DOMTAR INC /CANADA
Form 6-K
November 05, 2004

Table of Contents

FORM 6-K

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 November, 2004.

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 þ

[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 þ

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

Enclosed are Domtar Inc. s third quarter results for the period ended September 30, 2004.

TABLE OF CONTENTS

Management s Discussion and Analysis
Notes to Consolidated
Financial Statements
SIGNATURES

Table of Contents

Table of Contents

Table of Contents

Domtar Inc.

Highlights	2004	2004	2003	2003[2]	2002
	Three months ended September 30	Three months ended June 30	Three months ended September 30	Year ended December 31	Year ended December 31
(In millions of Canadian dollars, unless otherwise noted)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Operating results	**$**	**$**	**$**	**$**	**$**
Sales[1]	**1,335**	1,346	1,266	5,167	5,859
EBITDA[3]	**158**	122	131	516	809
Operating profit (loss)[3]	**66**	28	36	(92)	384
Excluding specified items[4]	**63**	33	31	129	447
Net earnings (loss)	**29**	(1)	3	(190)	141
Excluding specified items[4]	**23**	3		(6)	183
Net earnings (loss) per common share (in dollars)	**0.13**	(0.01)	0.01	(0.84)	0.62
Excluding specified items[4] (in dollars)	**0.10**	0.01		(0.04)	0.80
Cash flows provided from operating activities per common share[5] (in dollars)	**0.34**	0.33	0.42	1.53	2.98
Weighted average number of common shares outstanding (millions)	**229.0**	228.6	227.4	227.3	227.2
Balance sheet data					
Total assets	**5,859**			5,847	6,847
Long-term debt	**2,108**			2,054	2,444
Shareholders equity	**2,109**			2,167	2,554
Net debt-to-total-capitalization[3] (%)	**50**			48	49
Book value per common share[6] (in dollars)	**9.00**			9.34	11.02
Others					
Cash flows provided from operating activities	**79**			348	677
Free cash flow[3]	**41**			123	454
Annualized return on equity (ROE)[7] (%)	**6**			(8)	6

1 Comparative figures have been reclassed to reflect the application of new accounting recommendations.

2 Certain figures have been restated to reflect the application of new accounting recommendations.

3 EBITDA, Operating profit, Net debt-to-total capitalization and Free cash flow are non-GAAP measures. Refer to the Management s Discussion and Analysis (MD&A) of the related period for further information (explanation, calculations, etc.).

4 Measures excluding specified items are non-GAAP measures. Refer to the MD&A of the related period for further information (explanations, calculations, etc.)

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

6 Book value per common share is a non-GAAP measure which is determined by dividing shareholder s equity, excluding preferred shares, by the number of common shares outstanding (basic) at the end of the period. This measure has no standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures presented by other companies and therefore should not be considered in isolation. Domtar believes that this non-GAAP measure is useful for investors and other users to analyze its performance.

7 Annualized return on equity (ROE) is a non-GAAP measure which is calculated as net earnings, after dividend payments on preferred shares, to total average common shareholders equity. We use this measure in assessing the returns we provide to our shareholders and, as such, feel it would be useful for investors and other users to be aware of this measure so they can better assess our performance. ROE has no standardized meaning prescribed by GAAP and is not necessarily comparable to similar measures presented by other companies and therefore should not be considered in isolation.

Table of Contents

Table of Contents

Management s Discussion and Analysis
Montreal, Quebec
October 29, 2004

Management s Discussion and Analysis (MD&A) relates to the financial condition and results of Domtar s operations. Throughout this MD&A, unless otherwise specified, Domtar , we , us and our refer to Domtar Inc., its subsidiaries, a well as its joint ventures, and the Corporation refers to Domtar Inc. and its subsidiaries. Domtar s common shares are listed on the Toronto and New York stock exchanges. Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP). This interim MD&A should be read in conjunction with Domtar s unaudited interim consolidated financial statements and notes thereto as well as with Domtar s most recent annual MD&A and audited consolidated financial statements and notes thereto[1].

In accordance with industry practice, in this MD&A, the term ton or the symbol ST refers to a short ton, an imperial unit of measurement equal to 0.9072 metric tons, and the term tonne or the symbol MT refers to a metric ton. In this MD&A, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars, and the term dollars and the symbols $ and CAN$ refer to Canadian dollars. The term U.S. dollars and the symbol US$ refer to United States dollars.

