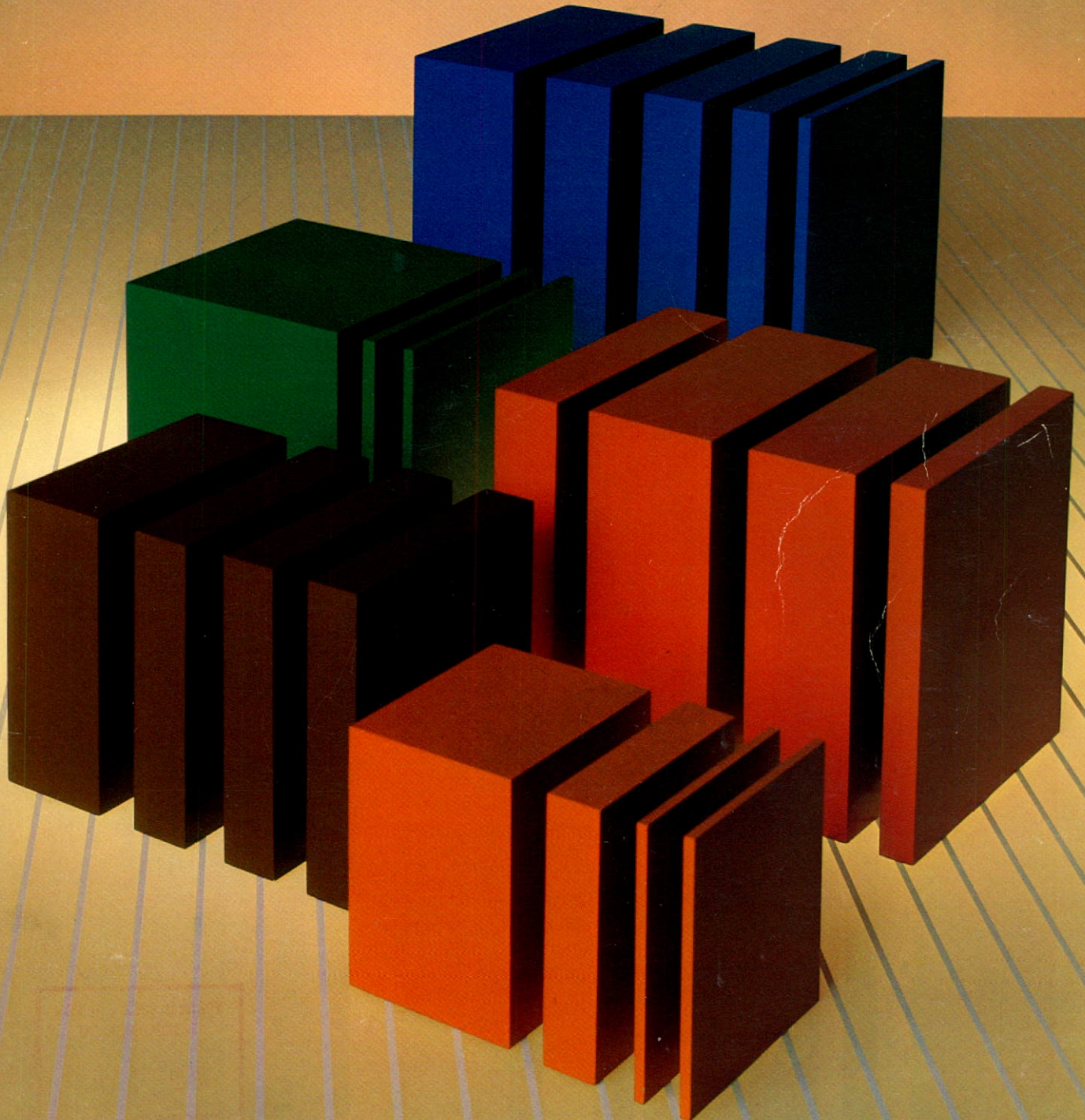
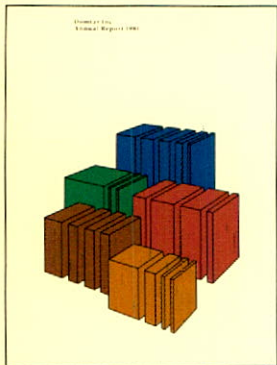


Domtar Inc.  
Annual Report 1981





## Business segments

### ■ Pulp & Paper Products

Fine papers & envelopes  
 Newsprint/groundwood  
 specialty papers  
 Pulp  
 Kraft paper & boxboard  
 Woodlands & lumber

### ■ Construction Materials

Gypsum – Canada  
 Gypsum – United States  
 Arborite®, Fiberglas(\*)  
 insulation & masonry  
 Roofing, fibre &  
 ceiling tiles

### ■ Packaging

Corrugated containers  
 & containerboard  
 – Recycling  
 Composite cans  
 Specialty papers

### ■ Chemicals

Sifto® salt  
 Organic chemicals  
 Wood preserving  
 Lime

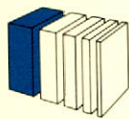
### ■ Energy Investments

## About Domtar

Domtar is a highly integrated, multi-product corporation operating more than 70 facilities in Canada and the United States. Most of the Corporation's key product lines have the prime or a major share of the markets they serve.

On the cover and throughout this report, Domtar's diversified nature is symbolized by cubes representing the assets employed by its various business segments. These assets are organized under 20 operating segments, some of which include more than one business line.

## Strategic strengths of major business segments

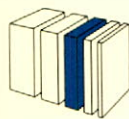


### Fine papers

Includes the two largest fine paper mills in Canada integrated with hardwood pulp supply, making them the most cost-efficient producers of fine papers in Canada.

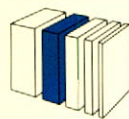
Facilities are strategically located, providing a service and freight advantage over American suppliers in the domestic market.

Has the largest share of the Canadian market.



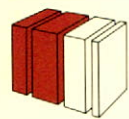
### Pulp

Self-sufficient in softwood and hardwood kraft pulp.



### Groundwood specialty papers

A significant supplier of specialty papers in North America.



### Gypsum

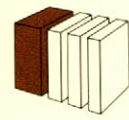
Three regional networks, integrating mines and wallboard plants, are among the most efficient in their respective market areas – the west coast of North America, the Canadian prairies and central Canada.



### Corrugated containers and containerboard

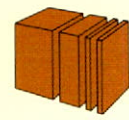
Canadian market share leader in corrugated containers, with presence in all regional markets.

Corrugated container plants are supported by the largest integrated containerboard capacity in Canada.



### Sifto® salt

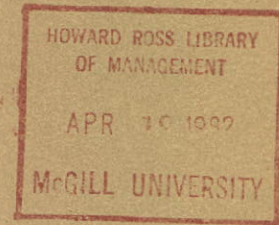
The Goderich, Ontario mine is one of the largest salt mines in North America. It is ideally situated, in the Great Lakes region, to supply central Canada and the mid-west United States through an extensive depot network linked to the mine by major water transportation routes.



### Gas and oil

Domtar is participating in exploration programs with partners possessing specific expertise and proven ability to find low cost reserves of hydrocarbons. 80% of proven and probable gas reserves are under contract.

# Highlights



For the year	1981	1980	1979
Millions of Canadian dollars			
Sales	\$1,765	\$1,653	\$1,495
Earnings before extraordinary items	59	97	98
Net earnings	64	95	98
Cash flow from operations	145	168	164
Capital investment			
Existing businesses	164	118	93
New businesses	31	11	67
Per common share			
Earnings before extraordinary items	\$ 3.35	\$ 5.78	\$ 6.57
Net earnings	3.59	5.66	6.57
Dividends	2.00	2.00	1.80
Cash flow from operations	8.24	10.04	11.01
Return on capital employed <sup>†</sup>	6.7%	12.2%	14.8%
Return on common shareholders' equity <sup>†</sup>	9.8%	18.6%	23.3%
In millions except market price			
Common shares			
Average number of shares outstanding	17.6	16.6	14.8
Market price (Toronto Stock Exchange)			
High	\$ 37½	\$ 30¾	\$ 29¼
Low	\$ 20	\$ 21¾	\$ 22¾
Trading volume			
Canada	5.1	3.8	3.8
United States	0.7	1.6	2.2
<b>At year end</b>			
Ratio of long-term debt to shareholders' equity	29:71	27:73	26:74
Ratio of net tangible assets to long-term debt <sup>†</sup>	4.1:1	4.4:1	4.5:1
Book value per common share	\$ 34.79	\$ 33.36	\$ 30.54

<sup>†</sup>See definitions on inside back cover.

Table of contents	Page
Report of Directors	2
Description of Business Segments	5
Pulp & Paper Products Group	8
Construction Materials Group	12
Packaging Group	16
Chemicals Group	19
Energy Investments	22
Financial Review	24
Quarterly Financial Information (unaudited)	30
Financial Statements	31
Inflation Accounting	48
Eleven Year Review	50
Directors and Officers	52

# Report of Directors

## **Earnings declined in poor business climate**

Reflecting a difficult business climate in 1981, earnings before extraordinary items declined 39% to \$59.4 million from \$96.7 million a year earlier while cash flow from operations decreased only 13% to \$145.5 million from \$168.0 million in 1980.

A characteristic of the Corporation is that it comprises 20 business segments, each reacting at different times to changes in its economic and operating environments. Throughout 1981, the Construction Materials Group and the Lumber operation laboured under the worst housing market North America has experienced in decades. During the first half of the year, the contribution to sales and earnings by some divisions, particularly Fine papers, was severely limited by strikes. In the second half, most businesses were affected by the impact of a broadly-based recession. Few businesses were able to increase product prices sufficiently to offset cost increases.

The Newsprint/groundwood specialty papers and Pulp divisions, buoyed by generally strong demand, produced higher profits in 1981 and were the strongest contributors to corporate earnings. Results in the Packaging and Chemicals Groups and in the Fine papers division, although down from last year, also contributed significantly to 1981 profits.

## **Labour relations in a highly competitive market place**

More than 61 collective agreements were renewed in 1981 and another 77 are to be negotiated in 1982. Some divisions, including Fine papers, Sifto® salt and Arborite® products, were affected by strikes during the year.

The strike in Fine papers lasted seven months and cost the Corporation an estimated \$15 million in lost profits, including \$5 million in 1980. At issue in the dispute was a demand for a wage settlement substantially above the rates paid by manufacturers of fine paper in the United States, which would have significantly eroded the division's competitive position. Such a settlement would have tied fine paper wage increases to those provided in the newsprint industry, which operates in an entirely different economic environment. The settlement eventually reached maintained the division's competitive position in Canada, to the long-term advantage of the Corporation, its employees and its customers.

Controlling costs in an inflationary environment is the single most important challenge facing the Canadian forest products industry. Since the industry is labour intensive, labour costs are a critical factor in the process. Government-related costs, such as stumpage fees, regulatory compliance, assessments and energy pricing policies, represent another significant element. Both of these cost factors are rising rapidly, and are affecting the industry's ability to compete, particularly in the United States where Canadian forest products are losing market share. To reverse this process, costs must be controlled and adjusted in relation to competitive conditions in the market place.

## **Capital program dedicated to improving strategic strengths**

During the year Domtar invested \$164 million in capital improvements. Most of this amount was directed towards increased productive capacity, product improvements and major cost reduction programs aimed at reinforcing the competitive position of various business segments.

Work progressed on several large projects including the \$35 million expansion of the Goderich, Ontario salt mine and the \$43 million recovery furnace at the Red Rock, Ontario liner-board and newsprint mill. Substantial capacity was added to the gypsum wallboard operations with the completion of the \$23 million plant at Tacoma, Washington and the \$4 million expansion of other gypsum facilities in Canada.

The Corporation also committed additional amounts to oil and gas exploration in western Canada in participation with Hamilton Brothers Canadian Gas Company Ltd. of Calgary. Approximately \$10 million is being allocated to this venture for the 1982 program.

The \$31 million spent on acquisitions in 1981 related mainly to the purchase of Delta Brick & Tile Company, Inc., of Mississippi, one of the largest manufacturers of brick in the southern United States.

Early in 1982, the Corporation announced its intention to complete the third and final phase of a conversion to a lower cost pulping method at the Donnacona, Québec groundwood specialty paper mill with an investment of \$38 million over the next three years.

### **Organization restructured to reinforce long-term planning and operations management**

A number of changes were implemented during the year which assigned separate responsibility for the planning of Domtar's long-term business strategies and for the management of existing business activities. They involved new functions and responsibilities for the President and the Chief Operating Officer.

The Chairman and Chief Executive Officer continues to supervise the overall direction of the Corporation and provide the link between the Corporation and its Board of Directors. In the new organization, the President's responsibilities are primarily focussed on the Corporation's long-term goals. The Chief Operating Officer has primary responsibility for the ongoing operations of Domtar's existing businesses.

### **Changes in the Board of Directors**

Several appointments to the Board of Directors were made during 1981.

In August, James H. Smith, President of the Corporation, was appointed to fill a vacancy created by the resignation of Stuart A. Kerr.

In September, Messrs. Guy Coulombe, Denis Giroux, Jean-Claude Lebel and Michel Plessis-Bélair were appointed following the accumulation by the Société générale de financement du Québec and the Caisse de dépôt et placement du Québec of approximately 42% of the common shares of Domtar.

In December, Raymond R. Pinard, Executive Vice-President and Chief Operating Officer of the Corporation, was appointed to the Board to fill the vacancy caused by the resignation of D. Steele Curry of Calgary.

The Directors were saddened by the death of Roger T. Hager, of Vancouver, on January 2, 1982. As a Director, Mr. Hager contributed more than 20 years to the shaping of Domtar and his thoughtful guidance and counsel will be greatly missed.

### **Outlook – another difficult year**

Domtar will be operating in an economy that is not expected to grow in 1982. Price increases will be minimal and insufficient to offset persistently rising costs. Inflation will continue to have a major impact on the operating costs relating to wages, energy and raw materials.

The Corporation has taken various measures across its business lines to adjust production to current demand in order to minimize the impact of an unfavourable business climate.

Significant capital investments to strengthen business units and improve their longer-term competitive position are again planned for 1982. In addition, opportunities will be explored to expand businesses along compatible lines and in major North American markets.

The Corporation is confident of its continuing ability to fully realize its longer-term potential through selective investments and prudent management. This confidence is, in part, based on the diversity and competitive strengths of most of Domtar's business lines. The Corporation's major strength, however, stems from the abilities of the 17,409 men and women who work for Domtar. Their efforts, skills and dedication are gratefully acknowledged.

