

# Domtar Corporation

(NYSE/TSE Ticker: UFS)

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## **Overview**

Domtar Corporation (“Domtar” or the “Company”) is the largest integrated manufacturer and marketer of uncoated freesheet paper in North America and the second largest in the world. The Company is also a manufacturer of paper grade, fluff and specialty pulp. Domtar designs, manufactures, markets and distributes a wide range of paper products for a variety of customers, including merchants, retail outlets, stationers, printers, publishers, converters and end-users. The Company owns Domtar Distribution Group, an extensive network of paper distribution facilities. Domtar also produces lumber and other specialty industrial wood products. Domtar reported sales of \$6.4 billion in 2008.

Domtar’s main Papers business segment has experienced significant weakening in demand, resulting in permanent curtailment of 780,000 tons of papermaking capacity in 2008 and the first quarter of 2009, and permanent layoffs of 2,200 employees. Since 2006, the Company has taken nearly \$1.7 billion in one-time special charges as it rationalizes capacity in line with shrinking demand.

## **Recent Developments**

- Domtar has just completed an offering \$400 million principal amount offering of 10.75% Senior Notes due 2017. The proceeds from the offering will be used to redeem a like amount of 7.875% Notes due 2011.
- Despite the current weak market environment, Domtar has managed to maintain a significant liquidity position of nearly \$650 million of cash and available borrowings after giving effect to the refinancing.
- Domtar received a \$46 million alternative fuel tax credit for its use of black liquor in the first quarter of 2009. The Company estimates it will generate credits of another \$360 million for the balance of 2009.
- The Company continues to close and idle mills in order to maintain production in line with declining demand. On April 25, Domtar began a 10-week idling of the Dryden, Ontario pulp mill; on April 10, the Company idled the Ear Falls, Ontario saw mill that supplies wood chips to the Dryden mill. In the first quarter of 2009 Domtar shut down a 293,000 ton per year paper machine at the Plymouth, North Carolina pulp and paper mill. In addition to these actions, the Company has taken significant downtime at its mills in recent quarters.

## **Combination of Domtar and Weyerhaeuser Fine Paper Business**

On March 7, 2007, the Company completed the combination of Domtar Inc. with the Weyerhaeuser Fine Paper Business. Weyerhaeuser received \$1.35 billion in cash and 55% of the Company’s shares which in turn were distributed to Weyerhaeuser shareholders. Domtar Inc. shareholders received the remaining 45% of the Company’s shares.

### **Business Segments**

Domtar operates in three business segments: Papers, which reported revenues of \$5.4 billion in 2008 or 81% of total revenues, Paper Merchants (\$1.0 billion, 15% of revenues), and Wood (4% of revenues).

### ***Papers Segment***

The Papers Segment produces products for three primary markets: Business Papers, Commercial Printing and Publications, and Converting and Specialty Papers.

<u>Market Segment</u>	<u>Percent of Segment Sales</u>	<u>Products</u>
Business Papers	44%	Copy and electronic imaging papers as well as computer papers, preprinted forms and digital papers, primarily for office and home used.
Commercial Printing & Publication	31%	Uncoated freesheet papers such as offset papers and opaques and coated groundwood. The papers are used in sheet and roll fed offset presses across the spectrum of commercial printing end-uses including textbooks, dictionaries, catalogs, magazines, hard cover novels, financial documents, brochures, annual reports, and advertising inserts
Converting & Specialty	25%	Papers used in the production of finished products such as flexible packaging, abrasive papers, decorative papers, labels, medical disposables, forms and envelopes, check papers, and food and candy wrappings, among others.

As the table below shows, Domtar is the largest producer of uncoated freesheet paper in North America.

### **Top North American Uncoated Freesheet Producers, 2008**

<b>Rank</b>	<b>Company</b>	<b>Annual Capacity (000 tons)</b>	<b>Market Share</b>
1	Domtar	4,133	32.1%
2	International Paper	3,263	25.4%
3	Boise	1,123	8.7%
4	Georgia-Pacific	968	7.5%
5	Glatfelter	692	5.4%
	Other	2,689	20.9%
		12,868	100.0%
		<b>Top 5 Market Share</b>	<b>79.1%</b>

Source: RISI North American Graphic Paper Capacity Report 2008, except for Domtar whose capacity reflects shutdowns through February 2009.

Papers Segment Facilities

The chart below lists the Company's pulp and paper mills.

	Total Pulp Capacity		Trade Pulp ADMT (000s)	Saleable Paper Capacity	
	# Lines	ADMT (000s)		# Machines	ST (000s)
<b>Pulp</b>					
Kamloops, British Columbia	2	477	477	-	-
Woodland, Maine	1	398	398	-	-
Dryden, Ontario	1	319	319	-	-
<b>Total Pulp</b>	<b>4</b>	<b>1,194</b>	<b>1,194</b>	-	-
<b>Uncoated Freesheet</b>					
Ashdown, Arkansas	3	810	86	4	933
Windsor, Quebec	1	454	33	2	670
Hawesville, Kentucky	1	455	47	2	634
Kingsport, Tennessee	1	272		1	425
Marlboro, South Carolina	1	356		1	391
Johnsonburg, Pennsylvania	1	231		2	374
Plymouth, North Carolina	1	199	153	1	199
Nekoosa, Wisconsin	1	162		3	167
Rothschild, Wisconsin	1	60		1	147
Port Huron, Michigan	-	-		4	116
Espanola, Ontario	2	351	114	2	77
<b>Total Uncoated Freesheet</b>	<b>13</b>	<b>3,350</b>	<b>433</b>	<b>23</b>	<b>4,133</b>
<b>Coated Groundwood</b>					
Columbus, Mississippi	1	70	-	1	238
<b>Total Coated Groundwood</b>	<b>1</b>	<b>70</b>	<b>-</b>	<b>1</b>	<b>238</b>
<b>Total</b>	<b>18</b>	<b>4,614</b>	<b>1,627</b>	<b>24</b>	<b>4,371</b>
Pulp Purchases			288		
<b>Net Pulp Sales</b>			<b>1,339</b>		

ADMT = Air Dried Metric Tons

ST = Short Tons

Domtar has 11 pulp and paper mills in operation with an annual paper production capacity of approximately 4.1 million tons of uncoated freesheet paper, and one mill with annual capacity of 238,000 tons of coated groundwood paper. Approximately 83% of Domtar's paper production capacity is in the U.S. with the remaining 17% in Canada. The papermaking

operations are supported by 16 converting and distribution operations, including 12 plants located off-site of the papermaking operations. Domtar also has five forms manufacturing operations, three of which are located at off-site converting and distribution operations and two of which are stand-alone forms manufacturing operations.