Forward-looking statements

This MD&A contains statements that are forward-looking in nature. Statements preceded by the words believe , expect , anticipate , aim , target , plan , intend , continue , estimate , may , will , should and similar e forward-looking statements. 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, our ability to integrate acquired businesses into our existing operations, and other factors referenced herein and in Domtar s continuous disclosure filings. Therefore, Domtar s actual results may be materially different from those expressed or implied by such forward-looking statements.

Third Quarter 2004 Overview

Market conditions for papers, lumber and packaging were favourable in the third quarter of 2004 as transaction prices continued to improve when compared to the second quarter of 2004. However, our biggest challenge remains the continued rapid decline in the value of the U.S. dollar as well as the rise in freight, wood, fiber and energy costs.

We also continued to implement the restructuring plan for our Vancouver, Cornwall, Espanola, Ottawa-Hull, Port Huron and Windsor mills announced in the first quarter of 2004, which aims at improving the profitability of these mills by $50 million by the end of 2005.

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[1] Our 2003 Annual Report can be found on our website at *www.domtar.com.*

Table of Contents

4 Management s Discussion and Analysis

Our Business

Domtar s reporting segments correspond to the following business activities: Papers, Paper Merchants, Wood and Packaging.

Papers

We are the third largest integrated manufacturer and marketer of uncoated freesheet paper in North America. We operate six pulp and paper facilities in Canada and five in the United States, with an annual paper production capacity of approximately 2.7 million tons, complemented by strategically located warehouses and sales offices. Over 50% of our paper production capacity is located in the United States and approximately 90% of our paper sales are made to customers in the United States. Uncoated and coated freesheet papers are used for business, commercial printing and publication and technical and specialty applications. The chart below illustrates our principal paper products and our annual paper production capacity.

We sell paper primarily through a large network of owned and independent merchants that distribute our paper products from over 350 locations throughout North America. We also sell our products to a variety of customers, including business offices, office equipment manufacturers, retail outlets, commercial printers, publishers and converters. In addition, we sell pulp in excess of our own internal requirements. We also purchase pulp to optimize paper production and freight costs. For the first nine months of 2004, our net market pulp position (shipments less purchases) was approximately 545,000 tons.

Our Papers business is our most important segment, representing 56% of our consolidated sales in the first nine months of 2004, or 62% when including sales of Domtar paper through our own Paper Merchants business.

Paper Merchants

Our Paper Merchants business comprises the purchasing, warehousing, sale and distribution of various products made by us and by other manufacturers. These products include business and printing papers, graphic arts supplies and certain industrial products. Our Canadian paper merchants operate a total of eight branches in eastern Canada (three by

Buntin Reid in Ontario, two by JBR/La Maison du Papier in Quebec and three by The Paper House in the Atlantic Provinces), while our U.S. paper merchant (RIS Paper) services a large customer base from 20 locations, including 17 distribution centers, in the Northeast, Midwest and Mid-Atlantic regions of the United States. Our Paper Merchants business represented 21% of our consolidated sales in the first nine months of 2004, or 15% when excluding sales of Domtar paper.

Wood

Our Wood business comprises the manufacturing and marketing of lumber and wood-based value-added products, as well as the management of forest resources. We operate 11 sawmills (six in Quebec and five in Ontario) and one remanufacturing facility (in Quebec), with an annual capacity of 1.1 billion board feet of lumber. We also have investments in four businesses that produce wood products. We seek to optimize 22 million acres of forestland for which we are responsible in Canada and the United States through efficient management and the application of certified sustainable forest management practices such that a continuous supply of wood is available for future needs. Our Wood business represented 11% of our consolidated sales in the first nine months of 2004.

Packaging

Our Packaging business comprises our 50% ownership interest in Norampac Inc. (Norampac), a joint venture between Domtar Inc. and Cascades Inc. We do not manage the day-to-day operations of Norampac. The Board of Directors of Norampac is composed of four representatives each from Domtar Inc. and Cascades Inc. The Chairman of the Board is a Domtar Inc. representative, while the President and CEO is a Cascades Inc. representative. Norampac s debt is non-recourse to Domtar Inc. As required by GAAP, we account for our 50% interest in Norampac using the proportionate consolidation method.

Norampac s network of 26 corrugated packaging plants, strategically located across Canada and the United States, provides full-service packaging solutions and produces a broad range of products. These facilities are fully integrated on a direct or indirect basis with Norampac s eight containerboard mills (located in Ontario, Quebec, British Columbia, New York State and northern France) for a combined annual capacity of more than 1.6 million tons. Our Packaging business represented 12% of our consolidated sales in the first nine months of 2004.