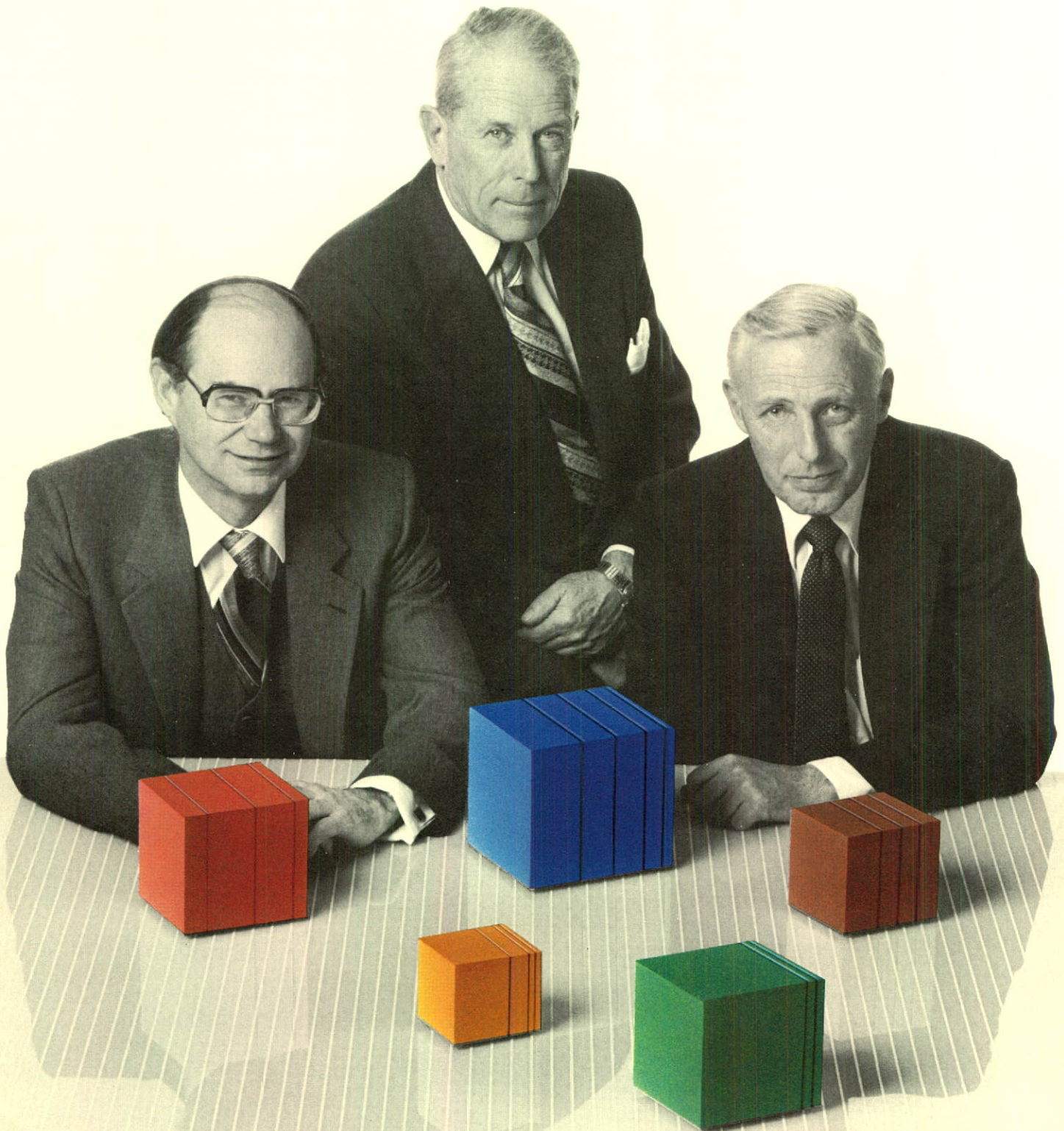


*Alex D. Hamilton*  
Chairman of the Board and Chief Executive Officer



*James H. Smith*  
President

Responsibility for overseeing present operations and establishing the future course of the enterprise rests with, from left, Raymond R. Pinard, Executive Vice-President and Chief Operating Officer, Alex D. Hamilton, Chairman and Chief Executive Officer, and James H. Smith, President.



# Domtar Inc.

## Description of Business Segments

Domtar's varied product lines and businesses are organized under four operating groups – Pulp & Paper Products, Construction Materials, Packaging and Chemicals – and one other category which administers investments in various energy programs.

These operations are supported by several corporate staff functions including administration, human resources, labour relations, legal services, financing, strategic planning, central engineering and research and environmental technology.

The central engineering function is one of the largest in-house professional engineering groups in Canada and offers the Corporation a full range of project management and design and technical support services.

Domtar's corporate research centre is one of the leading industrial research establishments in Canada, providing research and development support for both the immediate and longer term technological needs of the Corporation.

### **Pulp & Paper Products Group**

#### **Fine papers**

The largest producer of fine, specialty, printing and business papers in Canada, this segment generates approximately 25% of Domtar sales. There are five mills in Ontario and Québec – two have integrated pulp facilities – supported by the division's own network of paper merchants in eastern Canada.

#### **Newsprint/groundwood specialty papers**

Produces newsprint and groundwood specialty papers for paperback books and advertising inserts at two mills in Québec and one in Ontario and resells coated groundwood paper purchased from another producer.

#### **Pulp**

Domtar is capable of providing its paper mills with a captive supply of high quality softwood and hardwood pulp. The division also sells, on a continuing basis on the open market, pulp produced at one pulp mill and two integrated pulp and paper mills.

#### **Kraft paper and boxboard**

This unit comprises one integrated mill in Québec. Small by competitive standards, this operation faces major environmental and other long-term problems.

### **Forest products**

This segment supplies Domtar's pulp and paper mills with wood fibre. It engages in the management of timber resources, harvesting and purchasing of wood fibre and production and sale of lumber. Approximately 60% of the wood consumed by Domtar's lumber and pulp operations is obtained from Domtar's captive fibre resources. Lumber operations comprise three sawmills in Québec.

### **Construction Materials Group**

#### **Gypsum – Canada**

Domtar is the largest producer of gypsum wallboard in Canada. Wallboard is produced at five plants in central and western Canada – two integrated with on-site rock supply.

#### **Gypsum – United States**

This is the second largest producer of wallboard on the west coast of the United States. Its facilities include two gypsum wallboard plants and a gypsum paperboard mill in California, one gypsum wallboard plant in Washington and a 49% interest in a gypsum mine in Mexico. This segment, integrated with ocean-going vessels for rock distribution, also markets rock from the mine to other wallboard manufacturers.

#### **Roofing products**

Asphalt shingles, rolled roofing products and saturated felts are produced at four locations. A raw felt mill in Ontario serves the needs of Domtar's roofing plants in central Canada.

#### **Insulation products**

This is the largest national distributor of Fiberglas(\*) insulation manufactured by Fiberglas Canada Inc.

#### **Arborite® products**

Arborite® decorative and industrial laminates, Cladboard® and particleboard are manufactured at three plants in Ontario and Québec. All three products enjoy a major share of the Canadian market.

#### **Masonry products**

This segment produces and markets clay brick in Canada and the southern United States. It comprises six brick plants supported by owned or leased shale deposits. The operation in the United States specializes in a light coloured architectural brick for both residential and commercial building applications.

## **Packaging Group**

### **Containerboard**

Most of the corrugating medium and 75% of the linerboard is produced for the Group's corrugated container plants by three facilities in eastern Canada. The balance of the linerboard production is sold mainly in the Canadian market.

### **Corrugated containers**

This is Canada's largest manufacturer of corrugated containers, with 15 plants located in major industrial markets across Canada.

### **Recycling**

This segment has five waste paper and recycling plants. A corrugated container waste fibre recovery facility is being constructed to support the waste fibre requirements of the recycled linerboard mill in Ontario.

### **Composite cans**

Domtar has a 51% interest in Domtar Sonoco Containers Inc., the leading Canadian manufacturer of composite cans used for frozen juice and a broad range of other consumer products.

### **Specialty papers**

At one plant in Québec, this unit manufactures a range of coated and laminated papers for packaging and reprographic products for office communications.

## **Chemicals Group**

### **Sifto® salt**

This operation produces rock salt and evaporated salt for ice control, industrial chemical uses and consumer products. Two major salt mines and three evaporated salt plants are supported by a distribution network of 54 warehouses and depots located in central Canada and mid-United States within easy access by water from both mines.

### **Wood preserving**

This business produces chemically preserved railroad ties, utility poles, posts and marine pilings. It is the major producer of these products for the Canadian market.

## **Organic chemicals**

This segment manufactures surface active agents (for industries using detergents, emulsifiers, wetting agents, solubilizers, foaming agents and gelling agents), carboxymethylcellulose (used for synthetic detergents, food, textile, paper, packaging and potash mining) and coal tar-based products (used as a binder in electrodes employed in the production of aluminum, as a sealant and as a wood preservative). It manufactures primarily for the Ontario and Québec markets.

## **Lime**

This is the largest Canadian producer of lime which is used as flux in the steel industry, as alkali in chemical processes and for various manufacturing and water treatment processes. The division has one mine, three quarries and three plants.

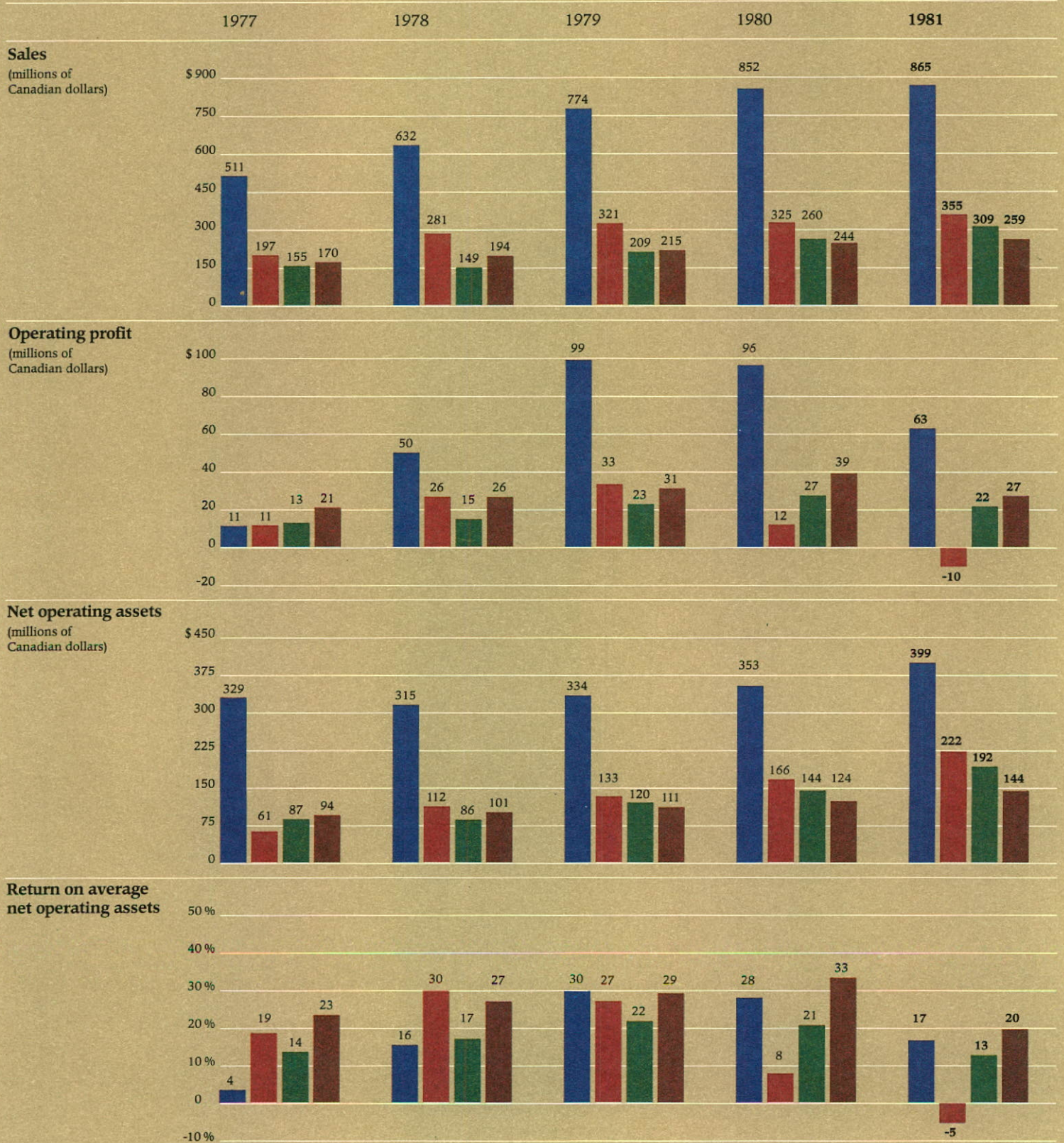
## **Energy investments**

Domtar participates in the exploration and development of oil and gas reserves with operators offering specific expertise and abilities in exploration and marketing. Investment is by means of joint ventures, farm-ins or the purchase of reserves and unexplored properties. Oil and gas investments to date total \$55 million. Domtar's share of proven and probable reserves of oil and gas, expressed as gas, totals 59 billion cubic feet. 80% of these reserves are contracted for sale.