Domtar sells pulp in excess of its internal requirements and purchases pulp from third parties in order to optimize logistics of its pulp capacity and reduce transportation costs.

On April 25, 2009, Domtar began a 10-week idling of the Dryden, ON pulp mill in response to continued weak demand for pulp; two weeks earlier, the Company idled its Ear Falls, Ontario saw mill that supplies wood chips to the Dryden mill. These measures affected approximately 500 employees at the two mills and related forestland operations.

In the first quarter of 2009 Domtar shut down a 293,000 ton per year paper machine at the Plymouth, North Carolina pulp and paper mill. The shutdown affected approximately 185 employees.

In December 2008, the Company announced the permanent closure of the Lebel-sur-Quevillon pulp mill which had been idle since November 2005.

In November 2008, Domtar closed the paper machine and converting operations at the Dryden, Ontario mill, resulting in the curtailment of 151,000 tons of paper capacity and the permanent layoff of 195 employees.

In the first and second quarters of 2008, Domtar reorganized the Dryden, Ontario facility and closed the Port Edwards, Wisconsin mill, resulting in the curtailment of 336,000 tons of production capacity and the elimination of 625 jobs.

In mid-2007, the Company announced the closure of one paper machine at the Woodland, Maine mill and one at the Port Edwards, Wisconsin mill, as well as the closure of the Gatineau, Quebec paper mill and related converting operation in Ottawa. In total, these closures resulted in the curtailment of 284,000 tons of annual paper capacity and the elimination of 430 jobs.

Domtar's United States' mills obtain wood fiber from a variety of sources, depending on their location, including long-term supply contracts, wood lot management arrangements, advance stumpage purchases and spot market purchases. Fiber used at Canadian mills originates from a variety of sources including open market purchases in the U.S. and Canada, contracts with Quebec wood producers' marketing boards, public land where the Company has wood fiber harvesting rights as well as from the Company's private lands.

#### Paper Segment Sales & Marketing

Domtar sells its business papers primarily to paper merchants, office equipment manufacturers, stationers and retail outlets. Uncoated commercial printing and publication papers are distributed to end-users and commercial printers, mainly through paper merchants, as well as

sold directly to converters. Converting and specialty products are sold mainly to converters, who apply a further production process such as coating, laminating, folding or waxing before selling them to a variety of specialized end-users. Domtar distributed approximately 42% of its paper products in 2008 through a large network of paper merchants operating throughout North America. Domtar's ten largest paper customers represented approximately 49% of 2008 Papers Segment sales or 42% of total sales in 2008. Approximately 81% of 2008 paper sales were domestic, 8% were in Canada, and 11% were in other countries.

The Company sells market pulp to customers in North America mainly through a North American sales force while sales to most overseas customers are made directly or through commission agents. In 2008, approximately 35% of sales of market pulp were domestic, 5% were in Canada and 60% were overseas.

### ***Paper Merchants Segment***

The distribution business sells annually approximately 0.8 million tons of paper, forms and industrial/packaging products from over 60 suppliers located around the world. Domtar products account for 35% of the total volume. Products include business, printing and publishing papers and certain industrial products. These products are sold to a wide and diverse customer base, which includes small, medium and large commercial printers, publishers, quick copy firms, catalog and retail companies and institutional entities.

Approximately 50% of segment sales are distributed from Paper Merchants' own warehouse distribution system and about 50% are distributed through mill-direct deliveries (i.e., deliveries directly from manufacturers, both Domtar and third parties). In 2008, approximately 68% of segment sales were made in the United States and 32% were made in Canada.

### ***Wood Segment***

The Wood segment comprises the manufacturing, marketing and distribution of lumber and wood-based value-added products, and the management of forest resources. Domtar produces primarily dimensional lumber used in the construction industry. In 2008, approximately 59% of Domtar's lumber sales were made in the United States and 41% were made in Canada. All the facilities are located in Canada.

Domtar directly licenses or owns 31 million acres of forestland in the United States and Canada.

Fiber costs, net of revenues from wood chip sales, represent approximately 42% of total manufacturing costs in the Wood segment. In Quebec, annual allowable softwood harvesting amounts to approximately 1.0 million cubic meters and is granted by the Ministry of Natural Resources (Quebec). The Company obtains most of the wood fiber required for its northern Quebec sawmilling operations either directly or indirectly from these harvesting rights.

In Ontario, annual allowable softwood harvesting on public lands amounts to approximately 2.8 million cubic meters pursuant to Sustainable Forest Licenses that have been granted by the Ontario Ministry of Natural Resources. Domtar obtains most of the wood fiber required for its

northern Ontario sawmilling operations either directly or indirectly from these harvesting rights. The remaining required fiber is either harvested from the Company's private lands, or purchased under various contractual arrangements and on the open market.

Domtar operates seven sawmills with a production capacity of approximately 855 million board feet of lumber and one remanufacturing facility. In addition, the Company owns two sawmills that are currently not in operation but have an aggregate production capacity of approximately 360 million board feet of lumber.

