

DOMTAR INC /CANADA
Form 6-K
February 06, 2007

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SIGNATURES

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**FORM 6-K
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
REPORT OF FOREIGN ISSUER
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934
For the month of February, 2007.
DOMTAR INC.**

395 de Maisonneuve Blvd. West, Montréal, Québec H3A 1L6

[Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.]

Form 20-F o

Form 40-F p

[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.]

Yes o

No p

[If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-.....]

Enclosed is Domtar Inc. s Press Release related to its interim Unaudited Consolidated Financial Statements for the period ended December 31, 2006.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DOMTAR INC.
(Registrant)

Date: February 6, 2007.

By /s/ Razvan L. Theodoru
Razvan L. Theodoru
Corporate Secretary

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395 de Maisonneuve Blvd. West
Montreal QC H3A 1L6

www.domtar.com
Press Release
FOR IMMEDIATE RELEASE

DOMTAR ANNOUNCES FOURTH QUARTER AND FULL YEAR 2006 FINANCIAL RESULTS

Montreal, February 6, 2007 Domtar Inc. announced today earnings from continuing operations of \$91 million (\$0.39 per common share) in the fourth quarter of 2006 compared to a loss from continuing operations of \$271 million (\$1.18 per common share) in the fourth quarter of 2005 and earnings from continuing operations of \$22 million (\$0.09 per common share) in the third quarter of 2006.

For the full year of 2006, Domtar recorded a net profit of \$328 million (\$1.42 per common share) compared to a net loss of \$388 million (\$1.69 per common share) in 2005.

SUMMARY OF RESULTS

| | Q4 2006 | Q4 2005 | Q3 2006 | 2006 | 2005 |
|--|--------------------|--------------------|--------------------|--------------|-------------|
| <i>(In millions of Canadian dollars, unless otherwise noted)</i> | | | | | |
| Sales | 939 | 990 | 1,013 | 3,989 | 4,247 |
| Operating profit (loss) from continuing operations ¹ | 178 | (366) | 66 | 237 | (349) |
| Earnings (loss) from continuing operations | 91 | (271) | 22 | 63 | (310) |
| Net earnings (loss) | 323 | (348) | 38 | 328 | (388) |
| Earnings (loss) from continuing operations per common share (in dollars) | 0.39 | (1.18) | 0.09 | 0.27 | (1.36) |
| Net earnings (loss) per common share (in dollars) | 1.40 | (1.51) | 0.16 | 1.42 | (1.69) |
| Excluding specified items ¹ | | | | | |
| Operating profit (loss) from continuing operations | 39 | (42) | 78 | 139 | 23 |
| Earnings (loss) from continuing operations | (2) | (46) | 30 | (7) | (51) |

(1) Operating profit (loss) from continuing operations is a non-GAAP measure. For a discussion on specified items and the use of non-GAAP measures, see Notes to the summary of results in the appendix.

Commenting on the 2006 results, Raymond Royer stated: The past year has been one of decisive actions for Domtar. With the support of our employees, we successfully executed the restructuring plan announced in November 2005. The plan resulted in the permanent closure of six paper machines at three mills, two sawmilling operations, as well as

the implementation of cost reduction initiatives across all of the organization. More recently, Domtar sold its 50% investment in Norampac. Finally, throughout the year we continued to adjust our production to changing market conditions. All of these measures, coupled with the duties refund and higher overall selling prices, contributed to Domtar's strengthened financial position.

Our transaction to combine Domtar with Weyerhaeuser's fine paper business and related assets is progressing well and is on schedule with an expected closing in March. The transaction will be submitted to our shareholders at a special meeting to be held on February 26th. This combination of assets is a transformational event for Domtar that will create the largest fine paper producer in North America, and we believe that our customers and shareholders will benefit from this leadership position in our core uncoated freesheet business," added Mr. Royer.