# Performance by Group

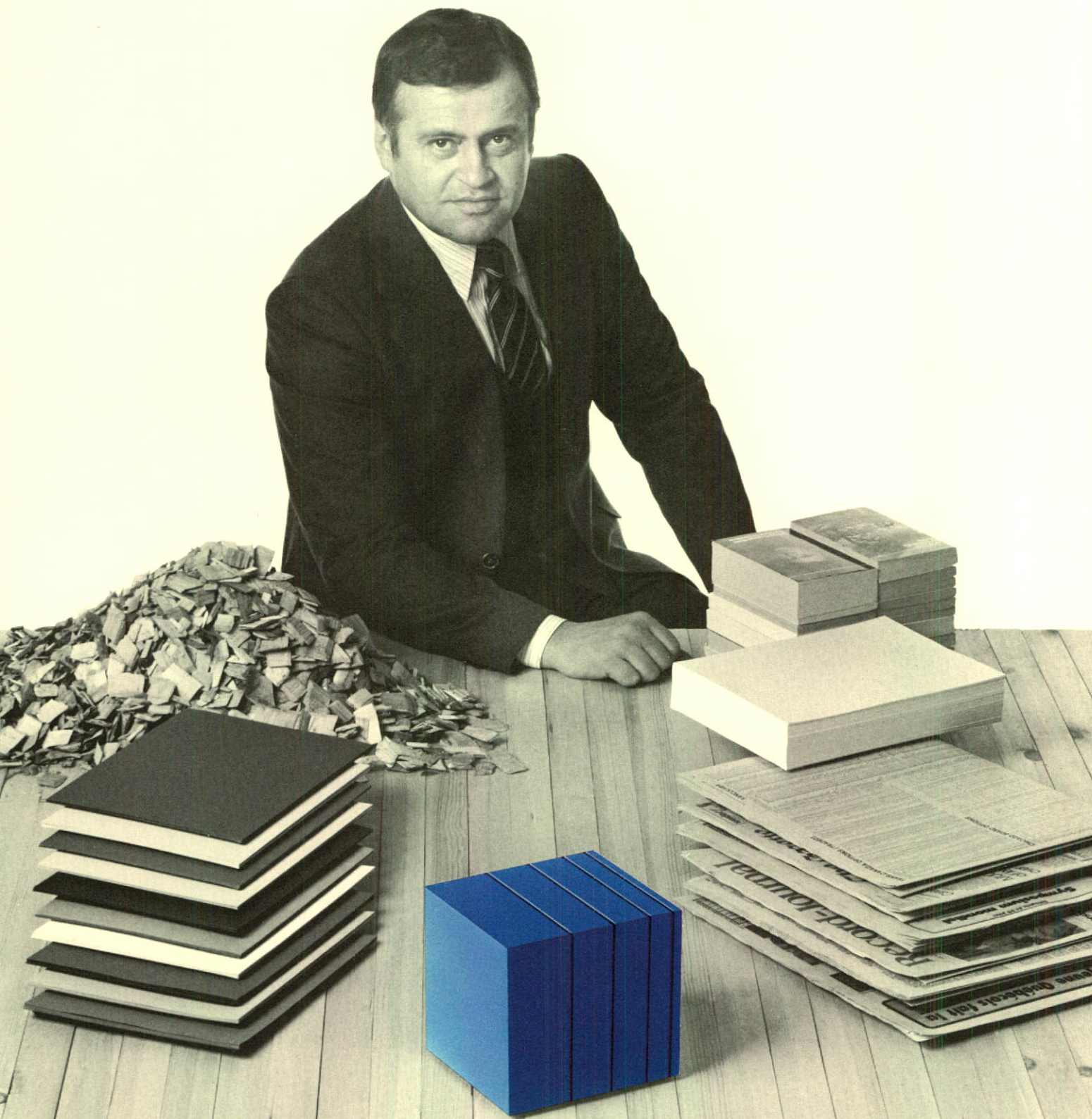
- Pulp & Paper Products
- Construction Materials
- Packaging
- Chemicals



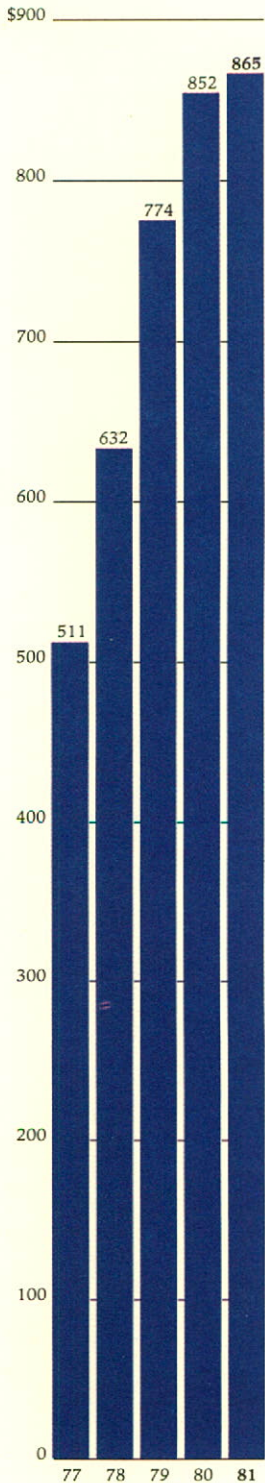
## Domtar Inc. Pulp & Paper Products Group

As President of Domtar Pulp & Paper Products, Roger A. Ashby is responsible for managing the largest of Domtar's operating groups, whose operating segments – Fine papers, Newsprint/groundwood specialty papers, Pulp, Kraft paper and boxboard and Forest products – comprise an

integrated business from the harvesting of timber to the marketing of a wide range of paper and forest products.



**Sales**  
(millions of  
Canadian dollars)



**Pulp & Paper Products results were down from previous year**

Group sales of \$865 million in 1981 were marginally higher than in 1980 despite the impact of strikes in the Fine papers division and in lumber operations and the reduced demand for lumber products in weak North American housing markets.

Pulp and newsprint achieved higher sales volumes which were partially offset by lower volumes in lumber and other papers.

Operating profit for the Group, however, was 35% lower than in the previous year.

**Fine papers division in good position to face increased competition**

Sales and operating profit were down 6% and 62% respectively from the prior year as a strike which began in October, 1980 continued through to May, 1981. At stake in the dispute was a demand for wages significantly above those being offered by American manufacturers of fine papers who are the major competitive threat in the Canadian fine paper market. The settlement, which covers a four-year period ending April 1984, recognized this fact and will be a major factor in sustaining the long-term competitive position of the division.

Once back in operation, the division regained its dominant market position. However, inventories which customers had accumulated from other sources during the strike, together with the recession, had an adverse impact on demand for the rest of the year.

Three small, non-integrated mills improved their performances with a better product mix and the implementation of various cost-control programs including the greater use of recycled paper.

Capital and operational improvements, including the modernization of the Cornwall mill, continued throughout the year. In 1981, the Buntin Reid merchant operation moved into a new distribution centre to reduce costs, provide for growth and to improve service to the Toronto and Hamilton markets. Having closed its fine paper mill in the United Kingdom in late 1980, the division is in the process of selling the related merchant operation.

The markets for both fine papers and the merchant operations are expected to remain highly competitive. The cost-competitive base of the mills and the broad merchant network place the division in a strong position to maintain its share of the Canadian market.

**Newsprint/groundwood specialty papers division held its own in 1981**

Sales and operating profit were 12% and 7% ahead of last year, primarily due to higher prices for all paper products and relatively stable demand. Exchange rates continued to have a significant beneficial impact on profits from sales to the United States.

Work began during the year on a \$29 million wood refuse boiler at the Dolbeau mill. This project, qualifying for a \$2 million federal government grant under the Forest Industry Renewable Energy program, is expected to reduce the mill's requirement for fuel oil by 200,000 barrels per year when the project is completed in 1983.

In 1982, newsprint production capacity in North America will continue to increase significantly, while demand is not expected to improve. Under these conditions, mill operating rates for all Canadian producers, including Domtar, are likely to decrease.

Pulp and paper production (metric tons)	1981	1980	1979	1978	1977
Newsprint/groundwood specialties	383,137	382,283	379,532	373,815	261,479
Fine and specialty papers	236,356	311,815	345,295	298,228	265,998
Market pulp	211,470	161,387	149,595	175,116	188,355
Kraft paper and boxboard	122,797	128,188	151,057	141,633	115,598

In groundwood specialty papers, improvements were made to one paper machine at Donnacona to increase capacity. In addition, the second phase of the conversion to thermo-mechanical pulping was completed at a cost of \$7.5 million. Construction has since started on the third and final phase of the conversion, costing \$38 million. When the project is completed in late 1984, the Donnacona mill will run exclusively on thermo-mechanical pulp, significantly reducing operating costs and pollution.

#### **Pulp sales and profit bolstered by improved production**

Sales and operating profit increased 34% and 15% due mainly to improved performance at the Lebel-sur-Quévillon mill. The strikes in the Fine papers division earlier in the year had only a minor effect on the performance of Lebel-sur-Quévillon since pulp intended for internal use was successfully marketed to other customers.

Production at Lebel-sur-Quévillon increased, mostly in the second half, as a result of capital and operating improvements. Additional improvements to the mill will be made in 1982.

The demand for kraft pulp is weakening and is not expected to recover until paper demand improves in world markets.

#### **Kraft paper and boxboard reported higher costs**

The responsibility for this operating unit at East Angus, Québec was transferred to the Pulp & Paper Products Group from the Packaging Group in 1981. Sales increased by 11% in 1981 mainly because competitors continued to withdraw from the market. Operating profit declined 31% as cost increases, particularly for raw materials, energy and chemicals, exceeded increases in selling prices.

This facility is small by competitive standards and faces major long-term problems. The market for its products is not growing mainly because of product substitution. Significant capital expenditures would be required to bring the mill in line with pollution control regulations. Discussions are currently in progress with government officials to review alternatives for the mill.

#### **Lumber operations reflected depressed market conditions**

Lumber is manufactured and sold at Dolbeau and Lebel-sur-Quévillon, Québec to reduce the cost of wood fibre required for pulping operations.

Lumber operations continued to have an adverse impact on results as lumber prices fell and operations were curtailed in response to weak residential construction markets. In the first quarter of 1981, the Sapawe, Ontario sawmill was sold mainly because it was not important to Domtar's long-term fibre supply in the region.

#### **Woodland operations adjusting to current conditions**

In 1981, 2.5 million metric tons of wood fibre were consumed by Domtar's lumber and pulp operations. Approximately 60% of this amount was obtained directly from Domtar's wood limits or in exchange for cutting rights on those limits.

In the latter part of 1981, Domtar's cutting operations were reorganized to provide additional fibre in anticipation of further curtailment of operations by independent sawmillers in response to continuing depressed lumber markets.

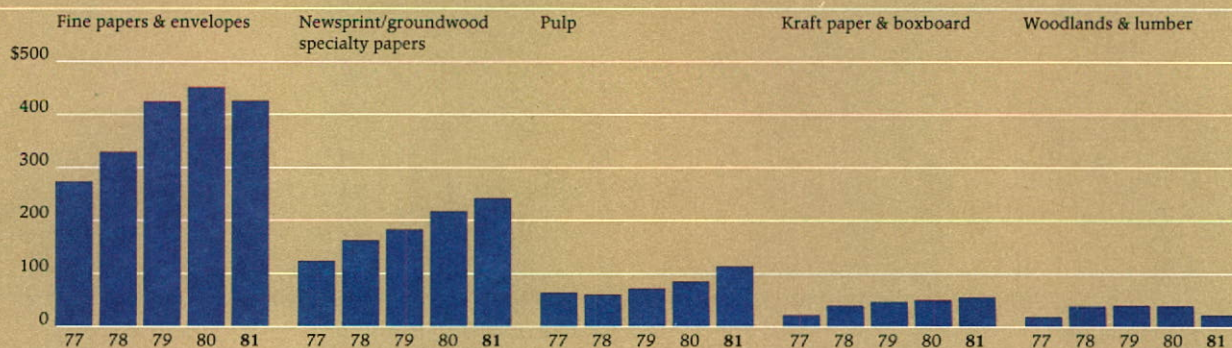
# Domtar Inc. Pulp & Paper Products Group Five Year Review

Supplementary segmented information  
(millions of Canadian dollars)

		% of Domtar total	1981	1980	1979	1978	1977
<b>Trade sales†</b>	Fine papers & envelopes	24.0	\$424.3	\$449.3	\$421.1	\$327.8	\$271.3
	Newsprint/groundwood specialty papers	13.6	240.0	215.0	181.7	160.8	122.0
	Pulp	6.4	112.3	84.1	70.1	59.2	62.6
	Kraft paper & boxboard	3.1	54.8	49.3	45.7	38.4	20.5
	Woodlands & lumber	1.2	21.8	38.8	39.6	37.8	18.2
	Consolidated trade sales	48.3	853.2	836.5	758.2	624.0	494.6
	Inter-segment sales		11.3	15.9	15.4	7.5	16.3
Group sales		\$864.5	\$852.4	\$773.6	\$631.5	\$510.9	
<b>Operating profit†</b>	Fine papers & envelopes	16.6	\$ 16.4	\$ 43.5	\$ 45.0	\$ 22.4	\$ 5.6
	Newsprint/groundwood specialty papers	40.6	40.2	37.5	33.9	24.6	5.1
	Pulp	20.4	20.2	17.5	17.9	(0.7)	2.8
	Kraft paper & boxboard	3.4	3.4	4.9	3.2	3.7	0.1
	Woodlands & lumber	(17.8)	(17.6)	(7.3)	(1.3)	(0.2)	(2.2)
	Group	63.2	\$ 62.6	\$ 96.1	\$ 98.7	\$ 49.8	\$ 11.4
<b>Net operating assets†</b>	Fine papers & envelopes	15.5	\$168.2	\$146.8	\$143.2	\$136.3	\$125.5
	Newsprint/groundwood specialty papers	8.6	92.8	74.7	66.9	62.0	70.6
	Pulp	7.4	80.2	78.0	69.2	67.2	79.2
	Kraft paper & boxboard	1.5	16.6	13.2	13.7	12.5	11.6
	Woodlands & lumber	3.8	41.1	40.0	40.8	36.9	42.4
	Group	36.8	\$398.9	\$352.7	\$333.8	\$314.9	\$329.3
<b>Return on average net operating assets</b>	Fine papers & envelopes		10.4%	30.0%	32.2%	17.1%	4.6%
	Newsprint/groundwood specialty papers		48.0	53.0	52.6	37.1	7.2
	Pulp		25.5	23.8	26.2	(0.9)	3.5
	Kraft paper & boxboard		22.8	36.4	24.4	30.7	0.1
	Woodlands & lumber		(43.4)	(18.1)	(3.3)	(0.5)	(6.0)
	Group		16.7%	28.0%	30.4%	15.5%	3.6%

†See definitions on inside back cover.