	<u>Annual Capacity</u> (MBF)		<u>Annual Capacity</u> (MBF)
<b>Operating Sawmills</b>		<b>Remanufacturing Facility</b>	
Ear Falls, Ontario	190	Sullivan, Quebec	75
Val d'Or, Quebec	160		
Timmins, Ontario	140	<b>Non-Operating Sawmills</b>	
Nairn Centre, Ontario	130	Big River, Saskatchewan	250
Matagami, Quebec	100	White River, Ontario	<u>110</u>
Ste-Marie, Quebec	70	<b>Total</b>	<b>360</b>
Gogama, Ontario	<u>65</u>		
<b>Total</b>	<b>855</b>		

In addition to these facilities, Domtar has investments in three additional wood products facilities, as shown below.

<b>Investments</b>	<u>Ownership</u>
Elk Lake, Ontario	66%
Wapawekka, Saskatchewan*	51%
Anthony Domtar, Ontario	50%

\* Not in operation

### **Domtar Strategy**

Domtar's goal is to be recognized as the supplier of choice of branded and private label paper products for consumer channels, stationers, merchants, printers and converters in North America. The Company has implemented the following business strategies in order to achieve its goals and generate shareholder value:

*Build Customer Loyalty and Balance Supply with Demand* – Domtar is building on successful relationships with key customers and believes that it is a supplier of choice for customers seeking competitively-priced paper products and services. To achieve a balance of supply and demand, the Company has idled and/or closed a number of its operations in the past three years.

*Increase Depth of Product Offering, Including the Company's Offering of Environmentally and Ethically Responsible Line of Papers* – Domtar believes that it is delivering improved service to customers through increased depth of product offerings and greater access to volume. The Company's development of EarthChoice, its line of environmentally and socially responsible paper, provides a platform upon which to expand customer offerings. The EarthChoice line is endorsed and supported by leading environmental groups and utilizes a combination of Forest Stewardship Council (FSC) virgin fiber and recycled fiber.

*Focus on Free Cash Flow Generation and Maintain Financial Discipline* – Domtar seeks to operate its assets efficiently and reduce manufacturing costs. The Company also aims to generate free cash flow by managing capital expenditures effectively and minimizing working capital requirements through reduction of discretionary spending, review of procurement costs and balanced production and inventory control.

*Conduct Operations in a Sustainable Way* – Domtar seeks to assure its customers, end-users and the communities in which it operates that it manages resources in a sustainable way. The Company certifies its forest, manufacturing and distribution operations and intends to subscribe to internationally recognized environmental management systems under ISO 14001.

### **Employees**

The table below provides details on Domtar's employee base.

	Year-End:	
	2007	2008
Total Employees	13,000	11,000
U.S.	56%	61%
Canada	44%	39%
Represented Employees as Percent of Total	69%	65%
U.S. Employees Represented by USW	NA	4,000

Source: Domtar Corporation Form 10-K for the year ended December 31, 2008. Employee numbers and percentages are approximations.

### **Share Ownership and Stock Price Performance**

As of March 31, 2009, Domtar had 495 million shares of common stock outstanding. In addition, Domtar (Canada) Paper Inc., an indirectly owned subsidiary, had 20 million shares of exchangeable common stock outstanding, each of which is intended to be substantially equivalent to one share of Domtar common stock. The closing price for the Company's common stock on June 8, 2009 was \$1.49 and a market value of \$768 million.

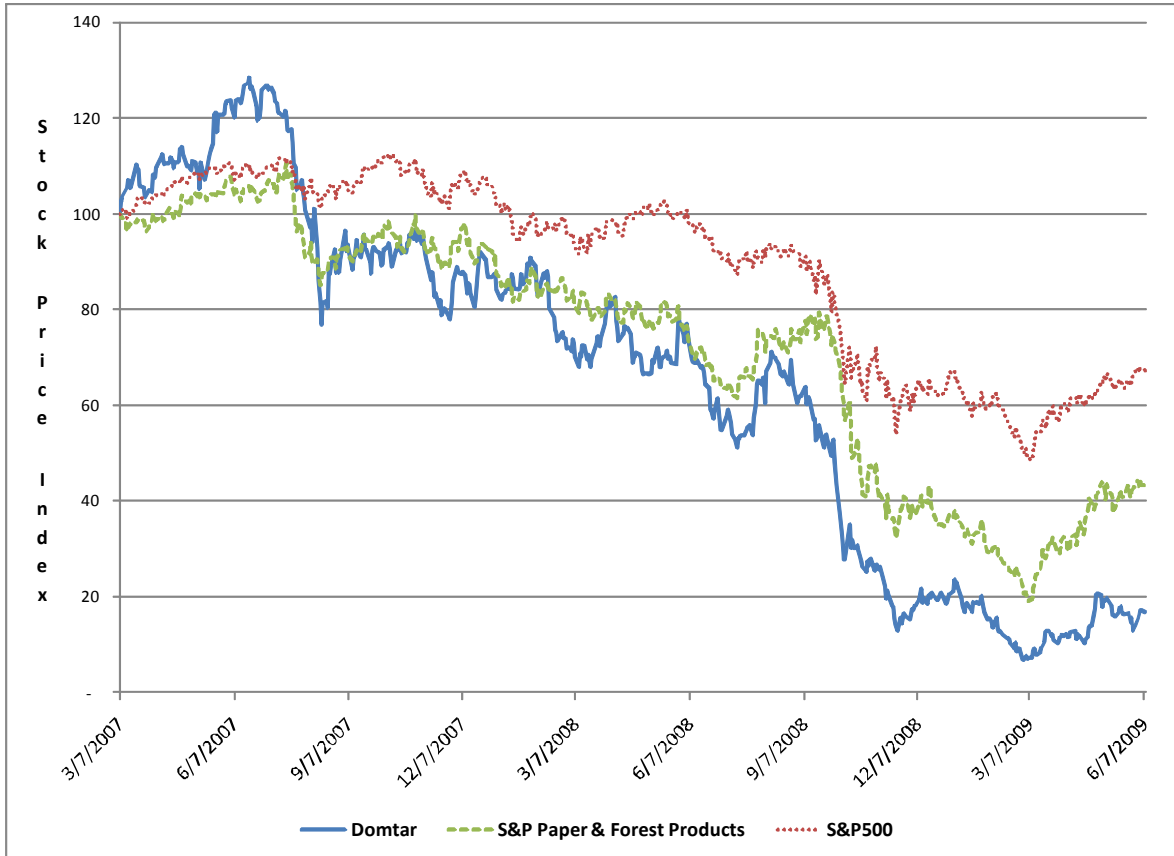
On May 29, 2009, the Company's board of directors authorized a 1-for-12 reverse stock split effective June 10, 2009. Pro forma for the reverse split, there are approximately 43 million shares of the Company's common stock outstanding.