Business strategy

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

Our business strategies are to continue to:

meet the needs of our customers in order to enhance customer loyalty;

improve the productivity of our mills and the quality of our products and services;

broaden our distribution capabilities;

grow through acquisitions and alliances within our area of expertise;

- maintain strict financial discipline;
- support the personal growth and participation of employees; and
- maintain our good citizenship.

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

Table of Contents

6 Management s Discussion and Analysis

Summary of Financial Results

Financial highlights		Three months ended Sept. 30		Nine months ended Sept. 30	
		2004	**2003**	**2004**	**2003**
(In millions of Canadian dollars, unless otherwise noted)					
Sales		**1,335**	1,266	**3,906**	3,990
EBITDA[1]		**158**	131	**338**	459
Operating profit[1]		**66**	36	**61**	170
Excluding specified items[2]		**63**	31	**65**	159
Net earnings (loss)		**29**	3	**(16)**	38
Excluding specified items[2]		**23**		**(15)**	34
Net earnings (loss) per share (in dollars):					
Basic		**0.13**	0.01	**(0.07)**	0.16
Basic, excluding specified items[2]		**0.10**		**(0.07)**	0.14
Diluted		**0.13**	0.01	**(0.07)**	0.16
Operating profit (loss), excluding specified items, per segment[2]:					
Papers		**29**	22	**5**	155
Paper Merchants		**5**	4	**16**	16
Wood		**6**	(11)	**(1)**	(52)
Packaging		**20**	16	**37**	40
Corporate		**3**		**8**	
Total		**63**	31	**65**	159
Selling price index[3], before the impact of lumber duties (%)		**100**	91	**95**	93
Selling price index[3] Papers segment (%)		**94**	90	**91**	93
Shipments to capacity ratio for papers (%)		**96**	92	**97**	92
Average exchange rates	CAN$	**1.307**	1.380	**1.328**	1.429
	US$	**0.765**	0.725	**0.753**	0.701
Dividends per share (in dollars):					
Series A preferred shares		**0.56**	0.56	**1.69**	1.69
Series B preferred shares		**0.17**	0.22	**0.54**	0.64
Common shares		**0.06**	0.06	**0.18**	0.16

	Sept. 30, 2004	**Dec. 31, 2003**
Total assets	**5,859**	5,847
Total long-term debt, including current portion	**2,116**	2,059

1 EBITDA (Earnings Before Interest (Financing expenses), Taxes and Amortization) is a non-GAAP measure and is determined by adding back amortization expense, including portions related to specified items (impairment losses and write-downs), financing expenses and income taxes to net earnings (see EBITDA table on page 10). Operating profit is also a non-GAAP measure that is calculated within our financial statements. We focus on EBITDA and operating profit as these measures enable us to compare our results between periods without regard to debt service or income taxes (for operating profit) and without regard to amortization (for EBITDA). As such, we believe it would be useful for investors and other users to be aware of these measures so they can better assess our performance. Our EBITDA and operating profit 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.

2 See Specified items affecting results and non-GAAP measures on page 7.

3 Selling price index is derived from transaction prices for the majority of our products, weighted for production capacity, in relation to trend pricing. Trend pricing is based on a consensus of analysts of normalized pricing as at November 30, 2003. See Sensitivity Analysis on page 27.

Specified items affecting results and non-GAAP measures

Our operating results include specified items that, in our view, do not typify our normal operating activities, thus affecting the comparability of our results. To measure our performance and that of our business segments from period to period without variations caused by these specified items, we focus on operating profit excluding specified items, net earnings excluding specified items, net earnings per share excluding specified items and other such measures excluding specified items. We define specified items as items such as the impacts of: impairment of assets, facility or machine closures, changes in income tax legislation, debt restructuring, mark-to-market gains and losses on hedging contracts not considered as hedges for accounting purposes, foreign exchange impact on long-term debt translation and other items that, in our view, do not typify normal operating activities.

Operating profit excluding specified items, net earnings excluding specified items, net earnings per share excluding specified items and other such measures excluding specified items are non-GAAP measures. We believe that it is useful for investors and other users to be aware of the specified factors that positively or adversely affected our GAAP results, and that these non-GAAP measures provide investors and other users with a measure of performance to compare our results between periods without regard to these specified items which do not typify normal operating activities in our view. These measures have no standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures presented by other companies and therefore should not be considered in isolation.