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OPERATIONAL REVIEW
2006 COMPARED TO 2005

During the fourth quarter of 2006, we sold our packaging segment, which consisted of a 50% interest in Norampac. In accordance with Canadian generally accepted accounting principles (GAAP), effective in the fourth quarter of 2006, the information pertaining to Norampac is disclosed as a discontinued operation. Effective in the second quarter of 2006, the information pertaining to our Vancouver paper mill was no longer included in our Papers business but presented as a discontinued operation and assets held for sale, as required by Canadian GAAP. Accordingly, amounts for 2006 and prior periods have been restated to reflect this presentation. Earnings from discontinued operations amounted to \$265 million in 2006 and consisted of \$37 million of net earnings from Norampac, a \$237 million net gain on the sale of our interest in Norampac and a net loss of \$9 million from our Vancouver paper mill. Loss from discontinued operations amounted to \$78 million in 2005 which consisted of \$3 million of net earnings from Norampac and a \$81 million loss from our Vancouver paper mill.

VARIANCE ANALYSIS 2006 VS. 2005

(In millions of Canadian dollars)

| | |
|--|------------|
| 2005 operating profit from continuing operations, excluding specified items | 23 |
| Selling prices | 142 |
| Foreign exchange (net of hedging programs) | (70) |
| Shipments and mix | 1 |
| Other costs, including savings from mill closures | 43 |
| 2006 operating profit from continuing operations, excluding specified items | 139 |

| PAPERS | 2006 | 2005 | Variance |
|---|------------|-------|----------|
| <i>(In millions of Canadian dollars)</i> | | | |
| Operating profit (loss) from continuing operations | 121 | (329) | 450 |
| Operating profit (loss) from continuing operations, excluding specified items | 140 | (51) | 191 |

The \$191 million increase in operating profit from continuing operations excluding specified items in the **Papers** segment was mainly the result of higher average selling prices for pulp and paper, the realization of savings stemming from restructuring activities, the settlement of a contract dispute resulting in a payment to Domtar of \$14 million, higher shipments of pulp and paper, excluding the impact of mills that were indefinitely and permanently closed, as well as recognition of investment tax credits related to research and development expenditures from prior years. These factors were partially offset by the negative impact of a stronger Canadian dollar and higher overall costs.

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| PAPER MERCHANTS | 2006 | 2005 | Variance |
|--|------|------|----------|
| <i>(In millions of Canadian dollars)</i> | | | |
| Operating profit from continuing operations | 13 | 3 | 10 |
| Operating profit from continuing operations, excluding specified items | 13 | 16 | (3) |

The \$3 million decrease in operating profit from continuing operations excluding specified items in the **Paper Merchants** segment was primarily due to a one time bad debt expense and the negative impact of a stronger Canadian dollar, partially offset by higher shipments.

| WOOD | 2006 | 2005 | Variance |
|---|------|------|----------|
| <i>(In millions of Canadian dollars)</i> | | | |
| Operating profit (loss) from continuing operations | 117 | (33) | 150 |
| Operating profit (loss) from continuing operations, excluding specified items | (28) | 51 | (79) |

The \$79 million decrease in operating profit (loss) from continuing operations excluding specified items in the **Wood** segment was mainly attributable to lower shipments, lower average selling prices and the negative impact of a stronger Canadian dollar. These factors were partially mitigated by the realization of savings stemming from restructuring activities, lower freight and energy costs and the \$7 million refund received in the second quarter of 2006 as a result of the Ontario government's one-time retroactive reduction in Crown stumpage fees related to 2005 and 2006.

Effective October 11, 2006, three of our sawmills (two in Abitibi, Quebec, and one in Ontario) were closed indefinitely due to the pressures of higher timber costs and lower demand for both lumber and wood chips.

Effective October 12, 2006, Domtar was entitled to receive a refund for duties collected by the U.S. Government since 2002 plus interest. Domtar received the refund, amounting to \$178 million plus interest of \$22 million, during the fourth quarter of 2006. This refund is subject to a special charge of approximately 18% by the Canadian Government. As of December 31, 2006, Domtar recorded a provision relating to this special charge.