The following table illustrates the Company's shareholder profile, treating both the common shares and the exchangeable shares as a single class of stock.

<b>Holders of 5% or More of Domtar Stock</b>	
Franklin Mutual Advisors	11.6%
Donald, Smith & Co.	7.7%
Caisse de Depot et Placement du Quebec	6.9%
The Baupost Group	6.5%
Dodge & Cox	6.4%
Tradewinds Global Investors	<u>6.4%</u>
Total 5% Holders	45.5%
<b>Officers and Directors as a Group</b>	0.6% (a)
<b>Other Holders</b>	<u>53.9%</u>
<b>Total</b>	100.0%

(a) Shares issuable upon exercise of options and deferred share units comprise approximately 1/2 of the shares held by management and directors.

The following table indicates the trading performance of Domtar's common stock relative to the S&P 500 index and the S&P Paper and Forest Products index since the Company's stock began trading in March 2007.



## Selected Financial Data

The following charts present selected historical financial data for Domtar. As Domtar Inc. merged with Weyerhaeuser's Fine Paper Business on March 7, 2007, data for fiscal year 2006 and December 31, 2006 represents the results and financial position of the Weyerhaeuser Fine Paper Business. Similarly, fiscal year 2007 results include the Weyerhaeuser's Fine Paper Business for the entire period but only include the Domtar Inc. businesses from March 7, 2007 onward.

## Summary Segment Data

<i>Dollars in millions, except as noted</i>	Fiscal Year			3 Months Ended 3/31		Latest 12 Months
	2006	2007	2008	2008	2009	
<b>Paper Segment</b>						
Third-Party Sales	\$ 3,143	\$ 4,881	\$ 5,164	\$ 1,346	\$ 1,046	\$ 4,864
Intersegment Sales	-	235	276	83	60	253
Total Sales	3,143	5,116	5,440	1,429	1,106	5,117
Operating Income	\$ (608)	\$ 2,321	\$ (369)	\$ 114	\$ (6)	\$ (489)
Shipments						
Paper - Thousands of Short Tons	3,024	4,501	4,406	1,205	913	4,114
Pulp - Thousands of Air Dried Metric Tons	798	1,329	1,372	347	314	1,339
Benchmark Prices (a)						
Copy 20 lb Sheets (\$/ton)	\$ 902	\$ 968	\$ 1,065	NA	NA	NA
Offset 50 lb Rolls (\$/ton)	823	818	914	NA	NA	NA
Coated Publication, No. 5, 40 lb Offset, Rolls (\$/ton)	863	787	966	NA	NA	NA
Pulp NBSK - U.S. Market (\$/ADMT)	722	824	858	NA	NA	NA
Pulp NBHK - Japan Market (\$/ADMT)	592	655	732	NA	NA	NA
<b>Paper Merchants Segment</b>						
Sales	\$ -	\$ 812	\$ 990	\$ 262	\$ 217	\$ 945
Operating Income	\$ -	\$ 13	\$ 8	\$ 3	\$ 2	\$ 7
<b>Wood Segment</b>						
Third-Party Sales	\$ 163	\$ 254	\$ 240	\$ 57	\$ 39	\$ 222
Intersegment Sales	71	50	28	6	4	26
Total Sales	234	304	268	63	43	248
Operating Income	\$ 52	\$ (63)	\$ (73)	\$ (22)	\$ (18)	\$ (69)
Shipments - Millions of FBM	223	684	677	160	125	642
Benchmark Prices (a)						
Lumber G.L. 2x4x8 Stud (\$/MFBM)	\$ 343	\$ 321	\$ 280	\$ 277	\$ 228	NA
Lumber G.L. 2x4 R/L No. 1 & No. 2 (\$/MFBM)	368	329	304	291	240	NA

(a) Benchmark prices do not necessarily reflect Domtar's transaction prices.

### Summary Income Statement Data

Dollars in millions	Fiscal Year			3 Months Ended 3/31		Latest
	2006	2007	2008	2008	2009	12 Months
Sales	\$ 3,306	\$ 5,947	\$ 6,394	\$ 1,665	\$ 1,302	\$ 6,031
Operating Expenses						
Cost of Sales, excluding Depreciation & Amortization	2,676	4,757	5,225	1,342	1,123	5,006
Depreciation & Amortization	311	471	463	116	99	446
Selling, General & Administrative	174	408	407	108	83	382
Impairment and Write-Down of Property, Plant & Equipment	-	92	383	-	35	418
Impairment of Goodwill & Intangible Assets	749	4	325	-	-	325
Closure & Restructuring Costs	15	14	43	1	24	66
Other Operating Income (a)	(63)	(69)	(15)	4	(40)	(59)
<b>Operating Income</b>	<b>(556)</b>	<b>270</b>	<b>(437)</b>	<b>94</b>	<b>(22)</b>	<b>(553)</b>
Interest Expense	-	171	133	39	31	125
<b>Earnings Before Income Taxes</b>	<b>(556)</b>	<b>99</b>	<b>(570)</b>	<b>55</b>	<b>(53)</b>	<b>(678)</b>
Taxes	53	29	3	19	(8)	(24)
<b>Net Income</b>	<b>\$ (609)</b>	<b>\$ 70</b>	<b>\$ (573)</b>	<b>\$ 36</b>	<b>\$ (45)</b>	<b>\$ (654)</b>
Operating Income	\$ (556)	\$ 270	\$ (437)	\$ 94	\$ (22)	\$ (553)
Add Back: Impairment and Writedowns	749	96	708	-	35	743
Add Back: Closure & Restructuring Costs	15	14	43	1	24	66
Deduct: Other Operating Income (a)	(63)	(69)	(15)	4	(40)	(59)
<b>Adjusted Operating Income</b>	<b>145</b>	<b>311</b>	<b>299</b>	<b>99</b>	<b>(3)</b>	<b>197</b>
Add Back: Depreciation & Amortization	311	471	463	116	99	446
<b>EBITDA</b>	<b>\$ 456</b>	<b>\$ 782</b>	<b>\$ 762</b>	<b>\$ 215</b>	<b>\$ 96</b>	<b>\$ 643</b>

