to most people, printing is a choice between saving the planet and printing an important document. In 2010, Domtar embarked on a mission to teach the public the facts about printing and paper. Domtar decided not to focus on why people shouldn’t use paper, but why they should. Thus, PAPERbecause was born.

**Why Paper?**

- PAPER because Bringing in the mail is one of the few things we all still have in common
- PAPER because Learning is more rewarding on paper.
- PAPER because Only tracking your finances online is a good way to lose track of your finances.
- PAPER because Over dependence on technology might be making us less intelligent.
- PAPER because The cloud can put all your files at your fingertips, just so long as you have a printer.
- PAPER because Sustainability is the only business model that will survive.

Domtar launched its award winning PAPERbecause campaign in September 2010, and two years later, the campaign continues to make an impact.

“PAPERbecause has enabled Domtar to communicate the importance of paper to business and opinion leaders,” said Lewis Fix, V.P. of Sustainable Business and Brand Management at Domtar, in a 2011 press release. “Domtar has long been a leader in sustainable paper production. The PAPERbecause campaign promotes the responsible use of paper, while also reminding people of just how effective paper is in communicating on logical and emotional levels in so many business and personal settings.”

In January of this year, Domtar put the PAPERbecause campaign into high gear when they launched the retro advertising campaign. Domtar’s retro ad was created by Eric Mower and Associates and won top honors in *The Daily Beast* poll of ads in the 1965-themed *Newsweek* celebrating the return of the *Mad Men* television series.

“PAPERbecause demonstrates that paper is sustainable, personal and purposeful. It’s easier to learn on paper, senior executives prefer print versus online information, people make purchases as a result of direct mail, and paper is one of the most recycled products on the planet—more than 63 percent of paper gets recycled,” Fix said in another press release. “That’s a pretty exciting story about a product that has been in use for more than 2,000 years.”

Domtar’s PAPERbecause website is full of useful information about paper and how to use it responsibly. To learn more about PAPERbecause, visit www.paperbecause.com.
Don’t get me wrong. Maximizing shareholder value is a lovely result—but it’s a lousy goal. What happens when you give your employees a rousing speech about maximizing shareholder value? Once they wake up from their boredom-induced nap, they’ll go back to doing exactly what they had been doing before. After all, what can they do that will raise earnings per share? It’s like you’re asking them to count all the stars in the sky.

In other words, maximizing shareholder value—a mantra made popular in 1976—is just too vague and uninspiring to move employees to action.

Here are five reasons why it’s time to focus on understanding and meeting the needs of your customers:

Shareholders care more about how healthy your company looks than how healthy it is. According to the authors of the 2008 Harvard Business Review article “Innovation Killers,” “Over 90% of the shares of publicly traded companies in the U.S. are held in the portfolios of mutual funds, pension funds, and hedge funds. The average holding period for stocks in these portfolios is less than 10 months.”

In other words, that hedge fund manager you were trying so hard to please last year has already dumped your stock. Shareholders have very little interest in the long-term health of your company, only in the appearance of long-term health. It might be more accurate to refer to today’s shareholders as “sharehandlers.” Asking an executive to maximize shareholder value can be a very bad idea. If a stock’s P/E ratio is 20-to-1, then only 5% of a firm’s value is driven by this year’s earnings. To put it another way, 95% of shareholder value is driven by shareholders’ expectations of the future—which can be manipulated. Most of those shareholders are not actually going to be around to see whether the company meets its long-term earnings goals. So the executive with stock options has great incentive to manage investor expectations.

And when managing the expectations of Wall Street analysts conflicts with the actual job of building the firm’s long-term competitive strength, guess which wins? Every quarter becomes "the most important quarter in the company’s history." Employees will become numb to this familiar refrain because they hear it all the time. Expectations might stay the same or increase or decrease, but not as a result of the proactive effort of the company to create long-term strength.

If the executive team is driving with its parking lights on instead of its high beams, won’t the board of directors at least be concerned about investors’ long-term financial gains? Unfortunately, that’s a pleasant but outdated notion.

