

DOMTAR INC /CANADA  
Form 40-F/A  
May 18, 2004

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U.S. Securities and Exchange Commission

Washington, D.C. 20549

**Form 40-F/A**

REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended

December 31, 2003

Commission File Number

9682

**Domtar Inc.**

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English (if applicable))

Canada

(Province or other jurisdiction of incorporation or organization)

2621

(Primary Standard Industrial Classification Code-Number (if applicable))

Not applicable

(I.R.S. Employer Identification Number (if applicable))

395 de Maisonneuve Blvd. West, Montreal, Quebec, Canada H3A 1L6 (514) 848-5400

(Address and telephone number of Registrant's principal executive offices)

CT Corporation System, 111 Eighth Avenue, New York, N.Y. 10011, (212) 664-1666

(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)  
Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Name of each exchange on which registered

Common Shares no par value

New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

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Not Applicable

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(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

8¾ Notes due 2006, 9½% Debentures due 2016, 7.875% Notes due 2011, 5.375% Notes due 2013

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(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

Annual Information form

Audited annual financial statements

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common Shares 228,868,629 shares

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Indicate by check mark whether the Registrant by filing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the Exchange Act). If Yes is marked, indicate the file number assigned to the Registrant in connection with such Rule.

Yes \_\_\_\_\_ 82- \_\_\_\_\_ No  X

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the last 90 days.

Yes  X  No \_\_\_\_\_

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*FORWARD-LOOKING STATEMENTS*

This annual report on Form 40-F contains forward-looking statements, including, without limitation, those regarding expectations for market growth and developments; expectations for growth and profitability; and statements preceded by believes, expects, anticipates, foresees, or similar expressions, are forward-looking statements. Since these statements are based on current plans, estimates and projections, they involve risks and uncertainties, which may cause actual results to materially differ from those expressed in such forward-looking statements. These risks and uncertainties include, but are not limited to: (1) operating factors such as continued success of manufacturing activities and the achievement of efficiencies therein, continued success of product development, acceptance of new products or services by targeted customers, success of the existing and future collaboration arrangements, changes in business strategy or development plans or targets; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for products and the pricing pressures thereto, financial condition of the customers and competitors, the potential introduction of competing products and technologies by competitors; and (3) general economic conditions such as rates of economic growth in the Company's principal geographic markets or fluctuations in exchange and interest rates.

Figures prior to 2002 have been restated to account for the adoption of the amended Canadian Institute of Chartered Accountants recommendations regarding foreign currency translation.

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of  
Domtar Inc.**

April 29, 2004

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### **Item 2 CORPORATE STRUCTURE**

#### **(1) Incorporation of Issuer**

The name of the Issuer is Domtar Inc.

Formed in 1929 under the laws of Canada, Domtar Inc. was continued under the Canada Business Corporations Act by a certificate of continuance dated December 30, 1977 and subsequently amalgamated with certain wholly owned subsidiaries by certificates of amalgamation dated December 31, 1977, October 31, 1978 and July 31, 1979. The December 31, 1977 and October 31, 1978 certificates of amalgamation were issued in the course of the consolidation of substantially all of the Corporation's Canadian operations into a single corporation. The July 31, 1979 certificate of amalgamation confirmed the amalgamation of Domtar Inc. and two wholly-owned subsidiaries. On January 1, 2000, Domtar Inc. amalgamated with its wholly-owned subsidiary, E.B. Eddy Forest Products Ltd. to continue under the name Domtar Inc.

**In this Annual Information Form ( AIF ), the Corporation refers to Domtar Inc. and Domtar , we our and us refers to the Corporation together with one or more of its subsidiaries but excludes interests in joint ventures, namely Norampac Inc. ( Norampac ), a 50%-owned corporation. Domtar's investment in Norampac is accounted for by the proportionate consolidation method and, accordingly, consolidated refers to Domtar consolidated with its 50% share in Norampac and any other joint ventures. In this AIF, the term ton or the symbol ST refers to a short ton, an imperial unit of measurement equal to 0.9072 metric tonnes, and the term tonne of the symbol MT refers to a metric ton.** The Corporation's registered and principal office is at 395 de Maisonneuve Boulevard West, Montreal, Quebec H3A 1L6. Unless otherwise specified, all dollar amounts are denominated in Canadian dollars.

#### **(2) Subsidiaries**

Domtar Industries Inc., Domtar A.W. Corp., Domtar Maine Corp. and Ris Paper Company, Inc. ( Ris Paper ) are the only significant direct or indirect subsidiaries of the Corporation as of the date of this Annual Information Form. They are all wholly-owned with the jurisdiction of incorporation of Domtar Industries Inc., Domtar Maine Corp., and Domtar A.W. Corp. being Delaware and that of Ris Paper being New York State. There are no non-voting shares held in these subsidiaries by the Corporation.

### **Item 3 GENERAL DEVELOPMENT OF THE BUSINESS**

#### **Business Profile**

Our reporting segments correspond to our following business activities: Papers, Paper Merchants and Wood. In addition, our 50% investment in Norampac corresponds to the Packaging segment. For the year ended December 31, 2003, our consolidated sales were \$5.2 billion.

**Papers.** We are the third largest integrated manufacturer and marketer of uncoated freesheet paper in North America. We operate six pulp and paper mills in Canada and five in the United States, with an annual production capacity of approximately 2.7 million tons of paper, complemented by strategically located warehouses and sales offices. Approximately 50% of our paper production capacity is located in the United States, and approximately 90% of our paper sales are made to customers in the United States. Uncoated and coated freesheet papers, our principal products, are used for business, commercial printing and publication, and technical and specialty applications. We sell paper primarily through a large network of owned and independent merchants that distribute our paper products from over 350 locations throughout North America. We also sell our products to a variety of customers including business offices, office equipment manufacturers, retail outlets, commercial printers, publishers and converters. In addition, we sell pulp that we produce in excess of our internal requirements. We also purchase pulp to optimize paper production and freight costs. At December 31, 2003, our net market pulp position (shipments less purchases) was approximately 640,000 tons. Our Papers business is our most important segment and represented 58% of our consolidated sales in 2003, or 64% when including sales of Domtar paper through our own Paper Merchants business.

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**Paper Merchants.** Our Paper Merchants business comprises the purchasing, warehousing and marketing of various products made by us and by other manufacturers. These products include business and printing papers, graphic arts supplies and certain industrial products. Our Canadian paper merchants operate a total of eight branches in eastern Canada (three by Buntin Reid in Ontario, two by JBR/La Maison du Papier in Quebec and three by The Paper House in the Atlantic Provinces) while our US paper merchant (Ris Paper) services a large customer base from 20 locations, including 17 distribution centres, in the Northeast, Midwest and the Mid-Atlantic regions of the United States. Our Paper Merchants business represented 23% of our consolidated sales in 2003, or 17% when excluding sales of Domtar paper.

**Wood.** Our Wood business comprises the manufacturing and marketing of lumber and wood-based value-added products as well as the management of forest resources. We operate 11 sawmills and one remanufacturing facility with an annual capacity of 1.1 billion board feet. We also have investments in four businesses that produce wood products. We seek to optimize 22 million acres of forestlands, for which we are responsible, in Canada and the United States through efficient management and the application of certified sustainable forest management practices such that a continuous supply of wood is available for future needs. Our Wood business represented 7% of our consolidated sales in 2003.