(a) Q1 2009 includes alternative fuel tax credit.

Sales increased in both 2007 and 2008 primarily due to the acquisition of Domtar Inc. in 2007 and the incorporation of its results for the full year in 2008. In 2008, the Company's primary business segment, Paper, achieved higher pricing for its products, offset by lower shipments of both pulp and paper. The same was true in 2007 although pulp shipments from the former Weyerhaeuser part of the business were higher than in 2006 although Domtar Inc. pulp shipments were lower.

On the cost side, throughout 2007 and 2008 Domtar saw increased pricing for raw materials including fiber, energy and chemicals which negatively impacted results.

Adjusted Operating Income, which excludes impairments, writedowns, closure and restructuring costs, and other operating income (which consists primarily of non-recurring items such as litigation settlements and debt repurchase costs) more than doubled from \$145 million in 2006 to \$311 million in 2007, due primarily to the acquisition of Domtar Inc. In 2008, Adjusted Operating Income declined slightly to \$299 million as a result of weaker shipments and higher costs partially offset by higher realized pricing.

Paper segment sales in the first quarter of 2009 declined 22% vs. the first quarter of 2008 driven by a 24% decline in paper shipments and a 10% decline in pulp shipments. These

declines were partially offset by higher realized paper prices reflecting price increases implemented in February and July 20 of 2008.

Profitability was further impacted in the first quarter of 2009 by higher prices for raw materials vs. first quarter 2008. Adjusted Operating Income for the quarter was a loss of \$3 million vs. a \$99 million profit in the first quarter of 2008. During the quarter, the Company recognized a \$46 million alternative fuel tax credit in Other Operating Income for use of black liquor generated in the pulping process as a fuel source. Domtar estimates that it will generate approximately \$120 million of such alternative fuel tax credits per quarter for the remainder of 2009.

### Summary Cash Flow Data

<i>Dollars in millions</i>	Fiscal Year			3 Months Ended 3/31		Latest	Cumulative
	2006	2007	2008	2008	2009	12 Months	
Net Income	\$ (609)	\$ 70	\$ (573)	\$ 36	\$ (45)	\$ (654)	\$ (1,157)
Depreciation & Amortization	311	471	463	116	99	446	1,344
Impairment & Writedown of Property, Plant & Equipment	-	92	383	-	35	418	510
Impairment of Goodwill & Intangible Assets	749	4	325	-	-	325	1,078
Pension & OPEB	-	(69)	(141)	(5)	13	(123)	(197)
Other Non-Cash Items	(33)	(38)	(34)	19	(8)	(61)	(113)
Changes in Working Capital	(57)	86	(201)	(115)	(36)	(122)	(208)
Changes in Other Assets & Liabilities	(4)	(10)	(25)	(24)	(1)	(2)	(40)
Cash from Operating Activities	357	606	197	27	57	227	1,217
Capital Expenditures	(64)	(116)	(163)	(29)	(24)	(158)	(367)
Business Acquisition - Cash Acquired	-	573	-	-	-	-	573
Other	1	28	23	21	-	2	52
Cash from Investing Activities	(63)	485	(140)	(8)	(24)	(156)	258
Net Issuances/Repayments of Debt	(7)	518	(109)	(33)	96	20	498
Distribution to Weyerhaeuser	(287)	(1,431)	-	-	-	-	(1,718)
Other	-	(112)	-	-	-	-	(112)
Cash from Financing Activities	(294)	(1,025)	(109)	(33)	96	20	(1,332)
Translation Adjustments	-	4	(3)	-	-	(3)	1
Net Change in Cash	\$ -	\$ 70	\$ (55)	\$ (14)	\$ 129	\$ 88	\$ 144

On a cumulative basis since 2006, the Company has generated \$1.2 billion of cash from operations. Combined with \$573 million of cash at Domtar at the time of the acquisition, this cash has gone primarily to pay Weyerhaeuser for the contribution of the Fine Papers Business, with \$367 million being used for capital expenditures.

**Summary Balance Sheet Data**

<i>Dollars in millions</i>	December 31,			March 31,
	2006	2007	2008	2009
Cash	\$ 1	\$ 71	\$ 16	\$ 145
Accounts Receivable	340	504	477	506
Inventory	520	936	963	922
Other Current Assets	28	265	199	187
Total Current Assets	889	1,776	1,655	1,760
Property, Plant & Equipment	3,065	5,362	4,301	4,154
Goodwill & Intangibles	14	483	81	76
Other Assets	30	105	67	72
Total Assets	\$ 3,998	\$ 7,726	\$ 6,104	\$ 6,062
Short-Term Debt	\$ 12	\$ 80	\$ 61	\$ 70
Trade & Other Payables	250	765	646	576
Other Current Liabilities	6	28	36	46
Total Current Liabilities	268	873	743	692
Long-Term Debt	32	2,213	2,110	2,195
Other Liabilities	783	1,443	1,108	1,102
Total Liabilities	1,083	4,529	3,961	3,989
Shareholders' Equity	2,915	3,197	2,143	2,073
Total Liabilities & Shareholders' Equity	\$ 3,998	\$ 7,726	\$ 6,104	\$ 6,062

### Debt, Liquidity & Recent Recapitalization

The following table displays the Company's debt and liquidity since the combination of Domtar Inc. and the Weyerhaeuser Fine Papers Business. Net debt decreased by \$355 million or nearly 14% between April and December of 2007, but has remained fairly stable since then.

