

Domtar CORP  
Form DEFA14A  
March 30, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ **Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
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- ☐ Soliciting Material Pursuant to §240.14a-12

**DOMTAR CORPORATION**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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**Financial Highlights****2010 SALES****SALES BY REGION****Selected Financial Figures****(In millions of U.S. dollars, unless otherwise noted)**

	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales	\$ 6,394	\$ 5,465	<b>\$ 5,850</b>
Operating income (loss) per segment			
Papers	(369)	650	<b>667</b>
Paper Merchants	8	7	<b>(3)</b>
Wood <sup>1</sup>	(73)	(42)	<b>(54)</b>
Corporate	(3)		<b>(7)</b>
Operating income (loss)	(437)	615	<b>603</b>
Net earnings (loss)	(573)	310	<b>605</b>
Cash flow provided from operating activities	197	792	<b>1,166</b>
Capital expenditures	163	106	<b>153</b>
Free cash flow <sup>2</sup>	34	686	<b>1,013</b>
Total assets	6,104	6,519	<b>6,026</b>
Long-term debt, including current portion	2,128	1,712	<b>827</b>
Net debt-to-total capitalization ratio <sup>2</sup>	50%	35%	<b>9%</b>
Total shareholders' equity	2,143	2,662	<b>3,202</b>
Weighted average number of common and exchangeable shares outstanding in millions (diluted)	43.0	43.2	<b>43.2</b>

<sup>1</sup> Domtar closed the transaction to sell its Wood business on June 30, 2010.

<sup>2</sup> Non-GAAP financial measure. Consult the Reconciliation of Non-GAAP Financial Measures at the end of this document.

**At a Glance**

Domtar Corporation (NYSE/TSX: UFS) is the largest integrated manufacturer and marketer of uncoated freesheet paper in North America and the second largest in the world. We are also one of the largest manufacturers and marketers of pulp in North America. We have pulp and paper operations across the United States and Canada, including manufacturing, converting and distribution, as well as a paper merchants business. We also have a presence in Asia, with an office in Hong Kong. We are a recognized leader in environmentally sustainable practices. Domtar employs approximately 8500 individuals who are dedicated to improving our business and ensuring our long-term success, day in and day out.

**Message to Our Shareholders**

Throughout the recession and the subsequent sluggish economic recovery in 2010, we succeeded in remaining focused on the basics. We continued to provide our employees with a stimulating and safe work environment and bring tangible value to our shareholders and customers.

We also made significant progress moving forward with our strategic roadmap, while achieving solid financial results and cash flow, and providing more flexibility to our balance sheet. Domtar has attained the operational agility needed to secure its industry leadership, and we have positioned ourselves to capture opportunities ahead.

## **A Chronicle of Success**

Domtar's performance last year was outstanding despite some adverse market conditions, including slow-to-recover employment rates in the U.S. This success stemmed in large part from our focus in 2009 and throughout 2010 on three fundamentals: customers, costs and cash.

By offering the products and services our customers need, we were rewarded with their continued loyalty and new opportunities. We continued to manage our costs by increasing the efficiency of our system and running on lower inventories, while taking minimal downtime in pulp and paper. Sales were up thanks to higher average selling prices and despite secular volume decline. This focus on margins over volume is paying off. Net earnings almost doubled over last year and free cash flow edged over the billion dollar mark. We also completed our systematic debt reduction program, cutting our debt in half over last year, reducing it by nearly \$900 million.

We have made significant progress rationalizing our portfolio of assets. In the first quarter of last year, we announced our exit from the coated groundwood paper business with the closure of the Columbus, MS mill, the first of a series of actions that would streamline our portfolio. The successful sales of our forest products business and Woodland, ME hardwood pulp mill followed.

We were also in a position to begin returning cash to our shareholders. In the second quarter of 2010, we announced a \$0.25 quarterly dividend and \$150-million share buyback program.

Domtar's stronger balance sheet and lower debt load are positive reflections of a well-executed plan. Our consistent financial discipline and improved cash and cost management practices will continue to help drive the next phase of our evolution.



WE CONTINUE TO EVOLVE IN A SPIRIT OF OPEN MINDEDNESS AND OPTIMISM FOR OUR BUSINESS, OUR INVESTORS, OUR COLLEAGUES AND OUR CUSTOMERS. WE ARE PROUD OF OUR PROGRESS OVER THE LAST YEAR AND REMAIN CONFIDENT THAT OUR PROSPECTS ARE STRONG.