**Packaging Norampac.** Our Packaging business comprises our 50% ownership interest in Norampac, a joint venture between Domtar Inc. and Cascades Inc. The Board of Directors of Norampac is composed of four representatives each from Domtar Inc. and Cascades Inc. The Chairman of the Board is a Domtar Inc. representative while the President and CEO is a Cascades Inc. representative. Norampac's debt is non-recourse to us. As required by Canadian GAAP, we account for our 50% interest in Norampac using the proportionate consolidation method. Norampac's network of 25 corrugated packaging plants, strategically located across Canada and the United States, provides full-service packaging solutions and produces a broad range of products. These facilities are fully integrated on a direct or indirect basis with Norampac's eight containerboard mills (located in Ontario, Quebec, British Columbia, New York State and northern France) for a combined annual capacity of approximately 1.6 million tons. Our Packaging business represented 12% of our consolidated sales in 2003.

## **Strategic Initiatives**

Since 1997, under the leadership of our current senior management team, we have implemented a series of strategic initiatives designed to reposition our company in order to enhance shareholder value and to increase our customers' loyalty to us by meeting their quality and service needs.

(1) *Norampac Joint Venture.* In December 1997, we combined our containerboard and corrugated packaging business with the containerboard and corrugated packaging business of Cascades Inc. by forming Norampac. We received \$300 million in cash from Norampac and retained a 50% equity interest in Norampac.

(2) *Acquisition of E.B. Eddy.* In July 1998, we acquired E.B. Eddy Ltd. and E.B. Eddy Paper, Inc. (E.B. Eddy), an integrated Canadian producer of specialty paper and wood products, by paying \$440 million in cash, issuing common shares with a market value at the acquisition date of \$368 million and assuming debt of \$75 million.

(3) *Acquisition of Ris Paper.* In July 2000, we acquired Ris Paper, one of the largest independent merchants of commercial printing and business papers in the United States, by paying \$7 million in cash, issuing common shares with a market value at the acquisition date of \$24 million and assuming debt of \$102 million.

(4) *Acquisition of Four Paper Mills.* On August 7, 2001, we acquired four integrated pulp and paper mills in the United States for US\$1.65 billion (\$2.53 billion) in cash (the 2001 Acquisition). The 2001 Acquisition doubled the size of our annual paper production capacity to approximately 2.7 million tons and consolidated our position in the uncoated freesheet market by giving us critical mass.

(5) *Rationalization of Production Facilities.* We have made an ongoing commitment to adjust production to meet our customers' needs as well as maintain operational flexibility and a competitive manufacturing base.

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In March 2002, we announced the immediate shutdown of a paper machine at the Nekoosa, Wisconsin, paper mill and the shutdown of the St. Catharines, Ontario paper mill, which took place in September 2002. These shutdowns permanently curtailed 80,000 tons of paper production and resulted from a review of overall paper machine capacity, market demand and respective paper manufacturing costs across all our mills.

On November 29, 2002, we announced the permanent closure of our wood remanufacturing facility in Daveluyville, Quebec, and our hardwood lumber operation in Sault Ste. Marie, Ontario (both of which were subsequently sold in March and April of 2003, respectively). These actions resulted from our decision to concentrate our remanufacturing operations at the Sullivan mill in the Abitibi region of Quebec, to exit the hardwood lumber business and to focus our efforts on improving the efficiency of our softwood lumber mills.

In early 2004, we announced the shut down of one of the two paper machines at our Vancouver mill, resulting in the permanent curtailment of 45,000 tons of paper manufacturing capacity. This initiative was part of a review of our Papers operations to improve operational flexibility and our competitive position through an extensive benchmarking of best practices. The profitability of our Canadian pulp and paper mills has been negatively affected by weak product pricing and the decline in the value of the US dollar, during 2003, compared to the Canadian dollar. This review also resulted in the announcement of the elimination of approximately 415 jobs over the next three years within our Papers operations.

## **Business Strategy**

Our overall strategic objective is to be a world leader in the paper industry, particularly in uncoated freesheet. We have developed our business strategies around three pillars: meeting and anticipating the ever changing needs of *customers*, providing our *shareholders* with attractive returns, and fostering a dynamic and creative environment for our *employees* in which shared human values and personal commitment prevail.

Our business strategies are to continue to:

- meet the needs of our customers in order to enhance customer loyalty;
- improve the productivity of our mills and the quality of our products and services;
- broaden our distribution capabilities;
- grow through acquisitions and alliances within our area of expertise;
- maintain strict financial discipline;
- support the personal growth and participation of employees; and
- maintain our good citizenship.

Through these strategies, we aim to be one of the most attractive investments in the North American basic materials sectors by providing superior returns to our shareholders.

## **Item 4 NARRATIVE DESCRIPTION OF THE BUSINESS**

### **Industry Segment and Geographic Area Information**

Financial information pertaining to Domtar's consolidated industry and geographical segments and export sales is presented in Note 24 of the Consolidated Financial Statements of the Corporation for the year ended December 31, 2003 (the 2003 Consolidated Financial Statements), which are incorporated herein by reference.

### **Description of Our Business**

Domtar's reporting segments correspond to our following business activities: Papers, Paper Merchants and Wood. In addition, our 50% investment in Norampac corresponds to the Packaging segment.



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We produce, market and distribute a wide range of fine paper products to a variety of consumers that includes paper merchants, business offices, office equipment manufacturers, retail outlets, commercial printers, publishers and converters. We have an annual production capacity of approximately 2.7 million tons of paper. In addition, we sell pulp that we produce in excess of our internal requirements.

The following table sets forth Domtar's trade shipments of paper and market pulp for the years indicated:

|                                 | Year ended December 31, |       |                     |       |       |
|---------------------------------|-------------------------|-------|---------------------|-------|-------|
|                                 | 2003                    | 2002  | 2001 <sup>(1)</sup> | 2000  | 1999  |
| Paper (thousands of tons)       | 2,499                   | 2,613 | 1,828               | 1,380 | 1,354 |
| Market pulp (thousands of tons) | 769                     | 789   | 505                 | 373   | 446   |

(1) The shipment statistics for 2001 contain 5 months of shipments for the integrated pulp and paper mills acquired in 2001 - 497,000 tons of paper and 194,000 tons of pulp.

Our principal product categories consist of business papers, commercial printing and publication papers, and technical and specialty papers. The following chart illustrates our principal paper products and our annual paper production capacity by type, grade and application.

| Categories          | Business Papers                                  |                                   | Commercial Printing and Publication Papers  |  |   | Technical and Specialty Papers  |
|---------------------|--|-----------------------------------|---|--|---|---|
| Types               | Uncoated Freesheet                               |                                   | Coated Freesheet  |  | Uncoated and Coated Freesheet                                   |   |
| <b>Grades</b>       | Copy   | Premium imaging/Technology papers | Offset Business converting  | Lightweight Opaques Text, cover and writing                      | Lightweight Premium Regular                                     | Flexible packaging<br>Abrasive papers<br>Decorative papers<br>Imaging papers<br>Label papers<br>Medical disposables |
| <b>Applications</b> | Photocopies<br>Office documents<br>Presentations |                                   | Pamphlets<br>Brochures<br>Direct mail<br>Commercial printing<br>Forms & envelopes | Stationery<br>Brochures<br>Annual reports<br>Books<br>Catalogues | Brochures<br>Annual reports<br>Books<br>Magazines<br>Catalogues | Food & candy wrappings<br>Surgical gowns<br>Repositionable note pads<br>Security check papers<br>Wallpapers         |
| <b>Capacity*</b>    | As at March 31, 2004                             |                                   | approximately 2.7 million tons  |  |   |   |
|                     | 0.9 million tons<br>33%                          | 0.2 million tons<br>7%            | 0.5 million tons<br>19%   | 0.4 million tons<br>15%  | 0.3 million tons<br>11%   | 0.4 million tons<br>15%   |

\* The allocation of production capacity may vary from year to year in order to take advantage of market conditions. The production capacity reflects the decision we made on December 24, 2003 (announced on January 8, 2004) to close one paper machine at our Vancouver, British Columbia mill resulting in the permanent curtailment of 45,000 tons of paper manufacturing capacity.