<i>Dollars in millions</i>	Dec-31,	Mar 31,	December 31,		March 31, 2009	
	2006	2007 (a)	2007	2008	Actual	As Adjusted (b)
Cash	\$ 1	\$ 110	\$ 71	\$ 16	\$ 145	\$ 92
Short-Term Debt (c)	12	110	80	61	70	70
Long-Term Debt	<u>32</u>	<u>2,577</u>	<u>2,213</u>	<u>2,110</u>	<u>2,195</u>	<u>2,164</u> (d)
Total Debt	\$ 44	\$ 2,687	\$ 2,293	\$ 2,171	\$ 2,265	\$ 2,234
Net Debt	\$ 43	\$ 2,577	\$ 2,222	\$ 2,155	\$ 2,120	\$ 2,142
<hr/>						
Cash	\$ 1	\$ 110	\$ 71	\$ 16	\$ 145	\$ 92
Borrowing Availability (e)	<u>NA</u>	<u>621</u>	<u>654</u>	<u>634</u>	<u>549</u>	<u>549</u>
Liquidity (f)	NA	\$ 731	\$ 725	\$ 650	\$ 694	\$ 641

(a) March 31, 2007 is the quarter end immediately following the closing of the combination of Domtar Inc. and the Weyerhaeuser Fine Papers Business.

(b) As adjusted for issuance of \$400mm of 10.75% senior notes due 2017 for net proceeds of \$376.6mm, redemption of \$400mm of 7.875% notes due 2011 for \$409.4mm including tender fees and accrued interest and \$20mm intended reduction in borrowings under the Company's securitization program. Does not take into account \$179mm increase in cash from March 31 to May 31 as it is not known to what extent the Company's borrowings under the revolving credit facility have changed during the period.

(c) Includes current maturities of long-term debt.

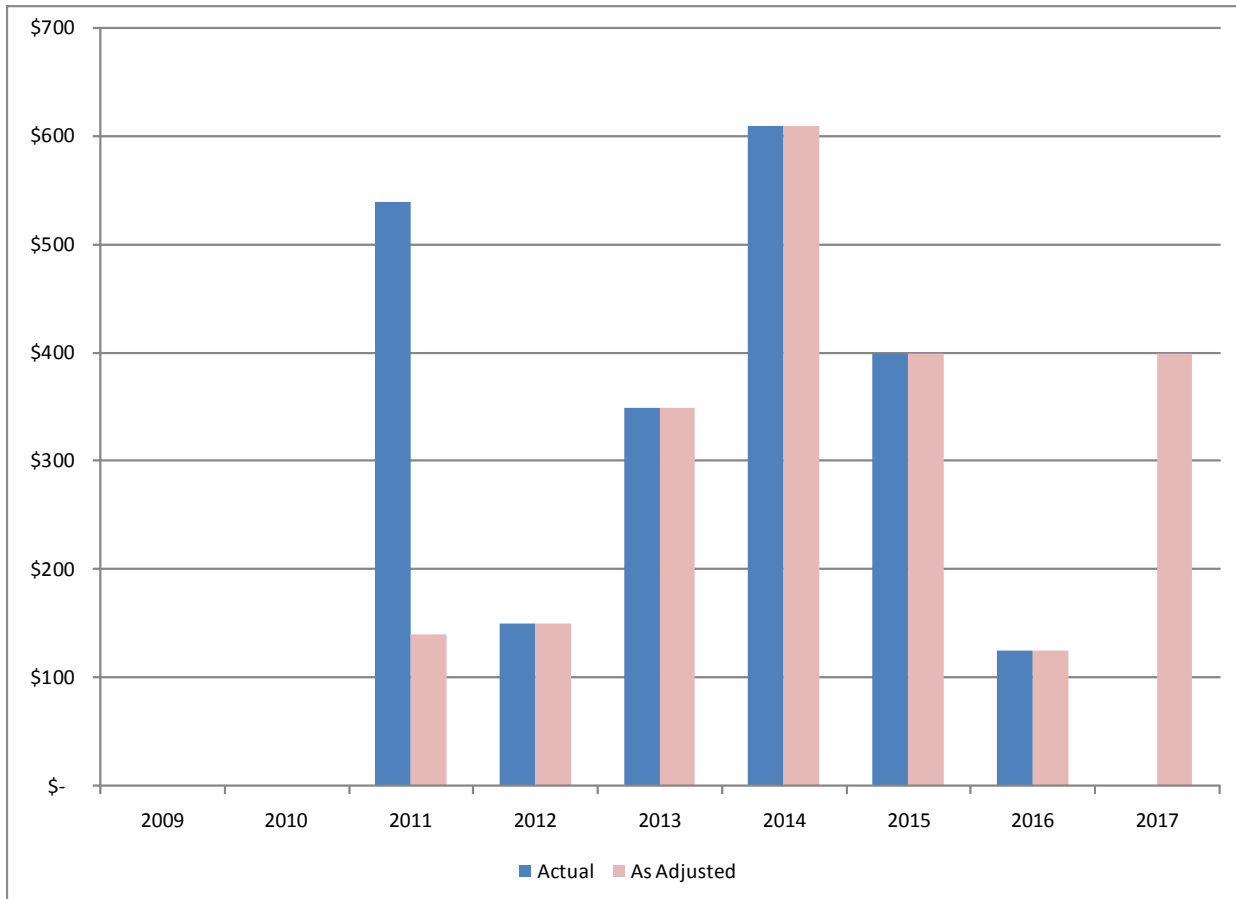
(d) \$400mm principal amount of redeemed notes carried on balance sheet at \$416mm. \$400mm principal amount of new notes will be recorded net of original issue discount at a value of \$385mm.