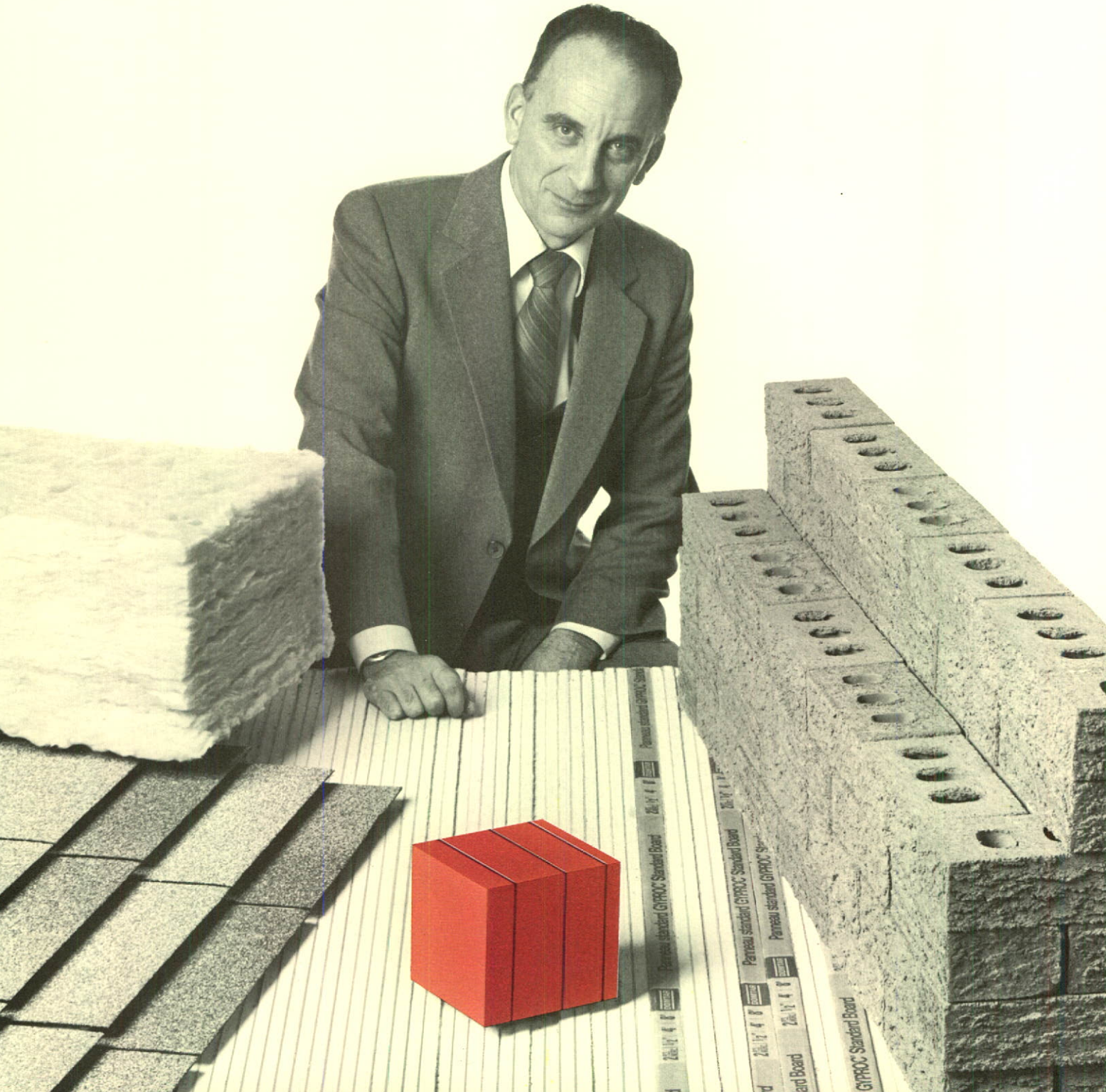
**Trade sales**  
(millions of  
Canadian dollars)



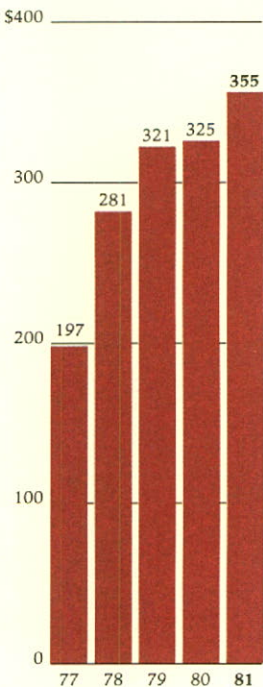
## Domtar Inc. Construction Materials Group

N. Bruce Dephoure is President of Domtar Construction Materials, a leading Canadian manufacturer and distributor of gypsum wallboard, masonry products, Arborite® and Cladboard® decorative and industrial plastic laminates, roofing, fibre and ceiling tiles and a distributor of

Fiberglas® products. The Group is also a leading manufacturer and distributor of gypsum wallboard products on the west coast of the United States.



**Sales**  
(millions of  
Canadian dollars)



### Construction Materials Group reported an operating loss

Although Group sales in 1981 were approximately 9% above the level recorded in 1980, escalating raw material costs, lower prices for some products, major strikes in two operations, the costs associated with the startup of a new gypsum plant at Tacoma, Washington and the expansion of other gypsum facilities combined to produce a \$10 million operating loss in 1981.

The year 1982 is also expected to be difficult. Continuing high interest rates and more stringent lending criteria for mortgages will affect demand for construction materials. Competition is expected to intensify in a diminishing market. Accordingly, the Group is currently curtailing some operations and focussing its resources on its most efficient production units.

### Gypsum operations were expanded

Sales of gypsum wallboard products in Canada, supported by additional capacity, were higher for both non-residential and residential applications. Exports of wallboard from Canadian plants to markets in the eastern United States exceeded 1980 levels. Total exports to the United States declined, however, due to the startup of production at the new Tacoma plant.

In the United States, sales of Domtar Gypsum America Inc. declined due to the exceptionally low level of housing starts in California. The new capacity added to this operation in 1981 served to intensify the impact of the poor market conditions.

Operating profit fell as product price increases failed to keep pace with cost increases.

In 1981, the division purchased a shut-down gypsum mine and wallboard operation in Grand Rapids, Michigan, mainly for the high quality ore and the location of the assets in the densely populated Chicago-Detroit corridor. These assets should present a significant opportunity when the construction market in the United States improves.

Little improvement is anticipated for this business in 1982. Interest rates are expected to remain high, effectively dampening construction activity in both residential and non-residential markets.

### Arborite® division results are encouraging

A strike lasting nearly four months closed the LaSalle, Québec plant in 1981. A three-year agreement with the union was reached in July. Although there was some disruption in service and increased operating costs associated with the strike, the division continued to serve its customers from its Toronto plant. As a result, the volume of high pressure laminate declined only slightly below the 1980 level.

Performance of the Cladboard® laminate and industrial grade particleboard plant at Huntsville, Ontario continued to improve in 1981. Despite the strike at the LaSalle plant, the division's sales exceeded all previous levels.

Both Arborite® and Cladboard® products are now being marketed in the United States and Arborite® is also being sold in certain offshore markets. This division is the least affected by North American housing starts.

### Profits from Fiberglas(\*) insulation continued to rise

Sales volume and profits again increased in 1981 despite the poor housing market. The short-term prospects for the division depend to a certain extent on demand for insulation in existing housing as well as in new construction.

**Masonry products featured expansion and improved performance**

Continuing high activity in the domestic non-residential construction market and increased penetration of the large Toronto market resulted in improved performance of this business line. These factors offset losses resulting from a six-month strike, settled in December, 1981, at the LaPrairie, Québec facility.

Early in 1981, the Masonry products division acquired Delta Brick & Tile Company, Inc., of Mississippi, the largest clay brick manufacturer in that state and the sixth largest in the United States. This unit specializes in a light coloured architectural brick for both residential and commercial building applications. Delta Brick's three plants operated at 50% of capacity for most of the year.

**Roofing, fibre and ceiling tile results were disappointing**

The decline in the demand for roofing products, fibre and ceiling tiles was attributable to the generally poor economic conditions. In addition, export volume of roofing products to the United States declined.

Price increases did not cover cost increases, particularly for the asphalt used in roofing products, and all business lines operated at a loss.

**Pipe products facility sold**

An opportunity arose in 1981 to dispose profitably of a small unit which produced plastic conduit. This operation was sold because it was incompatible with the long-range business plans for the Group.



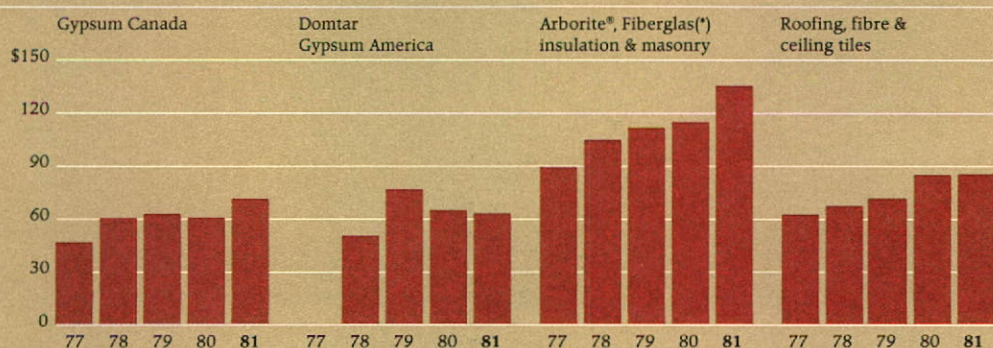
# Domtar Inc. Construction Materials Group Five Year Review

Supplementary segmented information  
(millions of Canadian dollars)

		% of Domtar total	1981	1980	1979	1978	1977
<b>Trade sales†</b>	Gypsum – Canada	4.0	\$ 71.0	\$ 60.3	\$ 62.4	\$ 60.0	\$ 46.3
	Domtar Gypsum America	3.6	62.8	64.5	76.4	49.8	–
	Total gypsum	7.6	133.8	124.8	138.8	109.8	46.3
	Arborite®, Fiberglas(*) insulation & masonry	7.7	135.7	114.4	111.1	104.2	89.0
	Roofing, fibre & ceiling tiles	4.8	85.3	84.7	71.3	67.0	62.1
	Consolidated trade sales	20.1	354.8	323.9	321.2	281.0	197.4
	Inter-segment sales		–	0.9	–	–	–
Group sales		\$354.8	\$324.8	\$321.2	\$281.0	\$197.4	
<b>Operating profit†</b>	Gypsum – Canada	(0.9)	\$ (0.9)	\$ 2.0	\$ 8.2	\$ 10.0	\$ 5.9
	Domtar Gypsum America	(8.2)	(8.1)	2.9	18.0	13.7	–
	Total gypsum	(9.1)	(9.0)	4.9	26.2	23.7	5.9
	Arborite®, Fiberglas(*) insulation & masonry	1.7	1.7	4.1	5.7	1.9	0.2
	Roofing, fibre & ceiling tiles	(2.9)	(2.9)	2.8	1.2	0.7	5.1
	Group	(10.3)	\$ (10.2)	\$ 11.8	\$ 33.1	\$ 26.3	\$ 11.2
<b>Net operating assets†</b>	Gypsum – Canada	3.9	\$ 41.8	\$ 36.3	\$ 31.9	\$ 18.4	\$ 9.3
	Domtar Gypsum America	7.9	85.9	67.6	35.9	33.6	–
	Total gypsum	11.8	127.7	103.9	67.8	52.0	9.3
	Arborite®, Fiberglas(*) insulation & masonry	6.8	74.4	39.0	44.7	42.5	41.0
	Roofing, fibre & ceiling tiles	1.9	20.2	23.5	20.1	17.3	10.9
Group	20.5	\$222.3	\$166.4	\$132.6	\$111.8	\$ 61.2	
<b>Return on average net operating assets</b>	Gypsum – Canada		(2.3)%	5.9%	32.6%	72.2%	64.8%
	Domtar Gypsum America		(10.6)	5.6	51.8	41.0	–
	Total gypsum		(7.8)	5.7	43.7	50.2	64.8
	Arborite®, Fiberglas(*) insulation & masonry		3.0	9.8	13.1	4.6	0.5
	Roofing, fibre & ceiling tiles		(13.3)	12.8	6.4	5.0	50.2
Group		(5.2)%	7.9%	27.1%	30.4%	18.6%	

†See definitions on inside back cover.

**Trade sales**  
(millions of  
Canadian dollars)



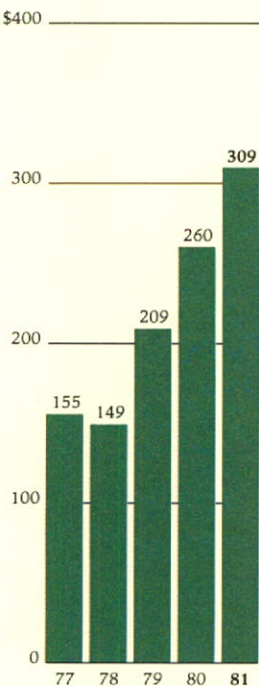
## Domtar Inc. Packaging Group

President of Domtar Packaging, Elmer R. Puddington manages a group of businesses producing a variety of converting materials, such as linerboard and corrugating medium, and finished products including corrugated containers and containerboard, composite cans and

specialty papers. The Group is the Canadian market share leader in corrugated containers and is present in all regional markets.



**Sales**  
(millions of  
Canadian dollars)



### Packaging sales up, profit down

Group sales increased 19% over 1980. Weak economic conditions, particularly during the last quarter of the year, caused operating profit for 1981 to decline by 22% from the 1980 level.

During 1981, the Recycling operation was established as a separate division and the responsibility for the Kraft paper and boxboard mill at East Angus, Québec was transferred to the Pulp & Paper Products Group.

### Corrugated containers and containerboard division made major plant improvements but encountered weaker markets

Sales increased by 19% due to general price increases and to the inclusion of a full year of sales from plants acquired in mid-1980. A decline in operating profit was caused mainly by severely depressed market conditions in the last quarter of 1981.

Major plant improvements were completed during 1981 at the division's Richmond, British Columbia and Winnipeg, Manitoba plants. These projects provide capacity increases and opportunities for substantial cost reductions.

The construction of a \$43 million recovery furnace to replace two obsolete units at the Red Rock, Ontario linerboard mill continued throughout the year. When the project is completed in 1982, it will solve a significant pollution problem at the mill.

### Recycling operation established as a separate division

Establishing recycling operations as a separate division reflects its importance as the supplier of the recycled fibre required by Domtar mills and outside customers. The division consists of five waste paper recycling plants and a brokerage operation.

Construction of a corrugated container waste recovery plant in Toronto – based on the latest European waste separation technology – will give the division a technological lead in developing new sources of waste fibre to support the long-term growth of the containerboard business. Work on this new installation began in 1981; when completed in 1982, it will enable the division to supply from Canadian sources a higher proportion of its fibre requirements. Two of the division's waste paper recycling plants will be consolidated into a single modern facility adjacent to the corrugated container waste recovery plant.

### Composite can division performed extremely well in 1981

This division experienced an excellent year in 1981, expanding sales by 30% and operating profits by 63% over 1980.

New production records were set at both the Chatham and Prescott, Ontario plants which operated at full capacity throughout the year.

The acquisition of assets from Reid Dominion in September 1981 further enhances the division's productive capacity.