Our business papers consist principally of uncoated freesheet papers, such as copy and premium imaging papers used in photocopy machines, laser and inkjet printers. These products are principally for home and office use and represent about 40% of our production.

Our commercial printing grade papers include uncoated freesheet papers, such as offset papers, opaque offset and a variety of coated printing papers. These grades are used in sheet and roll fed offset presses across the spectrum of commercial printing end uses. Our publication papers include tradebook and lightweight uncoated and coated papers used principally in book publishing applications such as textbooks, dictionaries,

bibles, magazines,

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hard cover novels and financial printing. Design papers, a sub-group of commercial printing and publication papers, have distinct features of colour, brightness and texture and are targeted towards graphic artists in design and advertising agencies, for use primarily in special brochures and annual reports. Commercial printing and publication papers represent 45% of our production.

We also produce paper for several technical and specialty markets. These technical and specialty papers consist primarily of base stock used by the flexible packaging industry in the production of food and medical packaging and other specialty papers for various other industrial applications, including base stock for sandpaper and wallpaper, base stock for medical gowns, drapes and packaging, and transfer paper for printing processes. We also participate in several converting grades for specialty and security applications. These technical and specialty papers represent about 15% of our production.

*Product Development*

We pursue product development opportunities in order to provide customers with new or enhanced products. We annually target specific improvements for profitability and volume of new product sales. New product ideas are proactively sought and rewarded throughout the organization. Ideas are screened in a disciplined process that prioritizes and plans activities to maximize benefits and minimize development costs and time to market. Technical and specialty papers are often created in partnership with product manufacturers and sold to them directly. Our various manufacturing capabilities provide us with flexibility to develop specialized products at a competitive cost advantage over the life cycle of the products. During 2003, we shipped 82,000 tons of products that have been developed since 2000, accounting for about 3% of our total paper shipments. We also support fundamental research at several universities and through research institutions such as the Pulp and Paper Research Institute of Canada.

*Customers and Distribution*

The following chart illustrates our channels of distribution for our paper products:

| Category           | Business Papers                  |                                  |                      | Commercial Printing and Publication Papers |                       | Technical and Specialty Papers |
|--------------------|----------------------------------|----------------------------------|----------------------|--|-----------------------|--------------------------------|
|                    |                                  |                                  |                      |  |                       |                                |
| Domtar sells to:   | Merchants                        | Original Equipment Manufacturers | Retailers            | Merchants                                  | Converters            | Converters                     |
| Customer sells to: | Retailers / Printers / End-users | End-users / Retailers            | End-users / Printers | Printers /Converters/ End-users            | Retailers / Merchants | End- users                     |

Generally, we sell business papers through paper merchants, office equipment manufacturers and retail outlets. We distribute coated and uncoated commercial printing and publication papers to end-users and commercial printers, mainly through paper merchants, as well as selling directly to converters. We sell our technical and specialty products mainly to converters, who apply a further production process such as coating, laminating or waxing to our papers before selling them to a variety of specialized end-users.

Our customer service personnel work closely with sales, marketing and production staff to provide service and support to merchants, converters and end-users. We promote our products directly to end-users and others who influence paper purchasing decisions in order to enhance brand recognition and increase product demand. In addition, our sales representatives work closely with mill-based new product development personnel and undertake joint marketing initiatives with customers in order to better understand our customers' businesses and needs and to support their future requirements.

We distributed about 66% of our paper products in 2003 through a large network of paper sales merchants, two of which we own (See Paper Merchants), operating from over 350 locations throughout North America. Paper merchants, who sell our products to their own customers, represent our largest group of customers. During 2003, we made approximately 90% of our paper sales to customers in the United States, with the remainder in Canada.

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In connection with the 2001 Acquisition, we signed a distribution agreement with Georgia-Pacific Corporation ( GP ) to sell up to 748,000 tons of paper, principally printing and imaging, per year to GP and its then wholly-owned subsidiary Unisource Worldwide, Inc. ( Unisource ). A part of this quantity is not subject to firm commitments by GP or Unisource. This contract matures in 2006. In November 2002, part of the distribution agreement was assigned to Unisource in conjunction with the sale of a majority interest in Unisource by GP. GP has agreed to guarantee the performance of Unisource for the portion of the contract which was assigned.

We sell market pulp to customers in North America through a centrally located sales force. We also sell market pulp to overseas customers through commission agents. We maintain pulp supplies at strategically located warehouses, which allows us to respond to orders on short notice. In 2003, approximately 11% of our sales of market pulp were made in Canada, 58% were made in the United States and the remaining 31% in Mexico and overseas. We also purchase pulp to optimize paper production and freight costs. At December 31, 2003, our net market pulp position (shipments less purchases) was approximately 640,000 tons.

In order to better respond to customer needs and improve the flexibility of our production network, we are implementing an integrated resource management system. Progressively introduced since July 2003, this system aims to establish a common platform and database for customer service, integrate production planning processes in the mills and implement common financial processes and standards.

*Facilities*

The quality and breadth of our manufacturing assets allow us to be a low cost producer of high volume papers and an efficient producer of lower volume, value-added specialty papers.

The following table lists the paper production facilities owned and operated by us. The table also indicates the number of paper machines at each facility, the principal products manufactured at each facility, and the approximate annual production capacity of each facility:

| <b>Paper Production Facility Locations</b> | <b>Paper Machines</b> | <b>Principal Paper Type</b>                   | <b>Annual Capacity<sup>(1)</sup></b> |
|--|-----------------------|---|--------------------------------------|
|  |                       |   | <b>(000,000 tons)</b>                |
| Ashdown, AR                                | 4                     | Copy, offset and technical                    | 0.9                                  |
| Windsor, Quebec                            | 2                     | Copy and offset                               | 0.6                                  |
| Nekoosa, WI                                | 3                     | Technical and specialty and uncoated printing | 0.1                                  |
| Port Edwards, WI                           | 4                     | Technical and specialty and uncoated printing | 0.2                                  |
| Cornwall, Ontario                          | 3                     | Uncoated and coated printing                  | 0.3                                  |
| Ottawa-Gatineau, Ontario/ Quebec           | 3                     | Coated lightweight                            | 0.2                                  |
| Vancouver, B.C.                            | 1                     | Coated printing                               | 0.1                                  |
| Woodland, ME                               | 1                     | Copy, offset and technical                    | 0.1                                  |
| Port Huron, MI                             | 4                     | Technical and specialty                       | 0.1                                  |
| Espanola, Ontario                          | 2                     | Technical and specialty                       | 0.1                                  |
| <b>Total</b>                               | <b>27</b>             |   | <b>2.7</b>                           |

(1) Capacity as at March 31, 2004.

Our net market pulp position principally results from production at our mills in Ashdown, Arkansas, Espanola , Ontario, Lebel-sur-Quevillon, Quebec and Woodland, Maine.

*Power Facilities*

We own power generating facilities at eight locations: Ashdown, Espanola, Lebel-sur-Quevillon, Nekoosa, Port Edwards, Ottawa-Gatineau, Windsor and Woodland. Approximately 55% of our electric power requirements are met by our own facilities. We purchase the balance of our power requirements from local utilities.



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Domtar-owned paper merchants operate in the United States and Canada. Ris Paper, which was acquired in July 2000, operates throughout the Northeast, Mid-Atlantic and Mid-West areas from 20 locations, including 17 distribution centres, in the United States. The Canadian business operates as Buntin Reid in three locations in Ontario, Canada; JBR/La Maison du Papier in two locations in Quebec, Canada; and The Paper House in three locations in Atlantic Canada.