(e) Assumes entire undrawn amount of revolving credit facility is available for borrowing.

(f) Does not take into account additional funds that may be available under the Company's securitization program.

On June 9, 2009, the Company completed the offering of \$400 million of new 10.75% Senior Notes due 2017 for net proceeds of \$377 million. The offering proceeds will be used to redeem \$400 million principal amount of 7.875% Senior Notes due 2011 via a tender offer (\$140 million principal amount of these notes will remain outstanding). In addition, the Company plans to reduce amounts outstanding under its receivables securitization program by \$20 million. In effect, the Company will be paying \$11.5 million in additional annual interest to push out its 2011 maturity to 2017.

The following chart illustrates the Company’s debt maturity schedule on both an actual and as adjusted basis.



Note: Chart does not include \$26 million of capital lease obligations with maturities between 2009 and 2028, \$4 million of “Other” debt with unknown maturity, and \$52 million of outstanding checks classified as “Short-term bank indebtedness” on the Company’s balance sheet.

### Comparable Company Analysis

The following tables provide a summary comparison of Domtar's recent financial results, valuation and creditworthiness to those of International Paper, Boise Inc. and P.H. Glatfelter, its chief publicly traded competitors in the uncoated freesheet business.

As seen in the analysis below, the Company's profitability, particularly as measured on an EBITDA basis is right in line with its competitors. Similarly, on a balance sheet and valuation basis, Domtar's ratios compare well with the other companies in this group.

<b>Revenues &amp; Profitability</b>				
<b>Financial Data for Last Twelve Months to March 31, 2009</b>				
(in millions of dollars)				
	<b>Domtar</b>	<b>International Paper</b>	<b>Boise Inc.</b>	<b>P.H. Glatfelter</b>
Public / Private	Public	Public	Public	Public
Paper/Packaging Revenues	5,112	17,985	2,703	1,259
Paper/Packaging as % of Total Revs	85%	72%	100%	100%
Total Revenues	6,031	24,829	2,703	1,259
Gross Profit	579	3,393	235	177
Earnings Before Interest, Taxes, Depreciation, & Amort. (EBITDA)	647	2,670	253	139
Earnings Before Interest & Taxes (EBIT)	201	1,266	123	79
Profit Before Taxes (PBT)	76	691	22	61
Profit After Taxes (PAT)	91	816	28	44
Dividends	-	424	-	16
Margins:				
Gross Profit	9.6%	13.7%	8.7%	14.0%
EBITDA	10.7%	10.8%	9.4%	11.0%
PAT	1.5%	3.3%	1.0%	3.5%
2008 EBITDA	762	2,672	199	140
2008 EBITDA Margin	11.9%	10.8%	8.2%	11.0%
Non-recurring items have been excluded from EBITDA, EBIT, PBT & PAT. PBT is also before minority interests.				

**Capital & Employment**  
**Financial Data for Last Twelve Months to March 31, 2009**

(in millions of dollars)

	Domtar	International Paper	Boise Inc.	P.H. Glatfelter
Public / Private	Public	Public	Public	Public
Credit Rating	BB	BBB	BB-	BB+
Total Debt	2,265	11,495	1,044	309
Debt maturing in 2009	13	828	26	31
Liquidity (as of 12/31/08)	640	3,644	258	206
EBITDA/Interest	5.2x	4.6x	2.5x	6.3x
Debt/EBITDA	3.5x	4.3x	4.1x	2.2x
Market Value of Equity	740	6,360	190	450
Debt/Equity	3.1x	1.8x	5.5x	0.7x
Enterprise Value	2,858	17,134	1,017	285
EV/EBITDA	4.4x	6.4x	4.0x	2.1x
Dividends - LTM per sh	-	0.98	-	0.36
Shares outstanding	495.4	432.2	84.5	45.5
Dividends - LTM	-	424	-	16
Employment:				
Unionized (US only)	n/a	16,900	2,579	n/a
US	6,710	42,700	4,350	2,447
Total	11,000	61,700	4,350	3,633

Enterprise value is equal to market value of equity plus total debt and minority interests less cash.  
 Credit Ratings as of 6/8/09. Employment data as of year-end 2008.

## Management & Board of Directors

The following table provides information on the Company's senior management.

### **Management**

Name	Age	Position	As of (a)	Prior Positions
John D. Williams	54	President & CEO	January 2009	Previously President of SCA Packaging Europe.
Marvin D. Cooper	65	EVP & COO	March 2007	SVP, Weyerhaeuser 2002 - 2006. Previous service at Willamette.
Daniel Buron	45	SVP & CFO	May 2004	Joined Domtar in 1999.
Steven A. Barker	55	SVP, Pulp & Paper Marketing	December 2004	Joined Domtar in 2000.
Michel Dagenais	59	SVP, Human Resources	2005	Joined Domtar in 2001
Michael Edwards	61	Group SVP, Pulp & Paper Manufacturing	March 2007	Similar position at Weyerhaeuser, where he worked since 1994. Previously spent 11 years at Domtar Inc.
Zygmunt Jablonski	55	SVP & General Counsel	2008	13 years in-house counsel positions at various paper industry companies.

(a) Includes prior service with Domtar Inc.

The following table provides information regarding executive compensation for 2007 and 2008.