### Specialty papers faced stiff competition

Exports account for approximately 25% of annual sales of the Specialty papers division, which converts paper into gummed tapes, vapo-wrap, photocopy stock and other coated papers. Operating in a highly competitive market, the division was unable to pass on all cost increases to its customers. As a consequence, operating profits declined from the 1980 levels by approximately 38%.

Paper production (metric tons)	1981	1980	1979	1978	1977
Containerboard	332,943	338,611	326,387	251,418	231,955

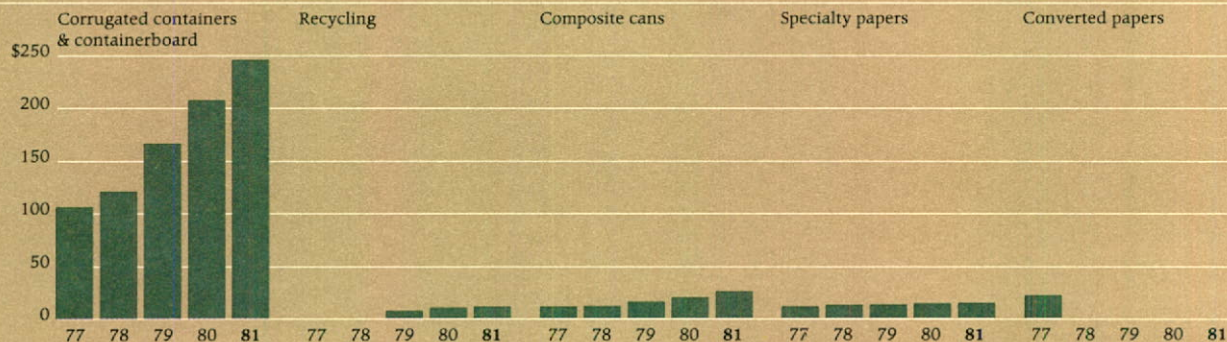
# Domtar Inc. Packaging Group Five Year Review

Supplementary segmented information  
(millions of Canadian dollars)

		% of Domtar total	1981	1980	1979	1978	1977
<b>Trade sales†</b>	Corrugated containers & containerboard	13.9	\$245.7	\$207.0	\$166.7	\$120.8	\$106.4
	Recycling	0.7	11.7	10.8	7.8	—	—
		14.6	257.4	217.8	174.5	120.8	106.4
	Composite cans	1.5	25.9	20.0	15.9	12.0	11.5
	Specialty papers	0.8	14.8	14.2	13.5	13.0	11.5
	Converted papers	—	—	—	—	—	22.2
	Consolidated trade sales	16.9	298.1	252.0	203.9	145.8	151.6
Inter-segment sales		10.9	7.6	4.8	2.9	3.4	
Group sales		\$309.0	\$259.6	\$208.7	\$148.7	\$155.0	
<b>Operating profit†</b>	Corrugated containers & containerboard	17.8	\$ 17.6	\$ 23.9	\$ 19.2	\$ 13.1	\$ 12.1
	Recycling	0.3	0.3	0.8	0.9	—	—
		18.1	17.9	24.7	20.1	13.1	12.1
	Composite cans	3.1	3.1	1.9	1.6	0.9	1.1
	Specialty papers	0.5	0.5	0.8	0.8	0.7	1.0
	Converted papers	—	—	—	—	—	(1.5)
Group	21.7	\$ 21.5	\$ 27.4	\$ 22.5	\$ 14.7	\$ 12.7	
<b>Net operating assets†</b>	Corrugated containers & containerboard	15.4	\$168.3	\$127.1	\$105.4	\$ 75.5	\$ 76.9
	Recycling	0.7	7.2	4.8	3.1	—	—
		16.1	175.5	131.9	108.5	75.5	76.9
	Composite cans	0.9	9.6	6.1	4.6	4.4	3.5
	Specialty papers	0.7	7.2	6.3	7.0	6.1	6.1
	Converted papers	—	—	—	—	—	0.1
Group	17.7	\$192.3	\$144.3	\$120.1	\$ 86.0	\$ 86.6	
<b>Return on average net operating assets</b>	Corrugated containers & containerboard		11.9%	20.6%	21.2%	17.2%	15.5%
	Recycling		5.0	20.3	29.0	—	—
	Combined return		11.6	20.5	21.8	17.2	15.5
	Composite cans		39.5	35.5	35.6	22.8	32.8
	Specialty papers		7.4	12.0	12.2	11.5	16.8
	Converted papers		—	—	—	—	—
Group		12.8%	20.7%	21.8%	17.0%	13.6%	

†See definitions on inside back cover.

**Trade sales**  
(millions of  
Canadian dollars)



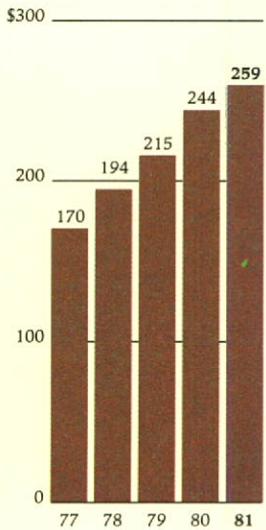
## Domtar Inc. Chemicals Group

Domtar Chemicals Group is headed by W.D. (Bill) Davidson. Its four divisions mine or produce and market salt products, chemically preserved wood products, specialty organic chemicals, coal products and lime and limestone products in Canada and the United States. It is the fourth largest salt

producer in North America and is the largest Canadian producer of preserved wood products, coal tar pitch and lime products.



**Sales**  
(millions of  
Canadian dollars)



**Chemicals Group revenues increased but operating profit declined**

Group sales increased in 1981 but volume was lower in all product lines, mainly as a result of strikes at customer and Domtar locations.

The Group's operating profit at \$27 million was 31% lower than in 1980. All divisions experienced lower operating profit except Organic chemicals which reported substantially improved results.

**Sifto® salt results affected by work stoppage and reduced demand brought on by mild winter weather**

Sales declined marginally from 1980 primarily due to shortages of rock salt following an 11-week strike at the Goderich, Ontario mine. Price advances in Canadian markets were not matched in the United States where prices declined marginally due to oversupply resulting from two successive mild winters in the mid-West. Industrial salt consumption was below normal due to the generally reduced operating rates of industrial customers. The decline in sales was offset to some extent, however, by increased penetration of the Canadian consumer market for household salt.

Operating profit at \$8 million was 57% below the 1980 level.

A \$7.5 million processing plant and terminal in Chicago will enter production in March, 1982 while the \$35 million program to expand the capacity of the Goderich mine by 55% is scheduled for completion in 1983.

**Organic chemicals division recorded gains in both sales and profit**

Based on an active first half of 1981, the division reported an 18% increase in sales and a 24% increase in operating profit.

Sales of resale products, including dyestuffs and pentachlorophenol, were adversely affected by the strikes in the Fine papers division and by a loss of export markets. However, the impact of these factors was more than offset by increased sales of manufactured tar products.

The major capital improvement made by the division in 1981 was the doubling of kettle capacity at the Longford Mills, Ontario specialty chemical plant to permit the continued growth of the business.

**Wood preserving division sales affected by lower demand**

Sales were slightly higher in 1981 due primarily to price changes. Many small utilities cut back or postponed capital spending programs in the face of increased financing costs, reducing volume by 5%. This was partially offset by accelerated shipments to the major Canadian railways, combined with some increase in export orders.

The division's research and development program continued to concentrate on new preservatives and new product development.

**Lime and limestone markets weaker**

Sales increased 2% over 1980 levels despite the sale in January of the Tacoma plant. A sharp decline in volume in the second half of 1981 was encountered due to the downturn in the steel and cement industries.

Operating profit of \$0.7 million was significantly below levels reported in preceding years.

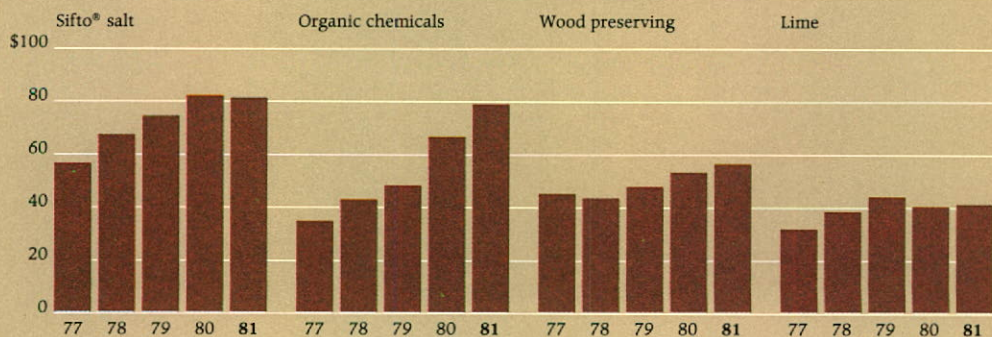
# Domtar Inc. Chemicals Group Five Year Review

Supplementary segmented information  
(millions of Canadian dollars)

		% of Domtar total	1981	1980	1979	1978	1977
Trade sales†	Sifto® salt	4.6	\$ 80.5	\$ 81.4	\$ 73.7	\$ 66.8	\$ 55.8
	Organic chemicals	4.4	78.2	66.1	47.5	42.4	34.2
	Wood preserving	3.2	56.0	52.7	47.2	42.8	44.5
	Lime	2.3	40.9	40.0	43.5	38.1	31.4
	Consolidated trade sales	14.5	255.6	240.2	211.9	190.1	165.9
	Inter-segment sales		3.6	3.4	3.2	4.1	3.9
	Group sales		\$259.2	\$243.6	\$215.1	\$194.2	\$169.8
Operating profit†	Sifto® salt	8.4	\$ 8.3	\$ 19.2	\$ 15.6	\$ 13.1	\$ 8.9
	Organic chemicals	12.0	11.9	9.6	5.5	4.9	3.7
	Wood preserving	6.1	6.0	8.3	5.7	4.8	5.5
	Lime	0.7	0.7	1.9	4.1	3.5	2.7
	Group	27.2	\$ 26.9	\$ 39.0	\$ 30.9	\$ 26.3	\$ 20.8
Net operating assets†	Sifto® salt	6.5	\$ 71.0	\$ 54.6	\$ 47.4	\$ 43.3	\$ 42.2
	Organic chemicals	2.1	22.7	15.9	15.6	13.3	11.6
	Wood preserving	2.2	23.7	24.3	21.4	19.8	18.8
	Lime	2.5	26.6	28.8	26.5	24.2	21.7
	Group	13.3	\$144.0	\$123.6	\$110.9	\$100.6	\$ 94.3
Return on average net operating assets	Sifto® salt		13.2%	37.6%	34.3%	30.6%	22.2%
	Organic chemicals		61.7	61.0	38.1	39.5	35.2
	Wood preserving		25.0	36.3	27.7	24.9	26.9
	Lime		2.5	6.9	16.2	15.3	15.2
	Group		20.1%	33.3%	29.2%	27.0%	23.4%

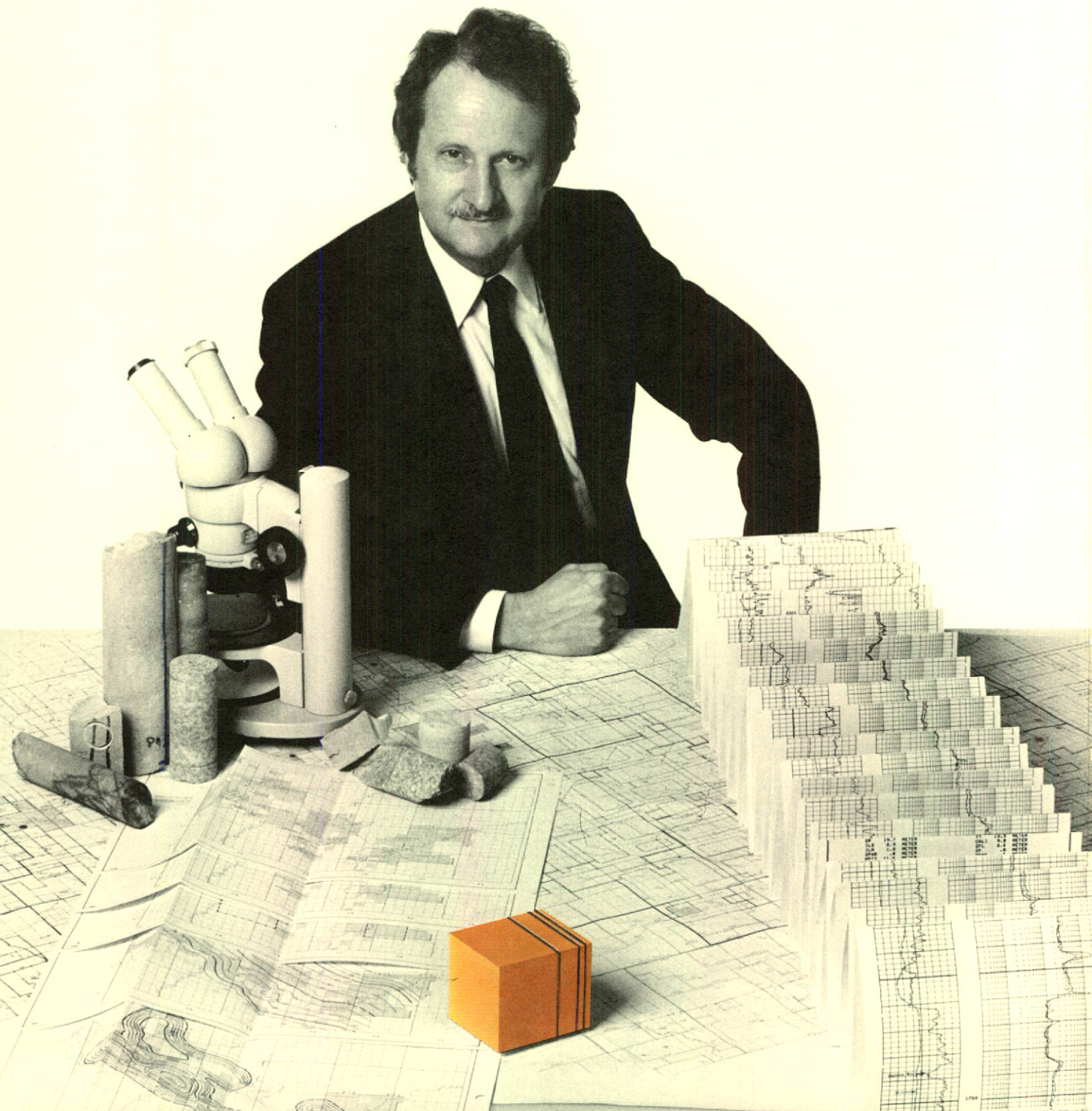
†See definitions on inside back cover.