LIQUIDITY AND CAPITAL
2006 COMPARED TO 2005

| FREE CASH FLOW ⁽¹⁾ | 2006 | 2005 |
|--|-------|-------|
| <i>(In millions of Canadian dollars)</i> | | |
| Cash flows provided from operating activities of continuing operations before changes in working capital and other items | 389 | 141 |
| Changes in working capital and other items | (167) | (182) |
| Cash flows provided from (used for) operating activities of continuing operations | 222 | (41) |
| Net additions to property, plant and equipment | (91) | (129) |
| Free cash flow | 131 | (170) |

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Change in working capital for 2006 includes an increase in receivables due to a reduction of off balance sheet securitization in the amount of \$136 million (US \$120 million).

Free cash flow increased by \$301 million in 2006 compared to 2005. This improvement mainly reflects an increase in profitability offset by working capital requirements.

Domtar's net debt-to-total capitalization ratio^(b) as at December 31, 2006 stood at 40.2% compared to 57.7% as at December 31, 2005. Domtar's total long-term debt decreased by \$368 million, largely due to the positive impact of a stronger Canadian dollar (based on month-end foreign exchange rates) on its US dollar denominated debt and debt repayments made on its revolving credit facility resulting from the sale of Domtar's 50% interest in Norampac.

¹ For a discussion on the use of non-GAAP measures, see Notes to the summary of results in the appendix.

OUTLOOK

Although Domtar benefited from higher operating rates and increasing selling prices for papers and pulp, the North American demand for uncoated freesheet dropped in 2006 when compared to 2005. Looking into 2007, Domtar does not anticipate any significant changes to these demand trends for fine papers in North America, and the Company will continue to adjust its production to meet customer demand.

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements relating to trends in, or representing management's beliefs about, Domtar's future growth, results of operations, performance and business prospects and opportunities. These forward-looking statements are generally denoted by the use of words such as anticipate, believe, expect, intend, a target, plan, continue, estimate, may, will, should and similar expressions. These statements reflect management's current beliefs and are based on information currently available to management.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to known and unknown risks and uncertainties such as, but not limited to, general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign currency exchange rates, the ability to integrate acquired businesses into existing operations, the ability to realize anticipated cost savings, the performance of manufacturing operations and other factors referenced herein and in Domtar's continuous disclosure filings. These factors should be considered carefully and undue reliance should not be placed on the forward-looking statements. Although the forward-looking statements are based upon what management believes to be reasonable estimates and assumptions, Domtar cannot ensure that actual results will not be materially different from those expressed or implied by these forward-looking statements. Unless specifically required by law, Domtar assumes no obligation to update or revise these forward-looking statements to reflect new events or circumstances. These risks, uncertainties and other factors include, among other things, those discussed under Risk Factors in Domtar's Management's Discussion and Analysis (MD&A).

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FOURTH QUARTER AND FULL YEAR 2006 FINANCIAL RESULTS
WEBCAST

You are invited to listen to a live broadcast of the conference call with financial analysts that the Company will be holding today to present its fourth quarter and full year 2006 financial results. It will take place at 12:00 p.m. (EST) on the Domtar corporate website at: www.domtar.com.

DOMTAR IS THE THIRD LARGEST PRODUCER OF UNCOATED FREESHEET PAPER IN NORTH AMERICA. IT IS ALSO A LEADING MANUFACTURER OF BUSINESS PAPERS, COMMERCIAL PRINTING AND PUBLICATION PAPERS, AND TECHNICAL AND SPECIALTY PAPERS. DOMTAR MANAGES ACCORDING TO INTERNATIONALLY RECOGNIZED STANDARDS 17 MILLION ACRES OF FORESTLAND IN CANADA AND THE UNITED STATES, AND PRODUCES LUMBER AND OTHER WOOD PRODUCTS. DOMTAR HAS APPROXIMATELY 8,500 EMPLOYEES ACROSS NORTH AMERICA.

TICKER SYMBOL

DTC (TSX, NYSE)

SOURCE

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APPENDIX

NOTES TO THE SUMMARY OF RESULTS

NOTE 1.