Name & Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation		Total
							Earnings	Other	
Raymond Royer <i>President, CEO</i>	2008	\$1,035,338		\$3,321,948	\$744,276	\$ 241,260	\$ -	\$ 53,508	\$5,396,330
	2007	860,111		2,379,091	584,223	620,570	-	63,047	4,507,042
Marvin Cooper <i>COO</i>	2008	660,000		1,769,196	-	133,290	-	20,092	2,582,578
	2007	515,308	59,492	1,249,281	-	322,222	-	8,108	2,154,411
Daniel Buron <i>CFO</i>	2008	393,767		867,882	118,026	61,172	-	99,496	1,540,343
	2007	312,768		484,962	89,971	150,441	11,170	48,910	1,098,222
Steven Barker <i>SVP, Marketing</i>	2008	356,954		724,896	89,944	49,907	181,132	38,097	1,440,930
	2007	285,092		444,596	112,675	123,417	123,551	23,829	1,113,160
Roger Brea <i>SVP, Southern Region Mills</i>	2008	358,800		713,842	90,421	50,166	259,864	37,315	1,510,408
	2007	293,940		426,322	127,264	127,247	32,651	27,164	1,034,588

Note: For 2007, table reflects only compensation earned after March 7, 2007.

The table below details the Company's annualized target direct compensation for the top five members of management for 2008 under its ongoing compensation program.

Position	Annual Base Salary	Target		
		Annual Incentive Value	Long-Term Incentive Value	Total Direct Compensation Opportunity
CEO	\$ 1,100,000	\$ 825,000	\$ 2,500,000	\$ 4,425,000
COO	660,000	429,000	1,300,000	2,389,000
CFO	425,000	212,500	425,000	1,062,500
SVP, Marketing	360,000	162,000	198,000	720,000
SVP, Southern Region Mills	358,800	161,460	197,340	717,600

Domtar's Board of Directors made the following changes to the Company's executive compensation policy for 2009:

1. Base salaries for 2009 have been frozen at 2008 levels across the Corporation.
2. No grants of performance conditioned restricted stock units ("PCRSUs"), which in previous years represented 50% of the long term component of a manager's total direct compensation, were made in 2009. The remaining 50% of long-term incentive compensation opportunity will continue to be provided.
3. For persons other than the CEO and his direct reports (the "Management Committee"), a significant portion of the value previously represented by PCRSUs has been shifted to the Annual Incentive Plan ("AIP") for 2009, increasing the short term incentive as a percentage of salary with the result that overall compensation remains unchanged. For the Management Committee, only one half of such value has been shifted to the AIP for 2009.
4. The Key Performance Indicators (other than Health and Safety, which remained unchanged at 15%) on which payout of the AIP for 2009 is based were altered and re-weighted to redistribute the 85% formerly based on EBITDA (earnings before interest, taxes, depreciation and amortization) as follows: EBITDA (40%), SG&A (selling, general and administrative expenses) (25%), and capital expenditure (20%), and conditions were attached to the payout for EBITDA achievement which provide strong incentives for the monetization of assets and maintenance of access to credit.
5. Members of the Management Committee have been granted stock options having a grant date value equal to the approximately 25% of total long term target compensation opportunity remaining after the other half of the PCRSU plan value was transferred to the AIP for 2009.
6. The new CEO's compensation will have the same structure as the Management Committee.

## Board of Directors

Name	Age	Director Since (a)	Comments
Harold H. MacKay	68	2007	Chairman of the Board. Partner in MacPherson Leslie & Tyerman lawfirm in Regina from 1969 - 2004, Counsel to the firm since that time. Clifford Clark policy advisor to Candian Depratment of Finance, chair of Task Force on the Future of the Canadian Financial Services Sector in 1997 and 1998. Director of The Toronto-Dominion Bank and The Mosaic Company. Officer of the Order of Canada.
John D. Williams	55	2009	President, CEO of Domtar.
Jack C. Bingleman	66	2005	President of Indian River Asset Management 2001 - 2008. President of Staples International 1997 - 2000. Director of Tractor Supply Co.
Louis P. Gignac	58	1995	President of G Mining Services Inc. 2006 - Present. President and CEO of Cambior Inc. 1986 - 2006. Director of Gaz Metro Inc., St. Andrew Goldfields Ltd., Franco-Nevada Corp. and Revett Minerals Ltd.
Brian M. Levitt	61	1997	Chairman of Domtar Inc. 2004 - 2007. Co-Chair of law firm Osler Hoskin & Harcourt since 2001. Former President & CEO of Imasco Limited. Director of The Toronto-Dominion Bank, BCE Inc. and Fednav Limited.
W. Henson Moore	69	2007	President & CEO of American Forest & Paper Association 1995 - 2006. Has served in a number of Senior U.S. government positions and as a member of the U.S. House of Representatives. Director of USEC, Inc.
Michael R. Onustock	69	2007	Retired. SVP, Pulp and White Paper of Weyerhaeuser 2002 - 2004. Between 1989 and 2001 held a number of positions with Willamette Industries, Inc. Director of University of Washington Pulp and Paper School Foundation.
Robert J. Steacy	59	2005	Retired EVP and CFO of Torstar Corporation. Director of CIBC and Cineplex/Galaxy Income Trust.
William C. Stivers	70	2007	Retired as Executive VP of Weyerhaeuser in 2003. CFO 1990 - 2003. Former director of Factory Mutual Insurance and past member of Chase Manhattan Bank National Advisory Board. Director of Minerals Technologies, Inc.
Pamela B. Strobel	56	2007	Retired EVP and CAO of Exelon Corporation. Served as President of Exelon's Business Services Company and Chairman and CEO of Exelon Energy Delivery. Director of Illinois Tool Works and State Farm Mutual Automobile Insurance.
Richard Tan	53	2007	Founder, President & CEO of Pacific Millennium Holdings Corporation, investment and operating group involved in various industries including pulp & paper, forest plantation, IT, and development and global JVs in Asia. Director of Samling Global Limited.
Denis Turcotte	47	2007	Former President & CEO of Algoma Steel. Prior to joining Algoma in 2002, held senior executive positions within the paper industry including president of the Paper Group and EVP of Corporate Development and Strategy of Tembec Inc. Advisory Board member of Brookfield Special Situation Funds.

(a) Includes service as director of Domtar Inc.