Maximizing shareholder value doesn’t work anyway. We should not be shocked to find this failed logic has led to failed results. Roger Martin researched and compared the pre-maximize era (pre-1976) with the post-maximize era (post-1976), and found: The compound annual real shareholder return actually dropped from 7.6% to 5.9%. The new goal of maximizing shareholder value did nothing to...maximize shareholder value.

Companies that were successful often found they had created more illusion than reality. Jack Welch, the "poster child" for maximizing shareholder value, was highly successful over his tenure, but GE shareholder value plummeted after his retirement, most likely because investors were trading on the ap-
Five Reasons Why
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appearance of health—not the actual long-term health—of GE. It’s been 10 years since he retired, and GE’s market capitalization is still only one-third of what it was when he left. It may be a long time before his successor(s) can “manage expectations” to the peak he reached. Failed logic and failed results do not mean we should ignore shareholder value. We simply must understand shareholder value for what it is and what it is not.

Only tangible goals, pursued day after day, ultimately get results. Finishing a marathon is a noble goal, but it’s important to note that the personal satisfaction you feel afterwards is the result of achieving your goal… and not the actual goal. If you planned to run a marathon and made personal satisfaction your goal, you would fail to focus your training running 26.2 miles. During the marathon, you would be tired and fall well short of personal satisfaction. By confusing the result with the goal, you’d miss out on both.

Like personal satisfaction, maximizing shareholder value can be a difficult thing to figure out how to achieve. But when you focus on something tangible like improving customer satisfaction, you can begin to see how that goal will result in maximized shareholder value.

The happier the customers have, the happier your shareholders will be. The more miles you run leading up to the marathon, the more satisfied you’ll be on the day of the race. The organization behaving as though its goal is to understand and meet the needs of its customers, will outperform competitors fixated on shareholder value.

Employees need a higher calling to be inspired. If you’re the CEO and you think your employees are passionate about this quarter’s earnings per share, you’re out of touch. You might be excited about it because you have large stock options, but that’s not the kind of passion that’s going to rub off on your employees. In fact, many employees will question your motivation to reach the goal when they know you’ll benefit disproportionately—sometimes wildly disproportionately—from the achievement of that goal.

These same employees, however, can become very motivated when given the opportunity to deliver real and measurable value. As Steve Jobs asked when recruiting John Sculley from Pepsi, “Do you want to sell sugar water for the rest of your life, or do you want to come with me and change the world?” Employees will quickly forget last quarter’s earnings, but years from now they’ll be telling their grandkids how they were on a new product team that turned their industry upside down.

Meeting customer needs requires understanding and from understanding can flow a river of profits. Make a worthy new goal: “Understand and meet the needs of my customers.” Two points of clarification: First, “customers” includes both existing and new customers (sometimes in new markets). Second, “meeting needs” must include both value creation and value capture. Value creation is a new offering that provides value beyond the customer’s next best alternative. Value capture is returning some of this customer value to the supplier through appropriate pricing. Done correctly, meeting customer needs will not reduce your profits; it will increase them.

But why should the goal be to understand and meet—not just meet—customers’ needs? Nearly four decades of research says the new product battle is usually won or lost in the “understanding” phase…often referred to as the “front end of innovation.” Companies that directly engage their customers to understand their needs have operating income growth rates three times higher than those that do not.

If you want to change behavior to drive profitable growth, “understand and meet the needs of customers” will do nicely.”

The executive’s dilemma, of course, is to find a way to survive the short term while building the long term. After all, those short-term “sharehandlers” will continue to form expectations, and the board of directors will continue to watch these expectations impact stock price. The only solution is to take a two-pronged approach of finding new ways to influence investors while rapidly seeking to understand the customer needs that have, so far, gone unmet.

Not everyone is willing to expend the blood, sweat, and tears it takes to create a new reality inside their company and make a mark in the marketplace. I imagine what

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Five Reasons Why  
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ASPI Welcomes New Members

In 1933 a group of process machinery manufacturers decided to meet every year to discuss non-competitive issues of interest to support the success of their customers and what is now known as ASPI was formed. ASPI is the only industry association that provides a forum for suppliers to:

* Network at the Executive Level
* Engage in Customer Forums
* Advance Industry Issues.

ASPI welcomes its newest members.
ASPI Board of Directors

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