**Trade sales**  
(millions of  
Canadian dollars)



## Domtar Inc. Energy Investments

Vice-President of Energy, Fred E. Hertha manages Domtar's investments in joint-venture or farm-in exploration and development programs for oil and gas in Alberta, British Columbia and the United States with operators with proven expertise in exploration and marketing.





**Energy operations reported success in exploration and development programs and increased asset values**

Domtar is currently engaged in three joint ventures with Canadian Hunter Exploration Ltd. and a farm-in on the exploration properties of Hamilton Brothers Canadian Gas Company Ltd. The Corporation's total investment to date is \$55 million.

For 1981, Domtar's sales of hydrocarbons, before royalties and the petroleum and gas revenue tax, totalled \$4 million, up from \$1 million in 1980.

Independent engineers have estimated, as of December 31, 1981, the value of future net revenues for Domtar's proven and probable reserves, using a discount factor of 15%, plus the value of unexplored lands, at \$88 million. This represents an increase of about 55% over year-end 1980 values.

**Participated in sizeable drilling program**

Exploration and development drilling by Domtar has been mainly in Alberta and the United States. The Corporation spent \$9 million in exploration and development, up 70% from 1980. The major part of the increase resulted from U.S. drilling programs and a new joint venture farm-in with Hamilton Brothers Canadian Gas Company Ltd., initiated in September.

During 1981, Domtar participated in 115 wells, of which 46 are in the United States.

Wells drilled	1981	1980
<b>Canada</b>		
Gas	48	90
Oil	2	4
Dry	19	11
	<b>69</b>	<b>105</b>
<b>U.S.A.</b>		
Gas	3	—
Oil	24	—
Dry	19	—
	<b>115</b>	<b>105</b>

**Reserves increased significantly**

The drilling program has been successful and has increased reserves by about 40% during the year. Domtar's total proven plus probable reserves, estimated by independent engineers, at the end of 1981 were 59 billion cubic feet (BCF) of gas equivalent.

Proven plus probable reserves net to Domtar before royalties		1981	1980
Gas	BCF	57	41
Oil & condensates	thousands of barrels	376	216
Gas equivalent	BCF	59	42

Net acreage earned or acquired by Domtar at the end of 1981 totals 309,774 acres, and is distributed geographically as follows:

	Total net acres	Total gross acres
Canada	272,398	9,407,300
U.S.A.	37,376	2,030,200
<b>Total</b>	<b>309,774</b>	<b>11,437,500</b>

The net acreage shown includes 155,842 acres of unexplored lands.

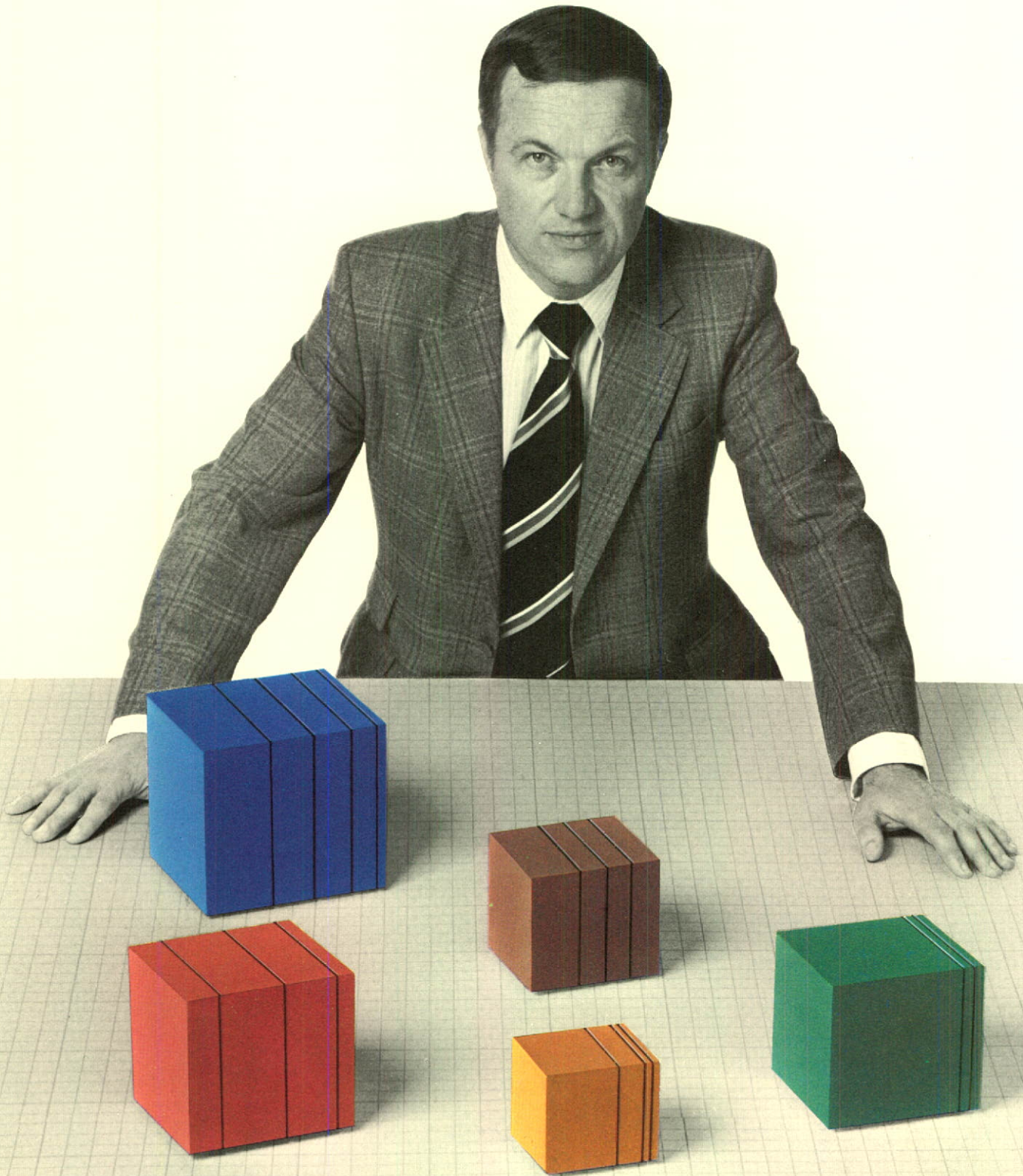
**Continued commitment to energy program**

The Corporation expects further substantial increases in reserves, sales and income. Expenditures on exploration and development are expected to increase by \$6 million to \$15 million in 1982. Whereas gas sales in 1981 were about 3 million cubic feet per day, they are expected to exceed 5 million cubic feet per day in 1982, based on existing reserves and contracts.

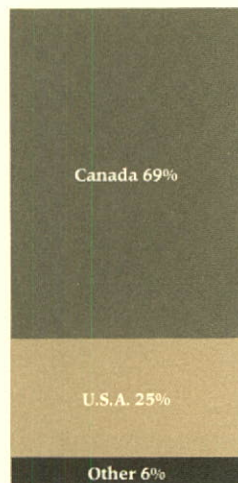
Domtar has gained significant benefits from working with operators having considerable expertise and abilities in oil and gas exploration and marketing. The Corporation has opened an office in Calgary to monitor developments in the energy sector more closely.

## Financial Review

Derek J. Speirs, Vice-President, Finance & Corporate Development, is responsible for accounting control, internal auditing and obtaining financing for the Corporation to supplement its cash flow from operations. Mr. Speirs also directs Domtar's long-range and strategic planning process and provides the investment management for the Corporation's two major pension funds.



### Net sales 1981 by market



### Highlights of operations

Net earnings of Domtar Inc. in 1981 amounted to \$64 million compared to \$95 million in 1980. Net earnings per common share (after an extraordinary gain equivalent to \$0.24 per share) were \$3.59 versus \$5.66 (after an extraordinary loss of \$0.12 per share) in 1980.

Total sales in 1981 amounted to \$1.8 billion – a 7% increase from the 1980 figure of \$1.7 billion. The accompanying chart shows a breakdown of sales by geographic area. This indicates why Domtar's net earnings are generally not as sensitive to fluctuations in the United States-Canada exchange rate as are other Canadian pulp and paper companies. The impact on net earnings of a one cent change in the United States-Canada exchange rate is approximately \$1.4 million.

The decline in net earnings reflects the difficulties Domtar faced in 1981 primarily as a result of the low level of housing starts in North America, lower margins due to poor economic conditions, loss of profit due to strikes, and increased depreciation and depletion expense. These factors were partially offset by reduced income taxes and the extraordinary gain.

The results of the Construction Materials Group and the lumber operations were most strongly influenced by the level of activity in the construction industry – residential and commercial – in both Canada and the United States. Housing starts in both countries were at extremely low levels. The result was lower margins in the Construction Materials Group and lumber and lower sales volumes for lumber. However, through increased market penetration, the Construction Materials Group, with the exception of the Roofing division, increased its sales volumes. The net after-tax result was a combined loss of \$15 million in 1981 compared to a profit of \$4 million in 1980.

The generally poor economic conditions resulted, for the most part, in reduced margins since competitive pressures made it impossible to increase prices in step with the inflationary rise in costs of production. However, the Corporation was able to both maintain margins for newsprint, groundwood specialties and organic chemicals and to increase its volume of sales of newsprint, pulp, composite cans and recycled paper due to continued strong demand for these products.

The year began with the continuation of the strikes at the three fine paper mills in Ontario and two lumber mills in Québec. All strikes were settled in the first quarter with the exception of the Cornwall, Ontario fine paper mill – the Corporation's largest manufacturing unit – where operations did not resume until May. In addition, the Sifto® salt division was affected by an 11-week work stoppage at the Goderich mine. Strikes affected other divisions as well – Masonry, Arborite® products and Wood preserving. Strikes cost the Corporation an estimated \$16 million after income taxes in 1981, or \$0.90 per common share, compared to \$6 million in 1980, or \$0.34 per share.

Depreciation increased \$8 million or 17% in 1981 due to a higher level of capital expenditures and the provision of a full year's charge in 1981 on major projects and acquisitions completed in 1980.

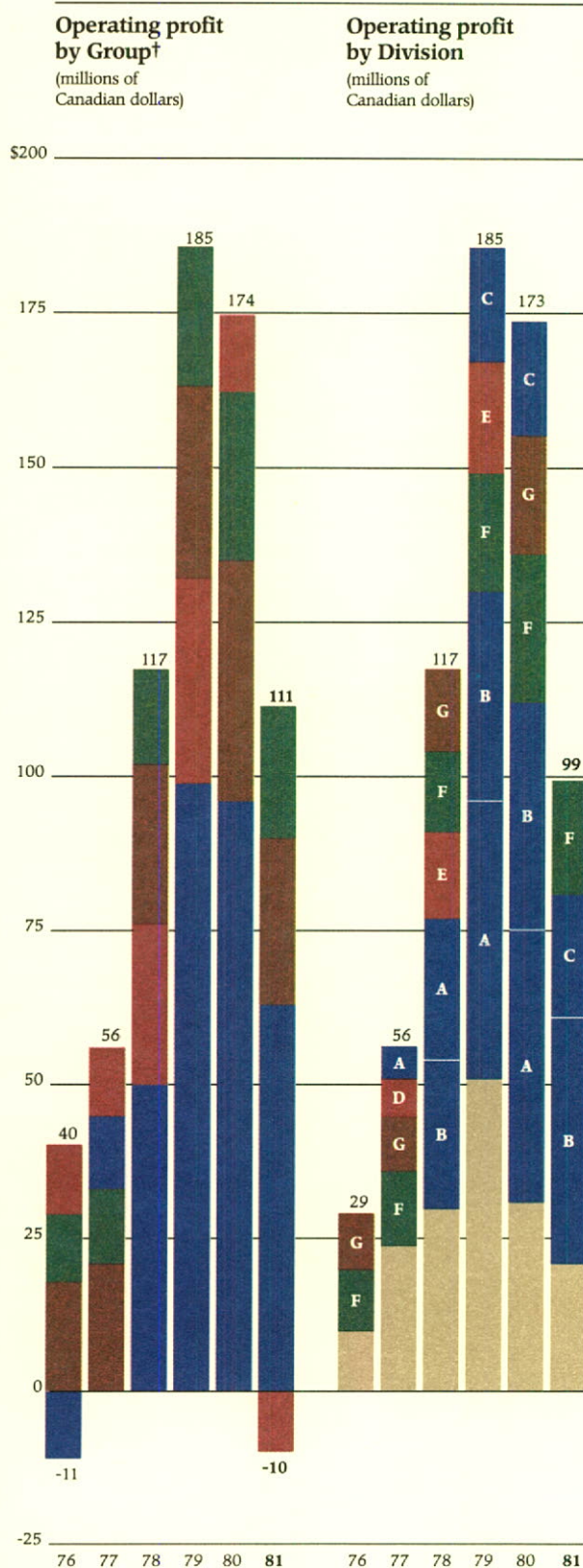
The increase of \$6 million or 33% in interest on indebtedness in 1981 resulted from taking into account a full year's interest on long-term debt issued during 1980, and a U.S. \$50 million bank loan at 17<sup>1</sup>/<sub>4</sub>% in November 1981. The increase charged to pre-tax income was only \$3 million as the interest capitalized relating to major capital projects was \$6 million in 1981, compared to \$3 million in 1980.

The effective income tax rate in 1981 was 26% compared to 40% in 1980. The lower rate was due mainly to increased tax credits resulting from a higher level of capital expenditures in 1981 and a higher proportion of foreign source income taxed at lower rates. Income taxes are recoverable by some foreign subsidiaries as a result of current losses being applied against profits of previous years.

In 1981, the Corporation sold certain productive facilities – a lime plant in Tacoma, Washington, a sawmill in Sapawe, Ontario and a plastic conduit business in Montréal, Québec – for a net gain of \$4 million (after \$3 million of income taxes). This compares with extraordinary losses of \$2 million incurred in 1980 resulting from the closure of the Corporation's fine paper mill in the United Kingdom net of the gain on the sale of an investment.

† Group profit does not include Energy results

- Pulp & Paper Products
  - A Fine papers & envelopes
  - B Newsprint/groundwood specialty papers
  - C Pulp
- Construction Materials
  - D Gypsum-Canada
  - E Gypsum-United States
- Packaging
  - F Corrugated containers & containerboard
- Chemicals
  - G Sifto® salt
- Other divisions



### Sources of profits

Domtar is managed through four Operating Groups. The basic measure of performance for each of these Groups is operating profit – total revenue less allocable operating expenses, prior to deducting interest, corporate administrative and income tax expenses. The adjacent chart shows the contribution by each Group to the Corporation’s total operating profit for the past six years.