Our merchant distribution business comprises the purchasing, warehousing, sale and distribution of various products made by us and by other manufacturers. These products include business and printing papers, graphic arts supplies and certain industrial products. These products are sold to a wide and diverse customer base, which includes small, medium and large commercial printers, publishers, business forms manufacturers, quick copy firms and institutional entities.

Sales are executed through our sales force based at branches strategically located in served markets. We distribute about 55% of our paper sales from our own warehouse distribution system and about 45% of our paper sales through mill-direct deliveries (i.e., deliveries directly from manufacturers, including Domtar, to our customers). The branch warehousing capability is configured as a regional hub and spoke operation whereby larger hub branches carry higher and more diverse levels of inventory to support larger local market needs along with inter-branch shipments to smaller spoke branches.

Our businesses utilize up-to-date management information systems to manage all transactional and business information and data. In addition, several EDI and Internet related tools are in place to ensure accurate and efficient processing of information and data among customers, suppliers and employees.

**Wood**

Our Wood business comprises the manufacture and marketing of lumber and wood-based value-added products from our operating facilities in Ontario and Quebec as well as the management of forest resources in Ontario, Quebec, Maine and New York.

*Wood Products.* We produce mainly softwood dimensional lumber used primarily in the construction industry. Products include studs and random length lumber in dimensions of 2 inches X 3 inches through 2 inches X 10 inches in lengths of 8 feet to 16 feet. We operate six sawmills and one re-manufacturing facility in Quebec (Matagami, Lebel-sur-Quevillon, Val-d'Or, Malartic, Grand-Remous, Ste-Marie and Sullivan) and five sawmills in Ontario (White River, Chapleau, Timmins, Elk Lake and Nairn Centre). As at March 31, 2004 these facilities had a total lumber capacity of 1.1 billion board feet. In 2003, approximately 94% of the lumber shipped by us was kiln dried.

The following table sets forth Domtar's shipments of lumber for the years indicated:

|                                 | <b>Year ended December 31,</b> |             |             |             |             |
|---------------------------------|--------------------------------|-------------|-------------|-------------|-------------|
|                                 | <b>2003</b>                    | <b>2002</b> | <b>2001</b> | <b>2000</b> | <b>1999</b> |
| Lumber (millions of board feet) | 999                            | 1,037       | 982         | 1,149       | 1,087       |

We sell substantially all of our softwood lumber in Canada and the United States through our own sales office in Montreal to a wide range of retailers, distributors, manufacturers and wholesalers, who sell to end-users. These wood products are consumed in the home construction, renovation and industrial markets. Our marketing efforts for lumber products are focussed on providing our customers with efficient value added supply chain integration, ensuring a high level of customer satisfaction and achieving a balanced and diversified customer base for our products. In addition, we are focused on increasing the proportion of our sales made under long-term

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agreements, where applicable. For 2003, approximately 36% of our sales of wood products were made to customers in Canada and 64% were made to customers in the United States.

In addition to producing dimensional lumber and studs, we manufacture lumber that is graded according to recognized standards, such as Premium, Select, J-Grade and Machine Stress Rated lumber. Domtar also has a 50% interest in a facility in Sault Ste. Marie, Ontario that began manufacturing I-joists in 2002. During the first quarter of 2004, we formed a 50-50 joint venture with Gogama Forest Products Ltd., that created a fully integrated sawmill, kiln and planer operation, in northern Ontario, producing approximately 60 million board feet per year of lumber previously planed at our Sault Ste. Marie facility.

*Forest Resources.* We use hardwood and softwood fibre for the production of our papers and softwood for the production of lumber. Our forestry strategy is to optimize wood flows within our fibre supply area and to maximize value and minimize cost while securing adequate wood supply for our operations. We focus both on the delivery of fresh, high-quality recently harvested wood (which is more resistant to staining and insect attack and has a higher moisture content, making it easier for sawmills to maximize the lumber manufactured from each log) and on the sorting of species (which helps maximize fibre use and ensures better quality downstream products).

We seek to maximize the utilization of timberlands for which we are responsible through efficient forest management and by following sustainable forest-management practices so that the timberlands provide a continuous supply of wood for future needs. Site preparation, planting and harvesting techniques are continually improved through a variety of methods, including tree improvement, silviculture research and computerization. All our forestlands in Canada have received ISO 14001 certification. Such certification requires introducing rigorous documentation, standardized forest management practices and provisions for continuous improvement. We also have received Forest Stewardship Counsel (the FSC) certification for our forest management practices on lands in New York State (in 2000) and central Ontario (in 2001). The FSC is an independent non-profit organization that sets internationally accepted standards for environmental sustainability. As a result of this forest certification, we began the manufacture and sale, during 2003, of paper grades certified by the FSC. Forest products may carry the FSC logo only when a required minimum of fibre content is traceable to an FSC-certified forest of origin and is documented by a full chain-of-custody review. In November 2003, Domtar undertook to attain FSC certification for all of its 7.5 million hectares of directly licensed and owned forest lands by 2006, subject to the successful completion of two boreal forest pilot projects.

Our hardwood and softwood fibre resources are obtained from harvesting rights on public lands with annual allotments of 5.3 million cubic meters, excluding the rights related to Norampac, purchases from third parties and from owned land. We own approximately 400,000 hectares (approximately 1.0 million acres) of forested freehold lands in Quebec, Ontario, Maine and New York with an annual allowable harvest of 0.7 million cubic meters. Fibre supplied from our forestry operations, from third parties operating on our limits and from trades of fibre with third parties represents approximately 60% of our virgin fibre requirements, with the balance purchased under various contractual arrangements. Our annual allowable harvest in Quebec, derived on a sustained yield basis from public land granted by the Ministry of Natural Resources (Quebec), can supply the logs needed for two-shift operations of our northern Quebec sawmills. The chips produced by these sawmills provide approximately 70% of the fibre requirements of the pulp mill at Lebel-sur-Quevillon, Quebec. In Ontario, we obtain approximately 80% of the wood fibre required for our northern sawmill operations and our Espanola pulp mill pursuant to Sustainable Forest Licences, or SFLs, that have been granted by the Ontario Ministry of Natural Resources. Most of the by-product volume (sawdust and shaving) is sold to manufacturers of engineered wood and paperboard. Access to harvesting of fibre on public lands in Quebec and Ontario is subject to review by the respective governmental authorities. There is no assurance that access to fibre will continue at the same levels achieved in the past.

Our fine paper mills at Windsor, Quebec, and Cornwall, Ontario, which consume hardwood fibre, are located in areas where the fibre supply is adequate to sustain all current fibre requirements. The Windsor mill consumes hardwood fibre originating from a variety of sources, including our private lands in Canada, contracts with Quebec wood producers marketing boards and purchases on the open market in Canada and the United States. The mill at Cornwall consumes hardwood fibre obtained mainly from open-market purchases both in Canada and the United States, with the balance from our private lands in Canada and the United States and pursuant to certain volume agreements with the provincial government on public lands in southeastern Ontario.

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The primary fibre used by our pulp and paper mills in the United States is hardwood, which is readily available in the market from multiple third-party sources. Our Ashdown mill is supplied with fibre under a procurement contract, which matures later in 2004. If this contract is not renewed, we believe that alternate sources of fibre are readily available. The Wisconsin and Woodland mills rely on a combination of long-term supply contracts, wood lot management arrangements, advance stumpage purchases, and spot market purchases in their procurement strategy.

### **Packaging Norampac**

Packaging consists of our 50% investment interest in Norampac, a joint venture. We account for our 50% interest in Norampac using the proportionate consolidation method. We do not manage the day-to-day operations of Norampac.