SPECIFIED ITEMS

In Domtar's view, specified items are items that do not typify normal operating activities. The following table reconciles operating profit (loss) from continuing operations and earnings (loss) from continuing operations, determined in accordance with GAAP*, to operating profit (loss) from continuing operations and earnings (loss) from continuing operations, excluding specified items.

| | 2006 | | | 2005 |
|--|---|--|----------------------------------|--|
| | | Operating profit (loss) | | |
| | Operating profit from continuing operations | Earnings (loss) from continuing operations | from continuing operations | Loss from continuing operations |
| <i>(In millions of Canadian dollars, unless otherwise noted)</i> | | | | |
| As per GAAP* | 237 | 63 | (349) | (310) |
| Specified items: | | | | |
| Sales of property, plant and equipment (a) | (10) | (6) | (4) | (3) |
| Closure and restructuring costs (b) | 35 | 22 | 317 | 209 |
| Unrealized mark-to-market gains or losses (c) | 4 | 3 | (5) | (3) |
| Foreign exchange impact on long-term debt (d) | | | | (3) |
| Income tax legislation changes (e) | | (2) | | 7 |
| Refinancing costs (f) | | | | 5 |
| Legal settlement (g) | (7) | (7) | 13 | 13 |
| Insurance recoveries (h) | (3) | (2) | (3) | (2) |
| Write-down of investments (i) | 5 | 3 | | |
| Duties (j) | (147) | (98) | 54 | 36 |
| Transaction costs (k) | 25 | 17 | | |
| | (98) | (70) | 372 | 259 |
| Excluding specified items | 139 | (7) | 23 | (51) |

* Except for operating profit from continuing operations which is a non-GAAP measure. See note 2.

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NOTE 1.

SPECIFIED ITEMS (CONTINUED)

| | Q4 2006 | | Q4 2005 | | Q3 2006 | |
|--|---|--|---|---------------------------------|---|-------------------------------------|
| <i>(In millions of Canadian dollars, unless otherwise noted)</i> | | | | | | |
| | Operating profit from continuing operations | Earnings (loss) from continuing operations | Operating loss from continuing operations | Loss from continuing operations | Operating profit from continuing operations | Earnings from continuing operations |
| As per GAAP* | 178 | 91 | (366) | (271) | 66 | 22 |
| Specified items: | | | | | | |
| Sales of property, plant and equipment (a) | (10) | (6) | | | | |
| Closure and restructuring costs (b) | 5 | 3 | 300 | 198 | 8 | 5 |
| Unrealized mark-to-market gains or losses (c) | 3 | 2 | | | | |
| Income tax legislation changes (e) | | | | 7 | | |
| Legal settlement (g) | | | 13 | 13 | | |
| Insurance recoveries (h) | (3) | (2) | | | | |
| Write-down of investments (i) | 5 | 3 | | | | |
| Duties (j) | (164) | (110) | 11 | 7 | 4 | 3 |
| Transaction costs (k) | 25 | 17 | | | | |
| | (139) | (93) | 324 | 225 | 12 | 8 |
| Excluding specified items | 39 | (2) | (42) | (46) | 78 | 30 |

* Except for operating profit from continuing operations which is a non-GAAP measure. See note 2.

a) Sales of property, plant and equipment

Domtar's results include gains or losses on sales of property, plant and equipment. These gains or losses are presented under Selling, general and administrative expenses in the financial statements.

b) Closure and restructuring costs

Domtar's results include closure and restructuring charges. These charges are presented under Closure and restructuring costs in the financial statements.

c) Unrealized mark-to-market gains or losses

Domtar's results include unrealized mark-to-market gains or losses on commodity swap contracts and foreign exchange contracts not considered as hedges for accounting purposes. Such gains or losses are presented under Selling, general and administrative expenses in the financial statements.

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NOTE 1.