### **Positioning Ourselves for the Future**

In our quest to counterbalance the cyclical nature of our business and to replace lost revenues from declining fine paper demand, we aim to increase our revenue streams in growing markets and provide a more stable cash flow by seeking opportunities that will strengthen our business while being accretive to shareholders over time.

We view our growth opportunities as twofold: 1) by leveraging our existing assets and skills, and 2) through acquisitions. Over the last year, we focused on investing in our core pulp and paper system to keep it world-class. We are also committed to ensuring a good balance between supply and our customer demand. Maintaining our scale while improving our agility will enable us to successfully capture future opportunities.

We launched and completed several projects that have increased our presence in growing markets, such as the repurposing of our Plymouth, NC mill to 100% fluff pulp production. In Canada, we moved forward with several projects under the Government's Pulp and Paper Green Transformation Program (PPGTP) to improve the energy efficiency and environmental performance of our operations. Projects announced to date represent almost all of the \$143 million in credits for which we are eligible. We have completed a major boiler upgrade at our Kamloops, BC mill, and improvements at our Espanola, ON facility. Additional projects are also in the pipeline for Dryden, ON, Windsor, QC and Kamloops, BC.

### **A Sustainable Paper Company**

Improved environmental performance is the common thread in our PPGTP projects, and in line with our longstanding commitment to sustainability. In fact, we remain a pioneer and leader in this area. For example, we were one of the first companies in our industry to commit to the certification of all our operations to Forest Stewardship Council™ (FSC®) standards. Since 2009, all of our facilities are FSC® Chain-of-Custody certified. We plan to continue to set the pace for our industry in this important aspect of our business.

Our lasting dedication to sustainability has led to fruitful collaborations with leading environmental organizations such as Rainforest Alliance, World Wildlife Fund (WWF) and The Nature Conservancy, something we are very proud of. But sustainability goes beyond a concern for the environment to encompass our colleagues and the communities where we work and live. To ensure that our sustainable growth policies and vision are reflected in every facet of our

organization, we formed a cross-functional/departmental Sustainability Committee in 2010. We also pursued our target of improving our health and safety performance and posted another record year, having reduced our incident frequency rate by almost one third since 2007.

Sustainability will remain a priority for us and, we believe, will play a key role in our growth over time. The new biomass-fueled steam turbine generator started up at our Marlboro, SC mill is the perfect marriage between an in-house improvement leading to important cost savings and an opportunity to enhance the environmental sustainability of our operations. The announcement in July 2010 of an initiative to build a nanocrystalline cellulose demonstration plant at our Windsor, QC mill, in partnership with FPIInnovations, is another prime instance of how we can enhance existing infrastructure or capitalize on our expertise, and take our business in new and exciting directions.

#### **More to Come...**

Domtar has a history of challenging the industry status quo, and we expect to break more new ground in the years to come. Whether it is tapping into new markets with innovative fiber-based products, forward integrating our long pulp position in other grades, or further expanding our footprint, we are evaluating our options. While remaining financially conservative in our approach, we now have the agility needed to seize opportunities in areas with better demand dynamics, whether here in our North American market or in global markets.

We will seek to uphold our leadership in sustainability by further expanding our EarthChoice® line of papers and working closely with our environmental partners. In 2010, we launched the *PAPER because* campaign, which aims to dispel some of the misconceptions about paper use. As an industry leader, we felt it was important for us to take the initiative and convey the positive messages about paper.

We continue to evolve in a spirit of open mindedness and optimism for our business, our investors, our colleagues and our customers. We are proud of our progress over the last year and remain confident that our prospects are strong. I look forward to continuing to move along our strategic roadmap as we grow, break out, and assure our long term success.

John D. Williams  
President and Chief Executive Officer







## Papers

The Papers segment includes the manufacturing, converting, marketing and distribution of business, commercial printing, publishing, converting and specialty papers, primarily to customers in the United States and Canada. We sell a combination of customer brands and well-recognized Domtar-branded products such as Cougar®, Lynx® Opaque Ultra, First Choice® and Domtar EarthChoice® Office Paper, all part of our FSC® certified family of environmentally and socially responsible papers, as well as Husky® Opaque Offset. Domtar is the largest integrated manufacturer and marketer of uncoated freesheet paper in North America, and the second largest in the world.