Norampac operates eight containerboard mills, five of which are located in Ontario and Quebec, one in British Columbia, one in New York State and one in northern France. The combined capacity of Norampac's containerboard mills is approximately 1.6 million tons. These mills use a mix of recycled and virgin fibre to produce both standard and high performance grades of linerboard and corrugated medium and gypsum board in a wide range of basis weights. Through its corrugated packaging plant operations, Norampac converts approximately 60% of its North American containerboard production, directly or indirectly, into corrugated containers. The remaining containerboard production is sold to other converters in North America, Europe and other export markets.

Norampac's network of 25 corrugated packaging plants, strategically located across Canada and the United States, produces a broad range of products for sale to both regional and national customers in a variety of industries, including the food, beverage and consumer products industries. These plants produce a wide range of products, from corrugated boxes and containers for shipping and packaging, to specialty products such as intricate die-cut irregular size boxes, moisture resistant wax-coated and wax impregnated boxes, corrugated pallets, protective packaging products and litho-laminated point-of-purchase products. Norampac also provides customers with services such as graphic design and computer-aided sample making. Norampac's containerboard mills supply essentially all of the containerboard requirements of the converting plants directly or indirectly.

### **Employee Relations**

As of Dec. 31, 2003 we have approximately 7,000 employees in Canada of which approximately 5,000 are unionized, and approximately 4,000 employees in the United States of which approximately 2,700 are unionized.

The bulk of the collective agreements covering the Papers segment in Canada were last renewed in 1999 for four to six year terms. In November 2003, employees at our Vancouver paper mill went on strike after rejecting our offer for the renewal of their collective agreement. In January 2004, the strike was resolved and a new five-year labor agreement was signed with CEP union members. Certain collective agreements for the facilities located in Cornwall, Ottawa-Gatineau, Espanola and Lebel-sur-Quevillon are due for renewal in 2004. The agreement at the Windsor mill is due for renewal in 2005.

Collective agreements in the United States covering unionized employees at the Ashdown and Woodland mills were renewed for six-year terms at the end of 2001. In the third quarter of 2003, new six-year labor agreements were signed with PACE union members at our Port Huron, Port Edwards, and Nekoosa mills. Four collective agreements covering more than 300 employees at the Wisconsin mills are being negotiated or due for renewal in 2004.

Within the Paper Merchants segment, two agreements covering about 50 employees in Canada were recently renewed for a four-year term. One other location in the United States renewed its collective agreements for three and four years terms. Agreements covering approximately 100 employees at two Paper Merchant locations in the United States and four locations in Canada are being negotiated or are due for renewal in 2004.

Within the Wood segment, agreements were concluded with unions in 2000, 2001 and 2002 at the majority of sawmill locations for terms of seven to ten years. During 2003, unionized employees at the Grand-Remous

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sawmill ratified a new collective agreement for a six-year term and unionized forest employees in Espanola ratified a new four-year agreement.

Other significant labour disputes experienced within the past five years were an eight-month strike at the Nairn Centre sawmill ending in 2001 and a seven-month strike by forestry workers at our Espanola mill during 1999.

Our business strategies include supporting the personal growth and participation of employees. We encourage employees to be involved in workshops aimed at producing better performance, greater operating efficiencies or safer operating procedures.

We continue to be committed to ensuring that safe operating practices are established, implemented and maintained throughout our organization. All of our operations have active health and safety programs in place.

**Environmental Matters**

We are subject to American and Canadian environmental laws and regulations for effluent and air emissions, harvesting, silviculture activities, waste management and groundwater quality, among others. These laws and regulations require us to obtain and comply with authorization requirements of the appropriate governmental authorities who exercise considerable discretion for authorization issuances and their timing. Failure to comply with applicable environmental laws, regulations and permit requirements may result in fines, penalties or enforcement actions by the authorities, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, installation of environmental control equipment or remedial actions, any of which could entail significant expenditures and negatively impact our financial results and financial condition. Changes to environmental laws and regulations and/or their application may require us to make significant expenditures that could negatively impact our financial results and financial condition but we do not anticipate that compliance will have a material adverse effect on our competitive position.

We continue to take remedial action under our Care and Control Program at a number of former operating sites, especially in the wood preserving sector, due to possible soil, sediment and groundwater contamination. The investigation and remediation process is lengthy and subject to the uncertainties of changes in legal requirements, technological developments and the allocation of liability among potentially responsible parties. As at December 31, 2003, we had a provision of \$65 million (2002 \$73 million) for environmental matters. Additional costs, not known or identifiable, could be incurred for remediation efforts. As at December 31, 2003, anticipated payments in each of the next five years, in respect to the environmental provision, are as follows:

| (\$ millions)           | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>Thereafter</u> | <u>Total</u> |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|
| Environmental provision | 20          | 13          | 3           | 3           | 4           | 22                | 65           |

Environmental expenditures are expensed or capitalized depending upon their future economic benefit. In the normal course of business, we incur certain operating costs for environmental matters which are expensed as incurred. Expenditures for property, plant and equipment that prevent future environmental contamination are capitalized. In 2003, Domtar's operating expenditures for environmental matters amounted to \$61 million (2002 \$55 million; 2001 \$43 million). We are not able to estimate the amount of operating expenditures that may be required, beyond 2003, for environmental compliance.

In 2003, Domtar made environmental capital expenditures of \$5 million (2002 \$8 million; 2001 \$16 million) for the improvement of air emissions, effluent treatment and remedial actions to address environmental compliance.

The pulp and paper industry in the United States is subject to the Cluster Rules that further regulate effluent and air emissions. We presently comply with all current regulations and anticipate spending approximately \$44 million over the next three years to meet further Cluster Rule requirements.

As at December 31, 2003, anticipated capital expenditures in each of the next five years, in respect to Cluster Rule requirements, are as follows:

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| (\$ millions)            | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>Thereafter</u> | <u>Total</u> |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|
| Cluster Rule obligations | 13          | 29          | 2           |             |             |                   | 44           |

In 2004, we expect to capitalize approximately \$20 million for environmental projects, including the \$13 million for Cluster Rule obligations. We are not able to estimate the total amount of capital expenditures (other than Cluster Rule obligations) that may be required, beyond 2004, for environmental compliance.

Norampac spent approximately \$4 million on capital expenditures in respect to the environment in 2003 and estimates that approximately \$8 million will be spent in 2004 on environmental expenditures (of which 50% will be recorded in our consolidated financial statements).

**Business Risks***Product Prices*

Our financial performance is sensitive to the selling prices of our products. The markets for most paper, pulp, lumber and packaging products are cyclical and are influenced by a variety of factors beyond our control. These factors include periods of excess product supply due to industry capacity additions, periods of decreased demand due to weak general economic activity in North America or international markets, inventory de-stocking by customers, and fluctuations in currency exchange rates. During periods of low prices, we have experienced in the past, and could experience in the future, reduced revenues and margins, resulting in substantial declines in profitability and sometimes net losses.

*Operational Risks*

The activities conducted by our businesses are subject to a number of operational risks including competition, performance of key suppliers and distributors, renewal of collective agreements, regulatory risks, successful integration of new acquisitions, retention of key personnel and reliability of information systems. In addition, operating costs for our businesses can be affected by changes in energy and other raw material prices as a result of changing economic or political conditions or due to particular supply and demand considerations.

*Foreign Exchange*

Our revenues for many of our products are affected by fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar, as was the case in 2003. Any decrease in the value of the U.S. dollar relative to the Canadian dollar reduces our profitability. The prices for many of our products, including those we sell in Canada, are generally driven by U.S. prices of similar products. Our U.S. dollar sales, net of U.S. dollar purchases for our operating activities, represent approximately US\$1 billion annually. This amount is reduced by interest on our U.S. dollar denominated debt (approximately \$0.1 billion annually). Exchange rate fluctuations are beyond our control and the U.S. dollar may depreciate against the Canadian dollar in the future, which would result in lower revenues and margins.