SPECIFIED ITEMS (CONTINUED)

d) Foreign exchange impact on long-term debt

Domtar's results include foreign exchange gains or losses on the translation of a portion of its long-term debt. Such gains or losses are presented under "Financing expenses" in the financial statements.

e) Income tax legislation changes

Domtar's results include charges related to modifications to the income tax legislation. These charges are presented under "Income tax expense (recovery)" in the financial statements.

f) Refinancing expenses

Domtar's results include refinancing expenses. These refinancing expenses are presented under "Financing expenses" in the financial statements.

g) Legal settlement

Domtar's results include a charge related to a legal settlement. This charge is presented under "Selling, general and administrative" expenses in the financial statements.

h) Insurance recoveries

Domtar's results include insurance recoveries. These insurance recoveries are presented under "Selling, general and administrative" expenses in the financial statements.

i) Write-down of investments

Our results include charges related to write-downs of investments. These charges are presented under "Selling, general and administrative" expenses in the financial statements.

j) Duties

Our results include charges or revenues related to countervailing and antidumping duties. These revenues are presented under "Antidumping and countervailing duties refund", and charges are presented under "Cost of Goods Sold" in the financial statements.

k) Transaction costs

Our results include costs related to our pending transaction with Weyerhaeuser. These costs are presented under "Selling, general and administrative" expenses in the financial statements.

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NOTE 2.

USE OF NON-GAAP MEASURES

Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian GAAP.

Operating profit (loss) from continuing operations is a non-GAAP measure that is calculated within Domtar's financial statements. Domtar focuses on operating profit (loss) from continuing operations as this measure enables it to compare its results between periods without regard to debt service or income taxes.

Operating profit (loss) from continuing operations excluding specified items and earnings (loss) from continuing operations excluding specified items are non-GAAP measures. Measures excluding specified items are used in evaluating the Company's performance between periods without regard to specified items that adversely or positively affected its GAAP measures.

Free cash flow is a non-GAAP measure that is defined as the amount by which cash flows provided from continuing operating activities, as determined in accordance with GAAP, exceed net additions to property, plant and equipment, as determined in accordance with GAAP. Free cash flow is used in evaluating the Company's ability to service its debt and pay dividends to its shareholders.

Net debt-to-total capitalization ratio is a non-GAAP measure that is calculated as long-term debt and bank indebtedness, net of cash and cash equivalents, to the sum of net debt and shareholders' equity. Domtar's management tracks this ratio on a regular basis in order to assess its debt position.

The above non-GAAP 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. Domtar believes that it would be useful for investors and other users to be aware of these measures so they can better assess the Company's performance.

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Statements

| HIGHLIGHTS | <i>Three months ended December 31</i> | | <i>Twelve months ended December 31</i> | |
|--|---|--------|--|----------|
| | 2006 | 2005 | 2006 | 2005 |
| <i>(In millions of Canadian dollars, unless otherwise noted)</i> | <i>(Unaudited)</i> | | <i>(Unaudited)</i> | |
| Sales | \$ 939 | \$ 990 | \$ 3,989 | \$ 4,247 |
| Operating profit (loss) from continuing operations | 178 | (366) | 237 | (349) |
| Net earnings (loss) | 323 | (348) | 328 | (388) |
| Cash flows provided from (used for) operating activities from continuing operations | 132 | (50) | 222 | (41) |
| Additions to property, plant and equipment | 35 | 42 | 108 | 139 |
| Per common share (in dollars) | | | | |
| Earnings (loss) from continuing operations | | | | |
| Basic | 0.39 | (1.18) | 0.27 | (1.36) |
| Diluted | 0.39 | (1.18) | 0.27 | (1.36) |
| Net earnings (loss) | | | | |
| Basic | 1.40 | (1.51) | 1.42 | (1.69) |
| Diluted | 1.40 | (1.51) | 1.42 | (1.69) |
| Weighted average number of common shares outstanding (millions) | | | | |
| Basic | 230.7 | 230.0 | 230.5 | 229.7 |
| Diluted | 230.8 | 230.0 | 230.6 | 229.7 |
| Sales | | | | |
| Papers | 666 | 667 | 2,796 | 2,900 |
| Paper Merchants | 258 | 253 | 1,051 | 1,047 |
| Wood | 76 | 152 | 461 | 697 |
| Total for reportable segments | 1,000 | 1,072 | 4,308 | 4,644 |
| Intersegment sales Papers | (52) | (62) | (269) | (273) |
| Intersegment sales Wood | (9) | (20) | (50) | (124) |
| Consolidated sales | 939 | 990 | 3,989 | 4,247 |
| Operating profit (loss) from continuing operations | | | | |
| Papers | 47 | (317) | 121 | (329) |
| Paper Merchants | 3 | (10) | 13 | 3 |
| Wood | 149 | (38) | 117 | (33) |
| Total for reportable segments | 199 | (365) | 251 | (359) |
| Corporate | (21) | (1) | (14) | 10 |
| Consolidated operating profit (loss) from continuing operations | 178 | (366) | 237 | (349) |