The Papers segment also includes the marketing and distribution of softwood and hardwood pulp, including papergrade, fluff, and specialty pulp. This pulp is dried and sold to customers in North America and overseas. Domtar is one of the largest market pulp producers in North America.

CATEGORIES TYPE GRADES	BUSINESS PAPERCOMMERCIAL PRINTING AND PUBLISHING PAPERCONVERTING AND SPECIALTY PAPERS				
	UNCOATED FREESHEET				
	Copy	P r e m i u m i m a g i n g papers	Offset	Opaques	Business converting
			Colors	Premium opaques	Flexible packaging
		Technology papers			
			Index	Lightweight	Abrasive papers
			Tag	Tradebook	Decorative papers
			Bristol		Imaging papers
					Labels
					Medical disposables
APPLICATIONS	Photocopies	Presentations	C o m m e r c i a l printing	Stationery	Forms & envelopes
	O f f i c e documents	Reports	Direct mail	Brochures	Food & candy packaging
	Presentations		Pamphlets	Annual reports	Surgical gowns

## Edgar Filing: Domtar CORP - Form DEFA14A

Books

Repositionable note pads

Brochures

Catalogs

Check & security papers

Cards

Posters

### Market Conditions<sup>1</sup>

#### PAPER

In 2010, 10.3 million tons of uncoated freesheet paper was manufactured in North America, which represents a 0.2% decline over the previous year. Demand represented 10.5 million tons over the same period, a 0.2% increase when compared to 2009. Global demand for uncoated freesheet was approximately 44.5 million tons, a 4.7% increase compared to the previous year.

North American demand has been declining at a rate of approximately 3.9% per year since 2000, while global demand has been increasing at a rate of approximately 0.1% per year since 2000. According to RISI, global demand is forecast to grow at an annual rate of 1.6% over the next five years, buoyed by stronger demand in Southeast Asia and Eastern Europe.

#### PULP

North American production of chemical market pulp was 13.7 million metric tons in 2010, a 1% decline when compared to 2009. Global production of chemical market pulp in 2010 was approximately 50.4 million metric tons, which represents a 6.8% increase when compared to the previous year.

Global demand for chemical market pulp is expected to rise by 2.6% annually over the next five years due in large part to demand in China and also in Latin America and other Asian countries (excluding Japan and Korea). Global demand for bleached softwood pulp and bleached hardwood pulp is expected to rise by 1.7% and 3.7% annually over the next five years, respectively, thanks to emerging markets.

<sup>1</sup> Source: All figures from Pulp and Paper Products Council (PPPC) unless otherwise indicated

## Papers

### Review

Sales increased by 9 % to \$5.070 billion compared to 2009. This increase was mainly driven by higher average selling prices for paper and for pulp, and an 8% increase in pulp shipments over 2009.

EBITDA before items<sup>1</sup> increased by 66% to \$1.082 billion compared to 2009.

Capital expenditures stood at \$142 million, representing a 53% increase over last year, mostly due to the construction of a new fluff pulp machine in Plymouth, NC.

Health and safety performance improved by 10% compared to the prior year.

### Highlights

Started up a new fluff pulp machine in Plymouth, NC, with an annual production capacity of 444,000 metric tons.

Started up a 50MW biomass-fueled steam turbine generator in Marlboro, SC.

Closed Columbus, MS, our only coated groundwood paper mill, and sold Woodland, ME, our only non-integrated hardwood pulp mill.

Under the Government of Canada's Pulp and Paper Green Transformation Program, invested in the energy efficiency and environmental performance of our Canadian operations, including a major boiler upgrade in Kamloops, BC.

Broke ground in Windsor, QC, for a nanocrystalline cellulose demonstration plant in partnership with FPIInnovations.

Successfully launched our **PAPER because** campaign.

Incorporated HP's patented ColorLoK Technology in all our business papers, improving their printing quality.

Expanded our licensing agreement with World Wildlife Fund (WWF) to cover all EarthChoice® products, including all office papers.

Became a founding partner of Green My Parents, a program aimed at helping kids become the chief sustainability officers in their homes.

Teamed up with The Nature Conservancy on Working Woodlands, a pilot program aimed at encouraging private landowners to certify their forestlands to FSC® standards.