The following tables reconcile our net earnings and net earnings per share, determined in accordance with GAAP, to our net earnings excluding specified items and net earnings per share excluding specified items, and reconcile our operating profit to our operating profit excluding specified items:

Specified items	**Three months ended September 30, 2004**			**Three months ended September 30, 2003**		
	Operating profit	**Net earnings**	**Net earnings per share**	**Operating profit**	**Net earnings**	**Net earnings per share**
(In millions of Canadian dollars, except per share amounts)						
As per GAAP[1]	**66**	**29**	**0.13**	36	3	0.01
Specified items:						
Sale of land[(i)]	**(4)**	**(4)**				
Closure and restructuring costs[(ii)]				(5)	(3)	
Unrealized mark-to-market gains and losses[(iii)]	**1**	**1**				
Foreign exchange impact on long-term debt[(iv)]		**(3)**				
	(3)	**(6)**	**(0.03)**	(5)	(3)	(0.01)
Excluding specified items	**63**	**23**	**0.10**	31		

[1] Except for operating profit which is a non-GAAP measure. See note 1, page 6.

Table of Contents

8 Management s Discussion and Analysis

Specified items	Nine months ended September 30, 2004			Nine months ended September 30, 2003		
	Operating profit	**Net loss**	**Net loss per share**	**Operating profit**	**Net earnings**	**Net earnings per share**
(In millions of Canadian dollars, except per share amounts)						
As per GAAP[1]	**61**	**(16)**	**(0.07)**	170	38	0.16
Specified items:						
Sale of land (i)	**(4)**	**(4)**				
Closure and restructuring costs (ii)	**8**	**6**		(5)	(3)	
Unrealized mark-to-market gains and losses (iii)				(6)	(4)	
Foreign exchange impact on long-term debt (iv)		**(1)**			(4)	
Refinancing costs (v)					7	
	4	**1**		(11)	(4)	(0.02)
Excluding specified items	**65**	**(15)**	**(0.07)**	159	34	0.14

[1] Except for operating profit which is a non-GAAP measure. See note 1, page 6.

(i) In the third quarter of 2004, we announced the sale of timberland and a subsequent donation to the ecological organization Nature Conservancy, for a total net gain realised of $4 million ($4 million net of income taxes), in order to partner with them in the creation of the largest private protected natural site in Eastern Canada. This gain was recorded in the financial statements under Selling, general and administrative expenses.

(ii) Our results reflect restructuring charges related to the implementation of best practices in our Cornwall, Espanola, Ottawa-Hull, Vancouver, Port Huron and Windsor mills (referred to as Restructuring plan), as well as closure costs related to the closure of our St. Catharines paper mill, as follows:

Timeline	Impact on		Explanation
(In millions of Canadian dollars)	**Operating profit**	**Net earnings**	
Q1 2003			
Q2 2003			
Q3 2003	(5)	(3)	Reversal of certain costs previously provisioned with regards to the closure of the St. Catharines paper mill

			largely as a result of changes to the initial approach to dismantling the mill.
	—	—	
YTD Q3 2003	(5)	(3)	
Q1 2004	16	11	Severance and termination costs (including $3 million for pension curtailment costs) related to the restructuring plan.
	(8)	(5)	Reversal of provision for closure costs relating to the St. Catharines paper mill due to the sale of the mill in its existing state to a third party.
	—	—	
	8	6	
Q2 2004	1	1	Training costs related to the restructuring plan.
	(2)	(1)	Reversal of restructuring provision (costs of severance for the Vancouver mill were less than originally estimated).
	1		Costs related to the dismantling of the Vancouver paper machine.
	—	—	
Q3 2004			
	—	—	
YTD Q3 2004	8	6	

(iii) Our results include mark-to-market gains or losses on commodity swap contracts and certain 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.

(iv) Our results include our 50% share of Norampac s 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.

(v) Our results include a charge following the refinancing of substantially all of Norampac s existing credit facilities and long-term debt, except those of its joint venture. This charge was recorded in the financial statements under Financing expenses .

Third Quarter 2004 vs
Third Quarter 2003 Overview

Sales of $1.3 billion

Sales in the third quarter of 2004 totaled $1,335 million, an increase of $69 million over sales of $1,266 million in the third quarter of 2003. This increase was mainly attributable to higher average selling prices in the third quarter of 2004 compared to the same period last year for all of our major products. In addition, higher shipments for the majority of our products except corrugated containers and pulp also contributed to this rise in sales. Partially mitigating this growth in sales was the effect of a 6% decline in the quarter-over-quarter average value of the U.S. dollar relative to the Canadian dollar.