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CONSOLIDATED FINANCIAL STATEMENTS

| CONSOLIDATED EARNINGS | <i>Three months ended December 31</i> | | <i>Twelve months ended December 31</i> | |
|--|---|--------|--|----------|
| | 2006 | 2005 | 2006 | 2005 |
| | (Unaudited) | | (Unaudited) | |
| <i>(In millions of Canadian dollars, unless otherwise noted)</i> | | | | |
| Sales | \$ 939 | \$ 990 | \$ 3,989 | \$ 4,247 |
| Operating expenses | | | | |
| Cost of sales | 787 | 900 | 3,392 | 3,720 |
| Selling, general and administrative | 72 | 71 | 218 | 231 |
| Amortization | 72 | 84 | 284 | 329 |
| Antidumping and countervailing duties refund | (164) | | (164) | |
| Closure and restructuring costs | 5 | 300 | 35 | 317 |
| Net (gains) losses on disposals of property, plant and equipment | (11) | 1 | (13) | (1) |
| | 761 | 1,356 | 3,752 | 4,596 |
| Operating profit (loss) from continuing operations | 178 | (366) | 237 | (349) |
| Financing expenses | 39 | 38 | 150 | 144 |
| Earnings (loss) from continuing operations before income taxes | 139 | (404) | 87 | (493) |
| Income tax expense (recovery) | 48 | (133) | 24 | (183) |
| Earnings (loss) from continuing operations | 91 | (271) | 63 | (310) |
| Earnings (loss) from discontinued operations | 232 | (77) | 265 | (78) |
| Net earnings (loss) | 323 | (348) | 328 | (388) |
| Per common share (in dollars) | | | | |
| Earnings (loss) from continuing operations | | | | |
| Basic | 0.39 | (1.18) | 0.27 | (1.36) |
| Diluted | 0.39 | (1.18) | 0.27 | (1.36) |
| Net earnings (loss) | | | | |
| Basic | 1.40 | (1.51) | 1.42 | (1.69) |
| Diluted | 1.40 | (1.51) | 1.42 | (1.69) |
| Weighted average number of common shares outstanding (millions) | | | | |
| Basic | 230.7 | 230.0 | 230.5 | 229.7 |
| Diluted | 230.8 | 230.0 | 230.6 | 229.7 |

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CONSOLIDATED FINANCIAL STATEMENTS

| | <i>December</i> <i>31</i> 2006 | <i>December</i> <i>31</i> 2005 |
|--|--------------------------------------|--------------------------------------|
| CONSOLIDATED BALANCE SHEETS <i>As at</i> | | |
| <i>(In millions of Canadian dollars, unless otherwise noted)</i> | | (Unaudited) |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 649 | \$ 83 |
| Receivables | 305 | 294 |
| Inventories | 575 | 715 |
| Prepaid expenses | 14 | 11 |
| Income and other taxes receivable | 18 | 16 |
| Future income taxes | 45 | 38 |
| | 1,606 | 1,157 |
| Property, plant and equipment | 3,044 | 3,634 |
| Assets held for sale | 24 | |
| Goodwill | 6 | 92 |
| Other assets | 275 | 309 |
| | 4,955 | 5,192 |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Bank indebtedness | 62 | 21 |
| Trade and other payables | 533 | 651 |
| Income and other taxes payable | 20 | 29 |
| Long-term debt due within one year | 2 | 2 |
| | 617 | 703 |
| Long-term debt | 1,889 | 2,257 |
| Future income taxes | 285 | 292 |
| Other liabilities and deferred credits | 223 | 331 |
| Shareholders' equity | | |
| Preferred shares | 32 | 36 |
| Common shares | 1,788 | 1,783 |
| Contributed surplus | 15 | 14 |
| Retained earnings (deficit) | 308 | (19) |
| Accumulated foreign currency translation adjustments | (202) | (205) |
| | 1,941 | 1,609 |
| | 4,955 | 5,192 |