Within each Group are diverse businesses which Domtar calls divisions. The accompanying chart shows the major divisional contributions to operating profit in the past six years. The Fine papers, Newsprint/groundwood specialty papers, Pulp and the Corrugated containers and containerboard divisions have consistently been in the top five contributors. In both 1976 and 1981, Fine papers was not a major contributor due to the impact of strikes. The gypsum products business was a significant factor in 1977-79 before the severe slump in the housing industry. Sifto® salt was a major contributor from 1977-79 but declined in importance due to the effect of the mild winters of 1980 and 1981 on its operating profits.

A key performance criterion for all Domtar businesses is the return on net operating assets (ROA). The ROA is defined as operating profit as a percentage of the average net operating assets used in a business. The chart on page 7 shows the ROAs by Operating Group for the past five years. Domtar’s current objective is for each business unit to ultimately achieve a minimum ROA of 26%.

### Working capital

At December 31, 1981, working capital totalled \$364 million compared to \$365 million at December 31, 1980. Cash and short-term investments were \$83 million, a more normal level, versus \$152 million at December 31, 1980. The reduction in cash and short-term investments in 1981 resulted primarily from increases in trade receivables and inventories on the resumption of operations following strikes, the reduction in income taxes and other taxes payable and the payment in 1981 of a fifth dividend due to the rescheduling of payment dates.

In 1981, the unfavourable economic conditions – particularly those affecting the housing industry – continuing high inflation and record interest rates made collection of accounts more difficult. However, the Corporation was successful in improving the relationship between trade receivables and sales, with trade receivables representing approximately 42 days sales. The Corporation increased its allowance for doubtful accounts by 19% since December 31, 1980.

The level of inventories varies seasonally. In the first nine months of 1981, inventory turnover improved over 1980. However, due to the rapid decline in the economy which adversely affected all business units in the fourth quarter, the turnover ratio for 1981 as a whole compared unfavourably to that of the previous year. Corrective action was taken, by curtailing operations, to bring the inventories to more normal levels. Despite these actions, year-end inventories were still high at 54 days supply as compared to 52 days supply last year. Further corrective action has been taken in 1982.

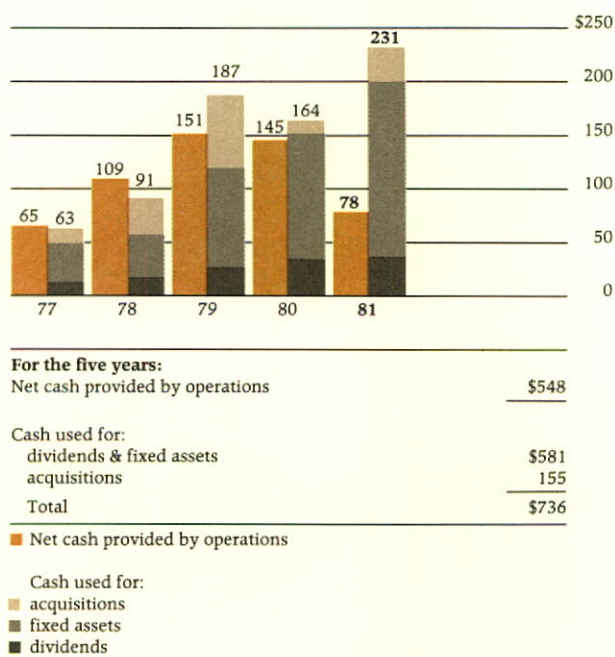
### Short-term financing

Domtar's short-term cash requirements can be financed from the \$83 million of cash and short-term investments on hand at December 31, 1981, its unused lines of bank credit and its net cash flow from operations. In 1981 and 1980, the net cash flow from operations, after taking into account increases in non-cash working capital, was \$78 million and \$145 million respectively. Cash flow in 1981 was affected by a \$35 million reduction in income and other taxes payable.

During the year, Domtar entered into a revolving credit agreement with a Canadian chartered bank for \$500 million in either Canadian or U.S. funds. This credit facility is available upon mutual consent until the end of 1986. It is available through bankers' acceptances, borrowings at interest rates which vary with the London Interbank Offered Rate, or borrowings at Canadian Prime or U.S. Base Rates. Part of the revolving credit is a standby line to support outstanding commercial paper. At December 31, 1981, U.S. \$50 million had been utilized as an intermediate-term loan, leaving \$450 million available.

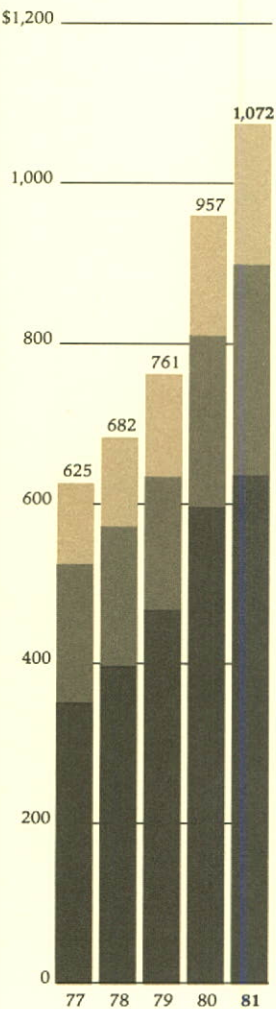
The Corporation has other unused and uncommitted bank lines of credit totalling \$166 million which are subject to periodic review.

**Comparison of net cash provided by operations with cash used for dividends, fixed assets and acquisitions**  
(millions of Canadian dollars)



The above chart shows a comparison between major internal sources of funds and their uses. Net cash flow from operations is after deducting the amount required for additional non-cash working capital. During the four-year period 1977-80, the Corporation's financial needs were met largely through funds from operations and the utilization of its cash and short-term investments. To take advantage of favourable capital markets, the Corporation issued in 1980 both long-term debt and common shares in advance of spending requirements. The result was that cash and short-term investments amounted to \$152 million at the end of 1980. In 1981, however, the combined impact of low net earnings, increased working capital required to support operations and high capital expenditures resulted in a cash shortfall which eliminated much of the excess cash and short-term investments.

**Capitalization**  
(millions of Canadian dollars)



**Long-term debt to shareholders' equity**

33	31	26	27	29
67	69	74	73	71

**Net tangible assets to long-term debt**

3.6	3.8	4.5	4.4	4.1
1	1	1	1	1

■ Deferred income taxes  
■ Long-term debt  
■ Shareholders' equity

**Capital structure**

The Corporation's capital base is made up of three components: deferred income taxes, long-term debt and shareholders' equity. Domtar's debt to equity ratio is shown on the accompanying chart. The ratio of 29:71 at December 31, 1981, increased from 26:74 at December 31, 1979, due to the issue of long-term debt in both 1980 and 1981. It is the objective of the Corporation to maintain its strong balance sheet and "A" bond rating, while continuing to finance projects directed at achieving an overall 18% return on common shareholders' equity (on a five-year average).

Through its various Dividend Option Plans, the Corporation has increased its shareholders' equity by approximately \$11 million by issuing common shares in lieu of cash dividends.

Domtar's long-term borrowing capacity is constrained not only by the need to maintain a sound financial base but also by two tests contained in its trust deeds, relating to interest and asset coverage.

**Common dividends maintained at \$2.00 per share**

In 1981, the indicated annual dividend rate remained at \$2.00 per share. In October, the Directors rescheduled the dividend payment dates at the same time as new dividend reinvestment and stock dividend plans were introduced. In effect, the change in payment dates resulted in a fifth dividend of \$0.50 per share being paid to common shareholders in 1981.

The adjacent chart shows that the dividend payout rate has varied during the last five years from 26% to 56% of net earnings, with the average being 35%. The earnings retained are used to maintain the Corporation's operations and to support future business growth.

**Capital expenditures**

In 1981, Domtar's capital expenditures totalled \$164 million, the largest in the Corporation's history. In 1980, capital expenditures amounted to \$118 million. In addition, approximately \$31 million was spent on acquisitions in 1981.

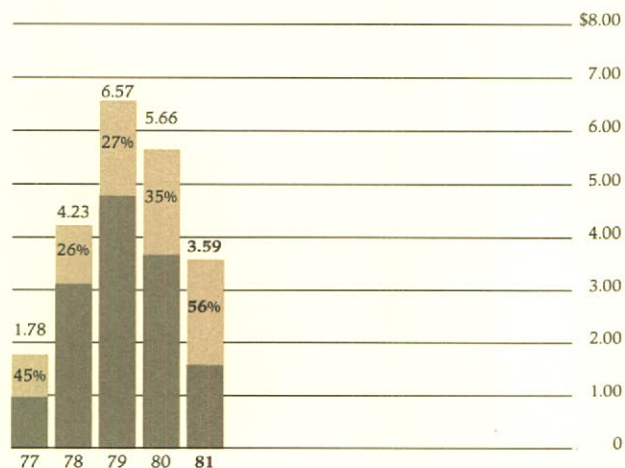
In 1982, Domtar is planning capital expenditures in the order of \$150 million. Most of this spending will be related to projects presently approved and under construction. Of the amounts designated for new programs in 1982, 11% will be for pollution control, 40% will be spent on projects to maintain business and 49% for profit improvement and strategic projects.

**Long-term goals**

As stated in previous annual reports, Domtar will continue to upgrade its product mix and channel its investments to Canadian and United States businesses which:

- are cost competitive in their markets.
- enjoy customer acceptance and a prime market position.
- grow at least with the general economy.

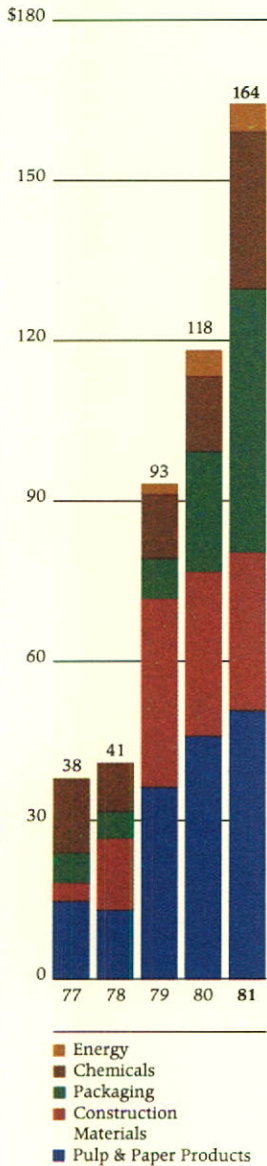
**Use of earnings per share**



■ Dividends  
■ Retained for growth  
% Percentage of net earnings paid out as dividends

### Capital expenditures by operating group

(millions of Canadian dollars)



– are potentially profitable, taking into account current trends in energy costs, tariff policies and foreign exchange rates.

Important criteria for investment include:

- superior technology or products.
- superior business management or organization.
- vertical or horizontal synergy.

Progress in 1981 towards these goals included:

- improving salt production capacity and distribution facilities in Canada and the United States to enhance market positions.
- strengthening leading cost competitive position in fine papers by continuing the modernization programs at the Cornwall, Ontario mill and absorbing the short-term effects of a major strike.
- constructing a large scale boiler at Dolbeau, Québec to burn wood waste and replace oil, to reduce costs of newsprint.
- completing expansion of gypsum wallboard capacity in three regions having potentially strong markets when building activity resumes.
- rationalizing and expanding waste paper collection and recycling operations.
- initiating a new oil and gas exploration program with Hamilton Brothers.
- reducing costs in Corrugated containers through rationalization of previously acquired assets.
- acquiring Delta Brick & Tile Company, Inc., of Mississippi, with a leading market position in this area of the southern United States.
- selling several businesses.

### Common stock activity

At December 31, 1981, there were 17,859,290 common shares of the Corporation outstanding, an increase of 416,073 from the number outstanding at December 31, 1980. The additional shares were issued to shareholders enrolled in the various optional dividend plans offered by the Corporation. The Société générale de financement du Québec and the Caisse de dépôt et placement du Québec respectively held at December 31, 1981, approximately 21.7% and 22.2% of the common shares of the Corporation. The balance of approximately 10 million shares is widely held by over 18,000 shareholders in Canada, the United States and elsewhere.

Shares are traded in Canada on the Toronto, Montréal and Vancouver Stock Exchanges, and in the United States through the American Stock Exchange. In addition, Domtar's shares are listed on the Amsterdam Stock Exchange.

## Quarterly Financial Information (unaudited)

(millions of Canadian dollars, except per share amounts)

	1st	2nd	3rd	4th	Total
<b>1981</b>					
Sales	\$405.8	\$430.0	\$473.7	\$455.2	\$1,764.7
Gross profit	\$ 74.9	\$ 70.8	\$ 81.6	\$ 74.9	\$ 302.2
Earnings before extraordinary items	\$ 17.1	\$ 14.3	\$ 17.7	\$ 10.4	\$ 59.5
Net earnings	\$ 20.5	\$ 14.3	\$ 17.7	\$ 11.1	\$ 63.6
Per common share					
Earnings before extraordinary items	\$ 0.97	\$ 0.81	\$ 0.99	\$ 0.58	\$ 3.35
Net earnings	\$ 1.16	\$ 0.81	\$ 0.99	\$ 0.63	\$ 3.59
Market price					
High	\$ 37 <sup>3</sup> / <sub>8</sub>	\$ 37 <sup>1</sup> / <sub>2</sub>	\$ 36 <sup>5</sup> / <sub>8</sub>	\$ 24 <sup>1</sup> / <sub>2</sub>	
Low	\$ 27 <sup>7</sup> / <sub>8</sub>	\$ 32 <sup>5</sup> / <sub>8</sub>	\$ 23 <sup>3</sup> / <sub>8</sub>	\$ 20	
<b>1980 (Note)</b>					
Sales	\$420.6	\$397.7	\$423.6	\$411.3	\$1,653.2
Gross profit	\$ 95.5	\$ 79.7	\$ 86.3	\$ 80.8	\$ 342.3
Earnings before extraordinary items	\$ 29.5	\$ 20.6	\$ 24.1	\$ 22.4	\$ 96.6
Net earnings	\$ 29.5	\$ 20.6	\$ 19.3	\$ 25.2	\$ 94.6
Per common share					
Earnings before extraordinary items	\$ 1.96	\$ 1.17	\$ 1.38	\$ 1.27	\$ 5.78
Net earnings	\$ 1.96	\$ 1.17	\$ 1.09	\$ 1.44	\$ 5.66
Market price					
High	\$ 30 <sup>3</sup> / <sub>4</sub>	\$ 25 <sup>3</sup> / <sub>8</sub>	\$ 27 <sup>3</sup> / <sub>8</sub>	\$ 30	
Low	\$ 22 <sup>1</sup> / <sub>2</sub>	\$ 21 <sup>3</sup> / <sub>4</sub>	\$ 24 <sup>1</sup> / <sub>4</sub>	\$ 25	

Effective January 1, 1982, the Corporation changed its method of calculating income taxes in interim periods. Under the previous method, the effective tax rate was based on the actual level of earnings for the year-to-date. Under the new system, the Corporation applies the estimated effective tax rate for the full year to the year-to-date results.