**Domtar in Numbers**

**PAPER**

Paper production capacity of **approximately 3.8 million short tons of uncoated freesheet paper**

Paper production capacity: U.S.: **81%** Canada: **19%**

Shipments of paper products:

Business: **46%**

Commercial printing & publishing: **27%**

Converting & specialty: **27%**

Papers segment sales by region:

U.S.: **74%** Canada: **10%** Other: **16%**

**PULP**

Capacity to sell approximately **1.5 million metric tons of market pulp**

Market pulp production capacity: U.S.: **38%** Canada: **62%**

Pulp sales by region: U.S.: **32%** Canada: **6%** Other: **62%**

**Key Figures**

**Year ended December 31**

<b>(In millions of U.S. dollars, unless otherwise noted)</b>	<b>2009</b>	<b>2010</b>
Sales (including sales to Paper Merchants)	4,632	<b>5,070</b>
Operating income	650	<b>667</b>
EBITDA before items <sup>1</sup>	652	<b>1,082</b>
Depreciation and amortization	382	<b>381</b>
Operating income before items <sup>1</sup>	270	<b>701</b>
Capital expenditures	93	<b>142</b>
Total assets	5,538	<b>5,088</b>
Paper shipments ( 000 ST)	3,757	<b>3,597</b>
Pulp shipments ( 000 ADMT)	1,539	<b>1,662</b>

<sup>1</sup> Non-GAAP financial measure. Refer to the Reconciliation of Non-GAAP Financial Measures at the end of this document.

### **Paper Merchants**

The Paper Merchants segment involves the purchasing, warehousing, sale and distribution of our paper products and those of other manufacturers. These products include business, printing and publishing papers, namely uncoated, coated and specialized papers, as well as certain industrial products. 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.

#### ***Review***

Sales decreased by \$3 million to \$870 million compared to 2009, mostly due to a 2% decrease in product deliveries.

EBITDA before items<sup>1</sup> decreased by \$10 million to \$2 million compared to 2009.

Health and safety performance retreated by 24% compared to 2009. The longer term results still represent an overall improvement of 41% since 2007.

#### ***Highlights***

Began the implementation of a new Enterprise Resource Planning (ERP) system to improve the group's business processes.

Improved working capital management by focusing on warehouse inventory reduction, increasing inventory turns and reducing Days Sales Outstanding (DSO) on receivables.

#### ***Rebranding***

In early 2011, Domtar's paper merchants business, formerly Domtar Distribution Group, was rebranded and renamed **Ariva**. This marked the beginning of a new era in the development of the business as a leading provider of best-in-class solutions for the 21<sup>st</sup> century.

The new tagline, **Paper to pixels. The way forward.**, conveys Ariva's commitment to new ideas and solutions to meet the evolving needs of customers in the digital age.

The Ariva name and brand replaced all of the company's legacy brands, including: RIS the paper house in the U.S. and Buntin Reid, JBR La Maison du Papier, and The Paper House in Canada.

In conjunction with the rebranding, Ariva also launched its newly redesigned corporate website, *arivanow.com*, to reflect its new identity.

#### ***Ariva in Numbers***

Network of **24 paper distribution facilities** located in the United States and Canada

Sells about **0.7 million tons of paper annually** from over 60 suppliers from around the world

Domtar products represent **approximately 31% of total products sold**

Sales per region: U.S.: **68%** Canada: **32%**

**Key Figures**

**Year ended December 31**

(In millions of U.S. dollars, unless otherwise noted)	2009	2010
Sales	873	<b>870</b>
Operating income (loss)	7	<b>(3)</b>
EBITDA before items <sup>1</sup>	12	<b>2</b>
Depreciation and amortization	3	<b>4</b>
Operating income (loss) before items <sup>1</sup>	9	<b>(2)</b>
Capital expenditures	1	<b>2</b>
Total assets	101	<b>99</b>

<sup>1</sup> **Non-GAAP financial measure. Refer to the Reconciliation of Non-GAAP Financial Measures at the end of this document.**

### **Corporate Governance and Management**

Domtar's Management Committee and Board of Directors are committed to the sustainability of our business and to upholding the highest standards of ethical and socially responsible behavior. They are responsible for the overall stewardship of the company and their constant focus is to act in the best interests of Domtar and our shareholders. They work closely together in developing and approving business strategies and material corporate actions while always taking into account the economic, social and environmental impact of their decisions. They are also constantly assessing the various risks faced by our company and ensuring our compliance with laws and ethical guidelines.