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CONSOLIDATED FINANCIAL STATEMENTS

| CONSOLIDATED CASH FLOWS | <i>Three months ended December 31</i> | | <i>Twelve months ended December 31</i> | |
|---|---|----------|--|----------|
| | 2006 | 2005 | 2006 | 2005 |
| <i>(In millions of Canadian dollars, unless otherwise noted)</i> | (Unaudited) | | (Unaudited) | |
| Operating activities | | | | |
| Earnings (loss) from continuing operations | \$ 91 | \$ (271) | \$ 63 | \$ (310) |
| Non-cash items: | | | | |
| Amortization and write-down of property, plant and equipment | 72 | 309 | 284 | 554 |
| Future income taxes | 53 | (128) | 25 | (193) |
| Closure and restructuring costs, excluding write-down | 5 | 75 | 35 | 92 |
| Net (gains) losses on disposals of property, plant and equipment | (11) | 1 | (13) | (1) |
| Other | 1 | (6) | (5) | (1) |
| | 211 | (20) | 389 | 141 |
| Changes in working capital and other items | | | | |
| Receivables | (90) | (14) | (113) | (79) |
| Inventories | (6) | (8) | 45 | (23) |
| Prepaid expenses | 10 | 8 | (2) | 4 |
| Trade and other payables | 27 | | (12) | (27) |
| Income and other taxes | (5) | (12) | 1 | 1 |
| Other | (10) | 2 | (19) | (20) |
| Payments of closure and restructuring costs | (5) | (6) | (67) | (38) |
| | (79) | (30) | (167) | (182) |
| Cash flows provided from (used for) operating activities of continuing operations | 132 | (50) | 222 | (41) |
| Investing activities | | | | |
| Additions to property, plant and equipment | (35) | (42) | (108) | (139) |
| Proceeds from disposals of property, plant and equipment | 11 | 1 | 17 | 10 |
| Proceeds from disposal of business | 560 | | 560 | |
| Other | 5 | (3) | 2 | (3) |
| Cash flows provided from (used for) investing activities of continuing operations | 541 | (44) | 471 | (132) |
| Financing activities | | | | |
| Dividend payments | | (14) | (1) | (56) |
| Change in bank indebtedness | 6 | (8) | 47 | 10 |
| Change in revolving bank credit, net of expenses | (90) | 139 | (160) | 21 |
| Issuance of long-term debt, net of expenses | | | | 482 |

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| | | | | |
|---|-------|------|-------|-------|
| Repayment of long-term debt | (1) | | (2) | (266) |
| Premium on redemption of long-term debt | | | | (7) |
| Common shares issued, net of expenses | 1 | 1 | 4 | 7 |
| Redemptions of preferred shares | (1) | (1) | (3) | (3) |
| Cash flows provided from (used for) financing activities of continuing operations | (85) | 117 | (115) | 188 |
| Cash flows from discontinued operations | | | | |
| Operating activities | 9 | 24 | 26 | 31 |
| Investing activities | (534) | (43) | (554) | (55) |
| Financing activities | 520 | 39 | 514 | 38 |
| Cash flows provided from (used for) discontinued operations | (5) | 20 | (14) | 14 |
| Net increase in cash and cash equivalents | 583 | 43 | 564 | 29 |
| Translation adjustments related to cash and cash equivalents | 4 | | 2 | 2 |
| Cash and cash equivalents at beginning of period | 62 | 40 | 83 | 52 |
| Cash and cash equivalents at end of period | 649 | 83 | 649 | 83 |
| Cash and cash equivalents at end of period, related to: | | | | |
| Continuing operations | 649 | 83 | 649 | 83 |
| Discontinued operations | | | | |
| Cash and cash equivalents at end of period | 649 | 83 | 649 | 83 |