*Environmental Regulations*

We are subject to American and Canadian environmental laws and regulations for effluent and air emissions, harvesting, silviculture activities, waste management and groundwater quality, among others. These laws and regulations require us to obtain and comply with authorization requirements of the appropriate governmental authorities who exercise considerable discretion for authorization issuances and their timing. Failure to comply with applicable environmental laws, regulations and permit requirements may result in fines, penalties or enforcement actions by the authorities, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, installation of environmental control equipment or remedial actions, any of which could entail significant expenditures and negatively impact our financial results and financial condition. Changes to environmental laws and regulations and/or their application may require us to make significant expenditures that could negatively impact our financial results and financial condition.

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We continue to take remedial action under our Care and Control program at a number of former operating sites, especially in the wood preserving sector, due to possible soil, sediment or groundwater contamination. The investigation and remediation process is lengthy and subject to the uncertainties of changes in legal requirements, technological developments and the allocation of liability among potentially responsible parties.

*Lumber Export Duties*

Our Wood sales represented 7% of our consolidated sales in 2003 and we exported approximately 57% of our softwood lumber products to the United States.

The United States Department of Commerce announced that it had imposed cash deposit requirements on the Canadian softwood lumber industry with a final aggregate countervailing and antidumping rate of 27.22%, that is, 18.79% for countervailing and 8.43% for antidumping. Since May 22, 2002, based upon a final decision of the United States International Trade Commission, we have made the required cash deposits on our exports of softwood lumber to the United States. The Canadian government has challenged both the countervailing and antidumping rates with the World Trade Organization and the North American Free Trade Agreement. We are currently experiencing, and may continue to experience, reduced revenues and margins in our Wood business as a result of antidumping and countervailing duty applications or any new arrangements between the United States and Canada.

Legal Proceedings

In the normal course of our operations, we become involved in various legal actions mostly related to contract disputes, patent infringements, environmental and product warranty claims, and labour issues. While the final outcome with respect to actions outstanding or pending as at March 31, 2004 cannot be predicted with certainty, it is our belief that their resolution will not have a material adverse effect on our financial position, earnings or cash flows.

In April 2003, the Canadian Competition Bureau (the Bureau) began an investigation of Canada's major distributors of carbonless paper and other fine paper products, including our Paper Merchants in Canada. In March 2004, the Bureau expanded its investigation to include dealings between the Corporation and Xerox Canada Limited. Although the investigation is continuing, we cannot predict the outcome of this investigation or the impact, if any, it may have on us.

**Table of Contents****Item 5 SELECTED CONSOLIDATED FINANCIAL INFORMATION**

**Three-Year Consolidated Financial Information**  
(in millions of Canadian dollars except per share amounts)

|   | 2003    | 2002    | 2001    |
|---|---------|---------|---------|
| Sales(1)  | \$5,167 | \$5,859 | \$4,636 |
| Operating profit (loss)(2)                                  | (92)    | 384     | 313     |
| Operating profit, excluding unusual items(2)                | 135     | 447     | 313     |
| Net earnings (loss)   | (190)   | 141     | 140     |
| Net earnings, excluding unusual items(2)                    | 5       | 183     | 101     |
| Total assets (at end of year)                               | 5,855   | 6,847   | 7,055   |
| Long-term debt (excluding current portion) (at end of year) | 2,054   | 2,444   | 2,883   |
| Cash flows from operating activities                        | 348     | 677     | 727     |
| Per Common Share:   |         |         |         |
| Net earnings (loss) Basic                                   | (0.84)  | 0.62    | 0.72    |
| Basic, excluding unusual items(2)                           | 0.02    | 0.80    | 0.52    |
| Diluted   | (0.84)  | 0.61    | 0.72    |
| Cash flows from operating activities(3)                     | 1.53    | 2.98    | 3.80    |
| Cash dividends declared on common shares                    | 0.22    | 0.14    | 0.14    |

- (1) The sales for the three years ended December 31, 2003, 2002, and 2001, reflect a reclassification of the delivery costs and the countervailing and antidumping duties from Sales to Cost of sales. For the year ended December 31, 2003 delivery costs and countervailing and antidumping duties amounted to \$390 (\$369 2002 and \$259 2001).
- (2) Operating profit (loss), operating profit excluding unusual items, net earnings excluding unusual items and net earnings per share excluding unusual items are non-GAAP measures. Operating profit (loss) is a non-GAAP measure that is calculated within the body of Domtar's financial statements. Domtar believes that this non-GAAP measure enables it to compare its results between periods without regard to debt service or income taxes. Operating profit (loss) has no standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures presented by other companies and therefore should not be considered in isolation. Domtar's results include unusual items affecting the comparability of its results between periods. To measure its performance and that of its business segments from period to period without variations caused by special or unusual items, Domtar focuses on Operating profit excluding unusual items, net earnings excluding unusual items and net earnings per share excluding unusual items. Measures excluding unusual items are non-GAAP measures and are calculated within the Items affecting the comparability of the Selected Consolidated Financial Information table. Domtar defines unusual items as items such as charges for: impairment of assets, facility or machine closures, changes in income tax

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legislation, debt restructuring and other significant items of an unusual or non-recurring nature. Domtar believes that it is useful for investors and other users to be aware of these non-GAAP measures as these provide them with a measure of performance to compare its results between periods without regard to unusual items. These measures have no standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures presented by other companies and therefore should not be considered in isolation.

- (3) Cash flows from operating activities per common share is a non-GAAP measure which is determined by dividing Cash flows from operating activities, on the Consolidated Cash Flow, by the weighted number of common shares outstanding (basic). This measure has no standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures presented by other companies and therefore should not be considered in isolation. Domtar believes that this non-GAAP measure is useful for investors and other users to analyze its performance.

**Items affecting the comparability of the Selected Consolidated Financial Information:**

(in millions of Canadian dollars except per share amounts)

| Unusual items                           | 2003                    |                     |                               | 2002             |              |                        | 2001         |                        |
|---|-------------------------|---------------------|-------------------------------|------------------|--------------|------------------------|--------------|------------------------|
|   | Operating profit (loss) | Net earnings (loss) | Net earnings (loss) per share | Operating profit | Net earnings | Net earnings per share | Net earnings | Net earnings per share |
| As per GAAP(1)                          | (92)                    | (190)               | (0.84)                        | 384              | 141          | 0.62                   | 140          | 0.72                   |
| Exclude unusual items:                  |                         |                     |                               |                  |              |                        |              |                        |
| Impairment loss                         | 201                     | 135                 | 0.59                          |                  |              |                        |              |                        |
| Change in income tax legislation        |                         | 31                  | 0.14                          |                  |              |                        | (39)         | (0.20)                 |
| Closure costs                           | 24                      | 16                  | 0.07                          | 63               | 42           | 0.18                   |              |                        |
| Refinancing expenses                    |                         | 12                  | 0.05                          |                  |              |                        |              |                        |
| Write-off of deferred transaction costs | 2                       | 1                   | 0.01                          |                  |              |                        |              |                        |
|   | <u>227</u>              | <u>195</u>          | <u>0.86</u>                   | <u>63</u>        | <u>42</u>    | <u>0.18</u>            | <u>(39)</u>  | <u>(0.20)</u>          |
| Excluding unusual items                 | <u>135</u>              | <u>5</u>            | <u>0.02</u>                   | <u>447</u>       | <u>183</u>   | <u>0.80</u>            | <u>101</u>   | <u>0.52</u>            |

- (1) Excepting for operating profit (loss), which is a non-GAAP measure.