Domtar's commitment and high standard of conduct governs our relationships with customers, suppliers, shareholders, competitors, with the communities in which we operate, and with employees at every level of the organization. This standard is outlined in our Code of Business Conduct and Ethics applicable to all employees, including officers. The Board also adheres to its own Code as well as to the Corporate Governance Guidelines set by the New York and Toronto Stock Exchanges.

For complete information on Domtar's policies, procedures and governance documents, please visit [domtar.com/en/corporate](http://domtar.com/en/corporate).

### **Management Committee**

**Board of Directors**







## Domtar Corporation

## Reconciliation of Non-GAAP Financial Measures

(In millions of U.S. dollars, unless otherwise noted)

The following table sets forth certain non-U.S. generally accepted accounting principles ( GAAP ), financial metrics identified in bold as Earnings (loss) before items , Earnings (loss) before items per diluted share , EBITDA , EBITDA margin , EBITDA before items , EBITDA margin before items , Free cash flow , Net debt and Net debt-to-total capitalization. Management believes that the financial metrics presented are frequently used by investors and are useful to evaluate our ability to service debt and our overall credit profile. Management believes these metrics are also useful to measure the operating performance and benchmark with peers within the industry. These metrics are presented as a complement to enhance the understanding of operating results but not in substitution for GAAP results.

The company calculates Earnings (loss) before items and EBITDA before items by excluding the after-tax (pre-tax) effect of items considered by management as not reflecting our current operations. Management uses these measures, as well as EBITDA and Free cash flow, to focus on ongoing operations and believes that they are useful to investors because they enable them to perform meaningful comparisons between periods. Domtar believes that using this information along with Net earnings (loss) provides for a more complete analysis of the results of operations. Net earnings (loss) and Cash flow provided from operating activities are the most directly comparable GAAP measures.

		2008	2009	2010
<b>Reconciliation of Earnings (loss) before items to Net earnings (loss)</b>				
Net earnings (loss)	(\$)	(573)	310	<b>605</b>
(-) Alternative fuel tax credits	(\$)		(336)	<b>(18)</b>
(-) Cellulosic biofuel producer credits	(\$)			<b>(127)</b>
(-) Reversal of valuation allowance on Canadian deferred income tax balances	(\$)			<b>(100)</b>
(+) Impairment and write-down of PP&E <sup>1</sup> and intangible assets	(\$)	270	43	<b>34</b>
(+) Closure and restructuring costs	(\$)	28	44	<b>20</b>
(-) Net losses (gains) on disposals of PP&E <sup>1</sup> and sale of businesses	(\$)		(9)	<b>29</b>
(-) Loss (gain) on repurchase of long-term debt	(\$)	(8)	(6)	<b>28</b>
(+) Impairment of goodwill	(\$)	321		
(+) Valuation allowance on Canadian deferred income tax assets	(\$)	52		
(+) Costs related to synergies, integration and optimization	(\$)	19		
(-) Reversal of a provision for unfavorable contract	(\$)	(17)		
(-) Gain related to the sale of trademarks	(\$)	(4)		
<b>(=) Earnings (loss) before items</b>	<b>(\$)</b>	<b>88</b>	<b>46</b>	<b>471</b>
(/) Weighted avg. number of common shares outstanding (diluted)	(millions)	43.0	43.2	<b>43.2</b>
<b>(=) Earnings (loss) before items per diluted share</b>	<b>(\$)</b>	<b>2.05</b>	<b>1.06</b>	<b>10.90</b>
<b>Reconciliation of EBITDA and EBITDA before items to Net earnings (loss)</b>				
Net earnings (loss)	(\$)	(573)	310	<b>605</b>
(+) Income tax expense (benefit)	(\$)	3	180	<b>(157)</b>
(+) Interest expense	(\$)	133	125	<b>155</b>
<b>(=) Operating income (loss)</b>	<b>(\$)</b>	<b>(437)</b>	<b>615</b>	<b>603</b>
(+) Depreciation and amortization	(\$)	463	405	<b>395</b>
(+) Impairment and write-down of PP&E <sup>1</sup>	(\$)	708	62	<b>50</b>
(-) Net losses (gains) on disposals of PP&E <sup>1</sup> and sale of businesses	(\$)		(7)	<b>33</b>
<b>(=) EBITDA</b>	<b>(\$)</b>	<b>734</b>	<b>1,075</b>	<b>1,081</b>
(/) Sales	(\$)	6,394	5,465	<b>5,850</b>
<b>(=) EBITDA margin</b>	<b>(%)</b>	<b>11%</b>	<b>20%</b>	<b>18%</b>
<b>EBITDA</b>	<b>(\$)</b>	<b>734</b>	<b>1,075</b>	<b>1,081</b>
(-) Alternative fuel tax credits	(\$)		(498)	<b>(25)</b>
(+) Closure and restructuring costs	(\$)	43	63	<b>27</b>
(-) Reversal of a provision for unfavorable contract	(\$)	(23)		
(+) Costs related to synergies, integration and optimization	(\$)	32		
(-) Gain related to the sale of trademarks	(\$)	(6)		
<b>(=) EBITDA before items</b>	<b>(\$)</b>	<b>780</b>	<b>640</b>	<b>1,083</b>
(/) Sales	(\$)	6,394	5,465	<b>5,850</b>
<b>(=) EBITDA margin before items</b>	<b>(%)</b>	<b>12%</b>	<b>12%</b>	<b>19%</b>