Table of Contents**Domtar Inc.
Quarterly Statistical Review**

| | 1st Qtr | 2nd Qtr | 2006 3rd Qtr | 4th Qtr | Year | 1st Qtr | 2nd Qtr | 2005 3rd Qtr | 4th Qtr | Year |
|--|------------|------------|--------------------|------------|--------|------------|------------|--------------------|------------|--------|
| Total Shipments by Category of Products (a) | | | | | | | | | | |
| Papers (in thousands of ST) (b) | 633 | 572 | 556 | 512 | 2,273 | 616 | 597 | 642 | 577 | 2,432 |
| Market Pulp (in thousands of ADMT) | 135 | 154 | 172 | 170 | 631 | 132 | 141 | 160 | 141 | 574 |
| Lumber (in millions of FBM) | 256 | 270 | 231 | 159 | 916 | 280 | 304 | 264 | 259 | 1,107 |
| Benchmark Prices for the Majority of our Products (c) | | | | | | | | | | |
| Papers | | | | | | | | | | |
| Copy 20 lb sheets (US\$/ton) | \$ 820 | \$ 890 | \$ 950 | \$ 947 | \$ 902 | \$ 817 | \$ 850 | \$ 817 | \$ 803 | \$ 822 |
| Offset 50 lb rolls (US\$/ton) | \$ 765 | \$ 840 | \$ 850 | \$ 838 | \$ 823 | \$ 733 | \$ 753 | \$ 713 | \$ 703 | \$ 726 |
| Coated publication, no. 3, 60 lb rolls (US\$/ton) | | | | | | | | | | |
| | \$ 900 | \$ 910 | \$ 955 | \$ 932 | \$ 924 | \$ 870 | \$ 920 | \$ 913 | \$ 903 | \$ 902 |
| Pulp NBSK U.S. market (US\$/ADMT) | \$ 653 | \$ 707 | \$ 757 | \$ 770 | \$ 722 | \$ 670 | \$ 653 | \$ 625 | \$ 638 | \$ 647 |
| Pulp NBHK Japan market (US\$/ADMT) | \$ 542 | \$ 572 | \$ 618 | \$ 637 | \$ 592 | \$ 497 | \$ 538 | \$ 535 | \$ 535 | \$ 526 |
| Wood | | | | | | | | | | |
| Lumber G.L. 2x4x8 studs (US\$/MFBM) | \$ 391 | \$ 371 | \$ 313 | \$ 302 | \$ 344 | \$ 462 | \$ 432 | \$ 397 | \$ 379 | \$ 418 |
| Lumber G.L. 2x4 R/L, no. 1 & no. 2 (US\$/MFBM) | \$ 409 | \$ 386 | \$ 351 | \$ 327 | \$ 368 | \$ 462 | \$ 429 | \$ 398 | \$ 392 | \$ 420 |
| Average Exchange Rates | | | | | | | | | | |
| CAN | 1.155 | 1.122 | 1.121 | 1.139 | 1.134 | 1.227 | 1.244 | 1.202 | 1.173 | 1.211 |
| US | 0.866 | 0.891 | 0.892 | 0.878 | 0.882 | 0.815 | 0.804 | 0.832 | 0.852 | 0.826 |

(a) Figures represent shipments to external customers on a continuing operations basis.

(b) Figures exclude shipments made by our Paper Merchants.

(c) Source: Pulp & Paper Week and Random Lengths.

(d)

Based on Pulp
& Paper Week s
Southern
Bleached
Hardwood Kraft
pulp prices for
Japan, increased
by an average
differential of
US\$15/ADMT
between
Northern and
Southern
Bleached
Hardwood Kraft
pulp prices.