In 2003, we conducted an impairment study of the long-lived assets at our Lebel-sur-Quevillon pulp mill as a result of past operating losses at this facility and our assessment of the impact of a weaker U.S. dollar and market trends on this facility. Following this study, we recorded an impairment loss of \$201 million (\$135 million net of income taxes or \$0.59 per common share) on the net book value of property, plant and equipment of this mill. (See Note 3 in the Notes to the December 31, 2003 Consolidated Financial Statements).

In 2003, we increased our income tax expense by \$31 million (\$0.14 per common share) as a result of an increase in statutory enacted future income tax rates and a corresponding revaluation of future income tax assets and liabilities.



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In 2002, we recorded a \$45 million (\$30 million net of income taxes or \$0.13 per common share) charge reflecting a \$14 million write-down of property, plant and equipment pertaining to the closure of our St. Catharines paper mill, and a \$31 million provision for other commitments and contingencies related to the closure. Furthermore, the 2002 results included a charge of \$18 million (\$12 million net of income taxes or \$0.05 per common share) reflecting a \$13 million write-down of property, plant and equipment pertaining to the closure of our Daveluyville and Sault Ste. Marie wood products facilities, and a \$5 million provision for other commitments and contingencies related to these closures. However, our 2003 results included a \$5 million (\$3 million net of income taxes or \$0.01 per common share) reversal of certain costs pertaining to the closure of our St. Catharines paper mill, largely as a result of changes to the initial approach to dismantling the mill. *(See Note 6 in the Notes to the December 31, 2003 Consolidated Financial Statements).*

In 2003, we decided to permanently shut down one of the two paper machines at our Vancouver mill. The decision to close the paper machine resulted in a charge of \$29 million (\$19 million net of income taxes or \$0.08 per common share), including \$23 million pertaining to the write-down to the estimated net realizable value of property, plant and equipment, a provision of \$5 million for severance and related costs (for 85 employees) that were contractual obligations at the time of the decision and a \$1 million charge related to the write-off of certain inventory items and spare parts to their net recoverable amounts. The closure will also require further costs in 2004 and 2005, which will be recognized as incurred, related to equipment removal estimated at \$2 million net of salvage proceeds and other employee related costs estimated at \$1 million for an additional \$3 million (\$2 million net of income taxes or \$0.01 per common share). The total of the 2003 to 2005 costs is estimated to be \$32 million (\$21 million net of income taxes or \$0.09 per common share). As at December 31, 2003, the balance of the provision was \$5 million. *(See Note 6 in the Notes to the December 31, 2003 Consolidated Financial Statements).*

In 2003, we wrote off \$7 million (\$5 million net of income taxes or \$0.02 per common share) of deferred financing costs. These deferred financing costs were initially capitalized in connection to upfront fees and costs related to our bank term loan. With the partial repayment of this bank term loan following a US\$350 million senior debt offering under a shelf registration statement in November 2003, the related deferred financing fees and costs were written off in proportion to the repayment. In 2003, an additional \$10 million (\$7 million net of income taxes or \$0.03 per common share) charge was recorded following the refinancing of substantially all of Norampac's credit facilities and long-term debt.

In 2003, our results included a \$2 million (\$1 million net of income taxes or \$0.01 per common share) charge relating to the write-off of costs incurred with respect to a potential joint venture transaction with Tembec Inc. that was not completed.

During 2002, Domtar shut down a paper machine at its Nekoosa paper mill, acquired in 2001, as a result of a study, which was part of the original plan upon acquisition. In accordance with Canadian Institute of Chartered Accountants (CICA) recommendations, charges related to the closure of this paper machine have been accounted for as part of the purchase price allocation of the assets acquired and liabilities assumed as of the acquisition date and thus do not affect the results for the year ended December 31, 2002. *(See Note 6 in the Notes to the December 31, 2003 Consolidated Financial Statements).*

On January 1, 2002, Domtar adopted the new CICA recommendations relating to the accounting for stock-based compensation and other stock-based payments. *(See Note 2 in the Notes to the December 31, 2003 Consolidated Financial Statements).*

On January 1, 2002, Domtar adopted the new CICA recommendations relating to the accounting for goodwill and other intangible assets that require intangible assets with an indefinite life and goodwill to no longer be amortized and be tested annually for impairment. *(See Note 2 in the Notes to the December 31, 2003 Consolidated Financial Statements).*

In August 2001, Domtar acquired the assets of 4 integrated paper mills in the United States. *(See Note 5 in the Notes to the December 31, 2003 Consolidated Financial Statements).*

A detailed explanation of factors impacting year over year comparability is contained in Management's Discussion and Analysis set forth on pages 38 to 71 of the Corporation's Annual Report (Financial section) for the financial year ended December 31, 2003.

**Table of Contents****Dividends**

During each of the years indicated, the Corporation declared the following dividends:

|   | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|-------------|-------------|-------------|
| <b>Aggregate dividends</b> (millions of Canadian dollars) |             |             |             |
| Series A Preferred Shares                                 | \$0.20      | \$0.20      | \$0.20      |
| Series B Preferred Shares                                 | 1.4         | 1.3         | 2.2         |
| Common Shares   | 49.1        | 31.8        | 26.9        |
| <b>Dividends per share</b> (Canadian dollars per share)   |             |             |             |
| Series A Preferred Shares                                 | \$2.25      | \$2.25      | \$2.25      |
| Series B Preferred Shares                                 | 0.86        | 0.75        | 1.18        |
| Common Shares   | 0.22        | 0.14        | 0.14        |

Regular quarterly dividends on the outstanding Series A and Series B Preferred Shares were paid throughout the three-year period ended December 31, 2003. Cash dividends on common shares have been paid since January 1996. A quarterly dividend of \$0.06 per share has been declared and paid since April 2003, when it was increased from \$0.035 per share. This increase was the first step towards our goal of paying a dividend of approximately 20% of normalized net earnings over a business cycle, provided we are able to maintain a strong balance sheet.

Agreements related to the Corporation's 10.85% Debentures due 2017 and 10% Debentures due 2011 contain covenants restricting the payment of dividends on its shares (other than stock dividends) and the purchase, redemption, reduction or other payment with respect to shares of its capital stock, none of which restrict the payment of dividends on or the satisfaction of mandatory retirement provisions with respect to the Series A Preferred Shares and the Series B Preferred Shares. No dividends may at any time be paid or declared and set apart for payment on the Common Shares unless all accumulated dividends, where applicable, on the Series A Preferred Shares and the Series B Preferred Shares have been paid or declared and set apart, including the current quarterly instalment of dividends.

**Item 6 MANAGEMENT'S DISCUSSION AND ANALYSIS OF ANNUAL RESULTS OF OPERATIONS**

A discussion of our results of operations and an analysis of our financial position is contained in Management's Discussion and Analysis set forth on pages 38 to 71 of the Corporation's Annual Report (Financial section) for the financial year ended December 31, 2003.

**Item 7 MARKET FOR THE SECURITIES OF THE ISSUER**

The Common Shares, Series A Preferred Shares and Series B Preferred Shares of the Corporation are listed on the Toronto Stock Exchange. The Common Shares are also listed on the New York Stock Exchange.