<sup>1</sup> PP&E: Property, plant and equipment

(Continued)		2008	2009	2010	
<b>Reconciliation of Free cash flow to Cash flow provided from operating activities</b>					
	Cash flow provided from operating activities	(\$)	197	792	<b>1,166</b>
(-)	Additions to property, plant and equipment	(\$)	(163)	(106)	<b>(153)</b>
(=)	<b>Free cash flow</b>	(\$)	34	686	<b>1,013</b>
	Cash received from alternative fuel tax credits	(\$)		140	<b>368</b>
<b>Net debt-to-total capitalization computation</b>					
	Bank indebtedness	(\$)	43	43	<b>23</b>
(+)	Current portion of long-term debt	(\$)	18	11	<b>2</b>
(+)	Long-term debt	(\$)	2,110	1,701	<b>825</b>
(=)	<b>Debt</b>	(\$)	2,171	1,755	<b>850</b>
(-)	Cash and cash equivalents	(\$)	(16)	(324)	<b>(530)</b>
(=)	<b>Net debt</b>	(\$)	2,155	1,431	<b>320</b>
(+)	Shareholders' equity	(\$)	2,143	2,662	<b>3,202</b>
(=)	Total capitalization	(\$)	4,298	4,093	<b>3,522</b>
	Net debt	(\$)	2,155	1,431	<b>320</b>
(/)	Total capitalization	(\$)	4,298	4,093	<b>3,522</b>
(=)	<b>Net debt-to-total capitalization</b>	(%)	50%	35%	<b>9%</b>

Earnings (loss) before items , Earnings (loss) before items per diluted share , EBITDA , EBITDA margin , EBITDA before items , EBITDA margin before items , Free cash flow , Net debt and Net debt-to-total capitalization 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 or as a substitute for Net earnings (loss), Operating income (loss) or any other earnings statement, cash flow statement or balance sheet financial information prepared in accordance with GAAP. It is important for readers to understand that certain items may be presented in different lines by different companies on their financial statements thereby leading to different measures for different companies.

#### Reconciliation of Non-GAAP Financial Measures By Segment

(In millions of U.S. dollars, unless otherwise noted)

The following table sets forth certain non-U.S. generally accepted accounting principles ( GAAP ), financial metrics identified in bold as Operating income (loss) before items , EBITDA before items and EBITDA margin before items by reportable segment. Management believes that the financial metrics presented are frequently used by investors and are useful to measure the operating performance and benchmark with peers within the industry. These metrics are presented as a complement to enhance the understanding of operating results but not in substitution for GAAP results.

The company calculates the segmented Operating income (loss) before items by excluding the pre-tax effect of items considered by management as not reflecting our ongoing operations. Management uses these measures to focus on ongoing operations and believes that they are useful to investors because they enable them to perform meaningful comparisons between periods. Domtar believes that using this information along with Operating income (loss) provides for a more complete analysis of the results of operations. Operating income (loss) by segment is the most directly comparable GAAP measure.