Overall, our U.S. dollar denominated average transaction prices for the third quarter of 2004 were at 100% of trend[1] prices, an increase from the corresponding quarter of 2003 where our transaction prices were at 91% of trend prices. When taking into account the impact of lumber duties, our U.S. dollar denominated average transaction prices for the third quarter of 2004 were at 98% of trend prices, compared to 90% of trend prices for the corresponding quarter of 2003. Within Canada, the decline of the U.S. dollar negatively impacted our Canadian dollar denominated prices, which are derived from U.S. dollar denominated prices.

Operating profit of $66 million

Cost of sales increased by $39 million or 4% in the third quarter of 2004 compared to the third quarter of 2003. This increase mainly reflects higher shipments for the majority of our products except corrugated containers and pulp. Higher wood, fiber and freight costs, as well as an $8 million increase in duties on our softwood lumber exports to the U.S. further increased our cost of sales. These factors were partially offset by the positive impact of a weaker U.S. dollar on our U.S. dollar denominated operating expenses as well as savings realized from restructuring activities.

Selling, general and administrative (SG&A) expenses decreased by $2 million or 3% in the third quarter of 2004 compared to the third quarter of 2003. Excluding specified items, SG&A increased by $1 million or 1% in the third quarter of 2004 compared to the third quarter of 2003. Increases in pension, stock-based compensation and other expenses were partially offset by higher royalty revenues relating to a license (expiring in May 2007) granted for the use of our wood preserving patent and the positive impact of a weaker U.S. dollar on our U.S. dollar denominated costs.

Operating profit in the third quarter of 2004 amounted to $66 million compared to $36 million in the third quarter of 2003. Excluding specified items, operating profit amounted to $63 million in the third quarter of 2004, an increase of $32 million from an operating profit of $31 million in the third quarter of 2003. This increase is largely attributable to higher selling prices for all of our major products, higher overall shipments as well as savings realized from restructuring activities. Partially mitigating this rise in operating profit were the $33 million negative impact of the weaker U.S. dollar, including the effect of our hedging program, higher wood, fiber and

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1 Trend pricing is based on a consensus of analysts of normalized pricing as at November 30, 2003. See Sensitivity Analysis on page 32.

10 Management s Discussion and Analysis

freight costs as well as higher duties on our softwood lumber exports to the U.S.

As a result of the above-mentioned factors, EBITDA for the third quarter of 2004 amounted to $158 million compared to $131 million in the third quarter of 2003.

	Three months ended Sept. 30		Nine months ended Sept. 30	
EBITDA	**2004**	**2003**	**2004**	**2003**
(In millions of Canadian dollars)				
Net earnings (loss)	**29**	3	**(16)**	38
Income tax expense (recovery)	**6**	(6)	**(32)**	6
Financing expenses	**33**	41	**113**	130
Amortization of deferred gain	**(2)**	(2)	**(4)**	(4)
Amortization	**92**	95	**277**	289
EBITDA	**158**	131	**338**	459

Net earnings of $29 million

Net earnings in the third quarter of 2004 amounted to $29 million ($0.13 per common share) compared to net earnings of $3 million ($0.01 per common share) in the third quarter of 2003. Excluding specified items, net earnings totaled $23 million ($0.10 per common share) in the third quarter of 2004, an increase of $23 million over net earnings of nil ($0.00 per common share) in the third quarter of 2003. This improvement in net earnings was attributable to the factors mentioned above as well as to lower financing expenses, partially offset by higher income tax expense.

Nine Months Ended September 30, 2004 vs
Nine Months Ended September 30, 2003

Sales for the nine months ended September 30, 2004 totaled $3,906 million, down $84 million or 2% from sales of $3,990 million over the same period of 2003. This decrease was mainly due to the negative impact of a weaker U.S. dollar relative to the Canadian dollar. Partially mitigating this decline in sales were higher shipments for the majority of our products except linerboard and higher average selling prices for all of our products except for papers. Overall, our U.S. dollar denominated average transaction prices for the first nine months of 2004 were at 95% of trend prices, an increase from the corresponding period of 2003 where our transaction prices were at 93% of trend prices. When taking into account the impact of lumber duties