**Table of Contents****Item 8 DIRECTORS AND OFFICERS**

As of April 29, 2004, the names, municipalities of residence, positions with the Corporation and principal occupations of the directors of the Corporation, and the period during which each director has served as such, are as follows:

| Name                                       | Principal Occupation   | Served as Director of the Corporation since |
|--|--|---|
| Paul-Henri Couture<br>Laval, Quebec        | Vice-President of Capital d Amérique CDPQ Inc. (investment company), a wholly owned subsidiary of Caisse de dépôt et placement du Québec | 1994  |
| Louis P. Gignac<br>Longueuil, Quebec       | President and Chief Executive Officer of Cambior Inc. (mining)   | 1995  |
| Claude R. Lamoureux<br>Toronto, Ontario    | President and Chief Executive Officer of the Ontario Teachers Pension Plan Board (pension fund management)                               | 1992  |
| Jacques Laurent<br>Montreal, Quebec        | Partner, Borden Ladner Gervais, LLP (lawyers)  | 1996  |
| Brian M. Levitt<br>Montreal, Quebec        | Chairman of the Board of Directors of the Corporation; Co-Chair and Partner, Osler, Hoskin & Harcourt (lawyers)                          | 1997  |
| Gilles Ouimet<br>Montreal, Quebec          | Chairman of the Board of Directors of Pratt & Whitney Canada (aircraft engines)  | 2004  |
| Louise Roy<br>Montreal, Quebec             | Associate Fellow of CIRANO (liaison and transfer organization)   | 1997  |
| Raymond Royer<br>Montreal, Quebec          | President and Chief Executive Officer of the Corporation   | 1996  |
| Edward J. Waters<br>Greenwich, Connecticut | Chairman, President and Chief Executive Officer of Cape & Islands Investment Company Ltd. (investment banking)                           | 1982  |

The above-mentioned directors have held their principal occupation or held executive positions with the same firm or affiliated firms for the past five years, except as follows: Mr. Jacques Laurent was, prior to November 2003, Chairman of the Board of Hydro-Québec prior to November 2001, senior partner at Gowling Lafleur Henderson (lawyers) and, prior to November 1998, partner at Guy & Gilbert (lawyers); Mr. Brian M. Levitt was, prior to February 2000, President and Chief Executive Officer of Imasco Limited (consumer goods and services); Ms. Louise Roy was, prior to December 2002, Vice-President Marketing and Commercial Services and Representative in Canada of the International Air Transport Association (IATA) and, prior to July 2000, President and Chief Executive Officer of Télémedia Inc. (communications); and Mr. Edward J. Waters was, prior to December 1999, Financial Consultant.

The term of each director runs from the time of his election to the next succeeding annual meeting of shareholders. The table below indicates the committees of the Board of Directors, with their respective membership as of April 29, 2004:

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**AUDIT COMMITTEE**

**Louis P. Gignac** Chairman  
Claude R. Lamoureux  
Jacques Laurent  
Gilles Ouimet

**HUMAN RESOURCES COMMITTEE**

**Brian M. Levitt** Chairman  
Paul-Henri Couture  
Louise Roy

**NOMINATING AND CORPORATE  
GOVERNANCE COMMITTEE**

**Claude R. Lamoureux** Chairman  
Jacques Laurent  
Edward J. Waters

**ENVIRONMENT AND HEALTH AND  
SAFETY COMMITTEE**

**Jacques Laurent** Chairman  
Gilles Ouimet  
Louise Roy  
Raymond Royer

**PENSION COMMITTEE**

**Claude R. Lamoureux** Chairman  
Brian M. Levitt  
Raymond Royer  
Edward J. Waters

The Articles of the Corporation provide that the Board of Directors shall consist of not less than three and not more than twenty-one directors with the specific number to be determined by the Board of Directors from time to time. The number of directors was last established by resolution of the Board at nine and, accordingly, nine nominee directors were elected at the Annual Shareholders Meeting held on April 29, 2004 (the Meeting). The size of the Board, being nine directors compared to twelve directors in 2003, results from the new rules for board independence adopted by the Toronto and New York Stock Exchanges; as a result, four members of the Corporation's Board last year did not stand for re-election at the Meeting. The Board of Directors proposed one new nominee director for election at the Meeting while the Nominating and Corporate Governance Committee continues to search for and consider potential candidates for recommendation as directors. At the Meeting, the shareholders approved an amendment to the Articles of the Corporation so as to provide the Board of Directors with the flexibility to make subsequent appointments in the future. The Corporation is of the view that the flexibility afforded to the Board of Directors to select and appoint additional Directors between annual meetings will allow the Corporation to act quickly and efficiently when new candidates for membership on the Board of Directors are identified.

The following table sets forth information concerning the non-director executive officers of the Corporation who, together with the President and Chief Executive Officer, Mr. Raymond Royer, form the Management Committee as of May 18, 2004:

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| <b>Name</b>      | <b>Principal Occupation</b>  |
|------------------|--|
| Steven A. Barker | Senior Vice-President - Paper Merchants Group  |
| Claude Belley    | Senior Vice-President - Human Resources and Organizational Development               |
| Roger H. Brear   | Senior Vice-President - U.S. Pulp and Paper Manufacturing Group                      |
| Daniel Buron     | Senior Vice-President, Finance   |
| Roland Gagnon    | Senior Vice-President - Canadian Pulp and Paper Manufacturing Group                  |
| Richard Garneau  | Senior Vice-President - Forest Products Group  |
| George Kobrynsky | Senior Vice-President - Pulp and Paper Sales, Marketing and Customer Relations Group |
| Gilles Pharand   | Senior Vice-President - Corporate Affairs and General Counsel                        |

The above-mentioned officers have held their principal occupations or held executive positions with the same firm or affiliated firms for the past five years, except as follows: Mr. Barker was, prior to January 2004, President of Ris Paper, a subsidiary of the Corporation acquired in July 2000; Mr. Belley, over the 20 years he has been with us, has held various senior operating positions and was, prior to August 2001, Vice-President of our Cornwall mill; Mr. Brear was, prior to August 2001, Senior Vice-President, Manufacturing, Paper with Georgia-Pacific Corporation (pulp and paper and building products); Mr. Buron was, prior to May 2004, Vice-President, Finance and Business Development of our Pulp and Paper Sales, Marketing and Customer Relations Group and, prior to September 2002, Vice-President and Controller of the Corporation; and Mr. Garneau was, prior to October 2002, Vice-President and Chief Financial Officer at Norampac Inc. (packaging products).

As at May 18, 2004, the directors and officers of the Corporation, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 703,608 Common Shares representing less than 1% of the outstanding Common Shares of the Corporation.

**Item 9 ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Corporation's proxy circular for its most recent annual meeting of shareholders that involved the election of directors. Additional financial information is available in the audited consolidated financial statements of the Corporation for the financial year ended December 31, 2003. Copies of these documents may be obtained upon request from the Secretary of Domtar Inc., 395 de Maisonneuve Boulevard West, Montreal, Quebec H3A 1L6 or on the Corporation's Internet site: <http://www.domtar.com> or at <http://www.sedar.com>.

In addition, when the securities of the Corporation are in the course of a distribution pursuant to a short-form prospectus or when a preliminary short-form prospectus has been filed, the following documents may be obtained free of charge from the Secretary of the Corporation:

- i) one copy of the Annual Information Form, together with one copy of any documents or portion thereof incorporated therein by reference;
- ii) one copy of the comparative financial statements of the Corporation for its most recently completed financial year together with the report of the auditors thereon and one copy of any interim financial statements of the Corporation subsequent to the financial statements for its most recently completed financial year;
- iii) one copy of the Corporation's management proxy circular for its most recent annual meeting of shareholders which involved the election of directors; and
- iv) one copy of any other documents that are incorporated by reference in the preliminary short form prospectus or the short form prospectus.

At any other time, one copy of the documents referred to in subparagraphs i, ii and iii above will be provided free of charge upon request to the Secretary.



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**UNDERTAKING**

The Registrant agrees to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: (i) the securities in relation to which the obligation to file an annual report on Form 40-F arises; or (ii) transactions in said securities.

**SIGNATURES**

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

Registrant: Domtar Inc. \_\_\_\_\_

By: /s / Razvan L. Theodoru  
Razvan L. Theodoru  
Corporate Secretary  
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Date: May 18, 2004  
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