		Papers		Paper Merchants		Wood		Corporate		
		2009	2010	2009	2010	2009	2010	2009	2010	
<b>Reconciliation of Operating income (loss) to Operating income (loss) before items</b>										
	Operating income (loss)	(\$)	650	<b>667</b>	7	<b>(3)</b>	(42)	<b>(54)</b>	<b>(7)</b>	
(-)	Alternative fuel tax credits	(\$)	(498)	<b>(25)</b>						
(+)	Impairment and write-down of PP&E <sup>1</sup>	(\$)	62	<b>50</b>						
(+)	Closure and restructuring costs	(\$)	52	<b>26</b>	2	<b>1</b>	9			
(-)	Net losses (gains) on disposals of PP&E <sup>1</sup> and sale of businesses	(\$)	4	<b>(17)</b>			(8)	<b>48</b>	(3)	<b>2</b>
(=)	<b>Operating income (loss) before items</b>	(\$)	270	<b>701</b>	9	<b>(2)</b>	(41)	<b>(6)</b>	(3)	<b>(5)</b>
<b>Reconciliation of Operating income (loss) before items to EBITDA before items</b>										
	Operating income (loss) before items	(\$)	270	<b>701</b>	9	<b>(2)</b>	(41)	<b>(6)</b>	(3)	<b>(5)</b>
(+)	Depreciation and amortization	(\$)	382	<b>381</b>	3	<b>4</b>	20	<b>10</b>		

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(=) EBITDA before items	(\$)	652	1,082	12	2	(21)	4	(3)	(5)
(/) Sales	(\$)	4,632	5,070	873	870	211	150		
(=) EBITDA margin before items	(%)	14%	21%	1%			3%		

Operating income (loss) before items , EBITDA before items and EBITDA margin before items 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 or as a substitute for Operating income (loss), or any other earnings statement, cash flow statement or balance sheet financial information prepared in accordance with GAAP. It is important for readers to understand that certain items may be presented in different lines by different companies on their financial statements thereby leading to different measures for different companies.

## **Shareholder Information**

### **Shareholder Services**

For shareholder related services, including estate settlement, lost stock certificates, change of name or address, stock transfers and duplicate mailings, please contact the transfer agent at:

### **Computershare Investor Services**

P.O. Box 43078

Providence, RI 02940-3078

Toll Free: (877) 282-1168

Outside of U.S.: (781) 575-2723

[www.computershare.com](http://www.computershare.com)

Canadian shareholders should contact the transfer agent at:

### **Computershare Investor Services Inc.**

100 University Avenue, 9<sup>th</sup> Floor

Toronto, ON M5J 2Y1 Canada

Tel.: 1-866-245-4053

Fax: 1-888-453-0330

[service@computershare.com](mailto:service@computershare.com)

SEDAR files should be sent to: [e3filing@computershare.com](mailto:e3filing@computershare.com)

### **Stock Exchange Information**

Domtar Corporation common stock is traded on the New York Stock Exchange and on the Toronto Stock Exchange under the symbol UFS .  
Domtar (Canada) Paper Inc. exchangeable shares are traded on the Toronto Stock Exchange under the symbol UFX .

### **Requests for Information**

For additional copies of the Annual Report or other financial information, please contact:

### **Corporate Communications and Investor Relations Department**

Domtar Corporation

395 de Maisonneuve Blvd. West

Montreal, QC H3A 1L6 Canada

Tel.: (514) 848-5555

Voice Recognition: Investor Relations

Email: [ir@domtar.com](mailto:ir@domtar.com)

**Website**

[www.domtar.com](http://www.domtar.com)

**Electronic versions of this Annual Report, SEC filings and other company publications are available through the corporate website.**

**2011 Tentative Earnings Calendar**

First Quarter:

Thursday, April 28, 2011

Second Quarter:

Thursday, July 28, 2011

Third Quarter:

Thursday, October 27, 2011

Fourth Quarter:

Thursday, February 2, 2012

**Annual Meeting**

Domtar Annual Meeting of Stockholders

May 4, 2011, Montreal, Quebec

**Production Notes**

***Paper***

Cover printed on 80 lb. Cougar® Cover, Smooth Finish, FSC® certified.

Insert printed on 60 lb. Cougar® Text, Smooth Finish, FSC® certified.

Form 10-K printed on 35 lb. Domtar Donnelley Financial Opaque, FSC® certified.

***Printing***

Cover and insert printed with UV inks on a Heidelberg Speedmaster 6-color CD 102 press with in line coater and full inter-deck and end of press extended delivery UV drying systems.

Form 10-K printed with traditional book black newsprint inks on a 2-color Harris V15 A coldset web.