If the new practice had been in effect throughout 1981, the quarterly earnings would have been as follows:

Earnings before extraordinary items	\$ 15.6	\$ 12.0	\$ 18.6	\$ 13.3	\$ 59.5
Net earnings	\$ 19.0	\$ 12.0	\$ 18.6	\$ 14.0	\$ 63.6
Per common share					
Earnings before extraordinary items	\$ 0.89	\$ 0.67	\$ 1.05	\$ 0.74	\$ 3.35
Net earnings	\$ 1.08	\$ 0.67	\$ 1.05	\$ 0.79	\$ 3.59

### Note:

In September 1980, the Corporation capitalized interest costs retroactively to January 1, 1980. The results for the first three quarters of 1980 have been restated to reflect the amount of interest which would have been capitalized in each of those quarters.



## Management's statement on responsibility for financial reporting and control

Management is responsible for the preparation and presentation of the information contained in the annual report. The financial statements presented in the annual report are considered by management to present fairly the Corporation's consolidated financial position and results of operations. The consolidated financial statements including the notes thereto (pages 32 to 47) have been prepared in accordance with generally accepted accounting principles. The Board of Directors has approved the consolidated financial statements as presented therein. The financial information throughout the annual report is derived from the financial statements.

The financial statements have been examined by the Corporation's auditors, Price Waterhouse, whose report is presented below. To express an opinion on the consolidated financial statements, Price Waterhouse develop and maintain an understanding of Domtar's accounting procedures and financial controls. These internal controls are to provide reasonable assurance that the Corporation's written policies and procedures are followed; transactions are executed in accordance with appropriate authorizations; and the books, records, and financial statements properly reflect the transactions of the Corporation. Further, the system includes an organization providing for appropriate delegation of authority and the segregation of duties. The internal controls are monitored by the Corporation's internal auditors whose function includes the review and evaluation of the accounting records and related systems.

The Audit Committee is appointed by the Board of Directors. Acting on behalf of the Board, the Committee reviews the Corporation's financial statements, approves major accounting policies and periodically reviews principal internal controls to assure their adequacy. The auditors of the Corporation have free and independent access to the Audit Committee and they meet with the Committee to consider matters relating to financial statement presentation, internal controls and audit procedures.

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## Auditors' Report

### To the Shareholders of Domtar Inc.:

We have examined the consolidated balance sheets of Domtar Inc. as at December 31, 1981 and 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the three years ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1981 and 1980 and the results of its operations and the changes in its financial position for the three years ended December 31, 1981 in accordance with generally accepted accounting principles which, except for the change, with which we concur, in the method of accounting for interest costs referred to in Note 11 to the consolidated financial statements, have been consistently applied.

Price Waterhouse  
Chartered Accountants  
Montréal, January 29, 1982

# Domtar Inc.

## Consolidated Balance Sheet

December 31  
(thousands of Canadian dollars)

Assets	1981	1980
<b>Current assets</b>		
Cash and short-term investments, at cost (approximates market value)   \$	82,863	\$ 155,240
Receivables, less allowance for doubtful accounts of \$6,438 – (1980 – \$5,398)	236,972	221,487
Inventories	245,645	214,628
Income taxes recoverable	11,007	–
Prepaid expenses	4,975	5,269
	\$ 581,462	\$ 596,624
<b>Investments and advances, at cost</b>	<b>10,522</b>	<b>8,306</b>
<b>Fixed assets</b>		
Plant, machinery and facilities	1,200,158	1,066,282
Timber limits and land	40,493	39,511
Gas and oil properties	53,297	48,521
	1,293,948	1,154,314
Less: Accumulated depreciation and depletion	601,543	569,602
	692,405	584,712
<b>Intangible assets and deferred charges (net of amortization)</b>		
Unrealized exchange losses	6,863	8,321
Debt issue expenses	1,311	1,456
Goodwill and other intangibles	9,352	4,455
	17,526	14,232
	\$1,301,915	\$1,203,874

*Approved by the board:*

*A.D. Hamilton, Director*  
*Pierre Côté, Director*

<b>Liabilities and Shareholders' Equity</b>	<b>1981</b>	<b>1980</b>
<b>Current liabilities</b>		
Bank indebtedness	\$ -	\$ 3,584
Notes payable	7,760	-
Payables	193,859	187,007
Income and other taxes payable	8,408	32,108
Dividends payable	128	8,884
Long-term debt due within one year	7,546	-
	<b>\$ 217,701</b>	<b>\$ 231,583</b>
<b>Long-term debt</b>	<b>262,595</b>	<b>214,590</b>
<b>Deferred income taxes</b>	<b>176,260</b>	<b>148,444</b>
<b>Deferred credit</b>	<b>8,735</b>	<b>12,250</b>
<b>Minority interest</b>	<b>3,227</b>	<b>2,975</b>
<b>Commitments and contingent liabilities (Note 17)</b>		
<b>Shareholders' equity</b>		
Stated capital		
\$1 cumulative preference shares without nominal or par value, redeemable at \$25 per share		
Authorized and outstanding		
512,916 shares	12,054	12,054
17,859,290 common shares		
(1980 - 17,443,217 shares)	265,123	253,545
Retained earnings	356,220	328,433
	<b>633,397</b>	<b>594,032</b>
	<b>\$1,301,915</b>	<b>\$1,203,874</b>

*See accompanying notes to financial statements*

# Domtar Inc.

## Consolidated Statement of Earnings

Year Ended December 31  
(thousands of Canadian dollars, except per share amounts)

	1981	1980	1979
<b>Revenue</b>			
Sales	\$1,764,744	\$1,653,249	\$1,495,370
Investment and sundry income	13,560	15,847	8,760
	1,778,304	1,669,096	1,504,130
<b>Expenses</b>			
Cost of sales	1,462,476	1,310,965	1,161,757
Selling and administrative	151,626	124,782	105,211
Research	7,187	6,631	5,641
Depreciation and depletion	57,695	49,366	48,007
	1,678,984	1,491,744	1,320,616
<b>Earnings before interest, income taxes, minority interest and extraordinary items</b>	99,320	177,352	183,514
Interest			
Long-term debt	15,616	14,466	15,107
Other indebtedness	2,309	868	1,672
	17,925	15,334	16,779
<b>Earnings before income taxes, minority interest and extraordinary items</b>	81,395	162,018	166,735
Income taxes			
Current	(4,920)	45,290	52,710
Deferred	26,060	19,560	15,830
	21,140	64,850	68,540
<b>Earnings before minority interest and extraordinary items</b>	60,255	97,168	98,195
Minority interest	848	494	278
<b>Earnings before extraordinary items</b>	59,407	96,674	97,917
Extraordinary items	4,149	(2,044)	-
<b>Net earnings</b>	\$ 63,556	\$ 94,630	\$ 97,917
<b>Per common share</b>			
Earnings before extraordinary items	\$3.35	\$5.78	\$6.57
Net earnings	\$3.59	\$5.66	\$6.57
<b>Average number of common shares outstanding (millions)</b>	17.6	16.6	14.8

See accompanying notes to financial statements

# Domtar Inc.

## Consolidated Statement of Changes in Financial Position

Year Ended December 31  
(thousands of Canadian dollars)

	1981	1980	1979
<b>Funds provided by:</b>			
Earnings before extraordinary items	\$ 59,407	\$ 96,674	\$ 97,917
Items not affecting cash flow from operations			
Depreciation and depletion	57,695	49,366	48,007
Deferred income taxes	26,060	19,560	15,830
Other	2,320	2,354	1,971
<b>Cash flow from operations</b>	<b>145,482</b>	<b>167,954</b>	<b>163,725</b>
Common shares issued in lieu of cash dividends	11,062	—	—
Common shares issued for cash, net of expenses	516	69,384	323
Government grants received	4,255	17,556	—
Long-term debt issued, net of expenses	58,975	51,216	—
Fixed asset disposals	7,642	2,925	2,046
Minority interest sold	—	—	1,875
Investments and advances	5,212	556	—
Extraordinary items			
Sale of productive facilities	7,477	—	—
Sale of investment	—	3,022	—
	<b>240,621</b>	<b>312,613</b>	<b>167,969</b>
<b>Funds used for:</b>			
Fixed asset purchases	164,323	118,356	93,115
Businesses acquired, less working capital at acquisition	30,722	11,214	67,337
Long-term debt reduction	10,481	6,667	7,076
Minority interest purchased	606	1,154	1,727
Investments and advances	—	—	597
Dividends	35,769	35,349	27,208
Extraordinary item			
Costs associated with discontinued U.K. operation	—	4,963	—
	<b>241,901</b>	<b>177,703</b>	<b>197,060</b>
<b>Working capital – increase (decrease)</b>	<b>(1,280)</b>	<b>134,910</b>	<b>(29,091)</b>
<b>Non-cash working capital – increase (details on page 36)</b>	<b>67,513</b>	<b>22,677</b>	<b>12,453</b>
<b>Cash and short-term investments less bank indebtedness – increase (decrease)</b>	<b>\$ (68,793)</b>	<b>\$112,233</b>	<b>\$ (41,544)</b>

**Domtar Inc.**  
**Consolidated Statement**  
**of Changes in Financial Position (cont'd)**

Year Ended December 31  
(thousands of Canadian dollars)

	1981	1980	1979
<b>Changes in components of non-cash working capital</b>			
Receivables	\$ 15,485	\$ 11,151	\$ 33,615
Inventories	31,017	25,613	34,834
Prepaid expenses	(294)	2,217	(2,260)
Income taxes recoverable	11,007	-	-
Notes payable	(7,760)	-	-
Payables	(6,852)	(14,993)	(37,153)
Income and other taxes payable	23,700	(1,797)	(14,013)
Dividends payable	8,756	(2,043)	(41)
Long-term debt due within one year	(7,546)	2,529	(2,529)
<b>Non-cash working capital - increase</b>	<b>\$ 67,513</b>	<b>\$ 22,677</b>	<b>\$ 12,453</b>

**Consolidated Statement**  
**of Retained Earnings**

Year Ended December 31  
(thousands of Canadian dollars)

	1981	1980	1979
<b>Balance at beginning of year</b>	<b>\$328,433</b>	<b>\$271,316</b>	<b>\$200,607</b>
Net earnings	63,556	94,630	97,917
	<b>391,989</b>	<b>365,946</b>	<b>298,524</b>
Deduct:			
Share issue expenses less income taxes of \$1,663	-	2,116	-
Dividends			
Preference shares, \$1.00 per share	513	513	513
Common shares, \$2.00 per share (1980 - \$2.00; 1979 - \$1.80)	35,256	34,884	26,695
	<b>35,769</b>	<b>35,397</b>	<b>27,208</b>
<b>Balance at end of year</b>	<b>\$356,220</b>	<b>\$328,433</b>	<b>\$271,316</b>

*See accompanying notes to financial statements*

# Domtar Inc.

## Notes to Consolidated Financial Statements

(thousands of Canadian dollars, except per share amounts and unless otherwise noted)

### 1. Summary of significant accounting policies

The following is a summary of the significant accounting policies of the Corporation. These policies are in accordance with generally accepted accounting principles in Canada and are also, except for translation of foreign currencies disclosed in Note 15, in all material respects in accordance with those generally accepted in the United States. These policies have been followed consistently for the period except for the change in 1980 in the method of accounting for interest costs as described in Note 11.

#### Principles of consolidation

The accompanying financial statements include the accounts of Domtar Inc. and all its subsidiaries.

#### Translation of foreign currencies

Amounts stated in foreign currencies are translated into Canadian dollars as follows: current assets (except inventories), current liabilities and long-term monetary assets and liabilities are translated at year-end exchange rates; all other assets (including inventories) and liabilities are translated at the exchange rates prevailing on the transaction dates. Revenues and expenses are translated at the average exchange rates for the year, except for cost of sales, depreciation, depletion and amortization, which are translated at the exchange rates prevailing when the related assets were manufactured or acquired.

All gains and losses arising from the translation of foreign currencies are included in net earnings except for unrealized gains and losses on long-term monetary assets and liabilities, which are deferred and amortized over the remaining lives of the related items.

#### Valuation of inventories

Inventories of raw materials and operating and maintenance supplies are valued at average cost. Finished goods and work in process are valued at the lower of average cost and net realizable value and include the cost of raw materials, direct labour and certain manufacturing overhead expenses.

#### Fixed assets and depreciation

Fixed assets are recorded at cost. The cost and related accumulated depreciation of items retired or disposed of are removed from the books and any gains or losses are included in the consolidated statement of earnings. Depreciation is provided on the straight-line method, except for gas and oil well equipment which is on a unit of production basis, using rates based on the estimated useful lives of the assets which are generally as follows:

Production machinery	12 to 16 years
Logging equipment	Up to 6 years
Ships	Up to 15 years
Automobiles	4 years
Buildings	Up to 40 years

The Corporation follows the successful efforts method of accounting for gas and oil properties. Under this method, lease acquisition costs and the cost of exploring and developing producing wells are capitalized. The cost of unsuccessful wells is charged to expenses. The undeveloped properties are reviewed annually and, where impairment to value is determined, the capitalized costs are written off. The capitalized costs of proven properties are depleted by the unit of production method.

Expenditures for repairs and maintenance are charged against earnings as incurred.

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## 1. Summary of significant accounting policies (cont'd)

### Income taxes

The Corporation provides for income taxes on the tax allocation basis. Accordingly deferred income tax provisions are recorded in the consolidated statement of earnings in order to reflect the income tax effects of timing differences, principally due to depreciation and depletion claimed for income tax purposes in excess of amounts recorded for financial statement purposes. The impact of the federal investment tax credit is reflected in earnings in the year during which the related expenditures are made.

Provisions have not been made for income taxes on undistributed income of foreign subsidiaries as such income is being reinvested in foreign operations.

### Intangible assets and deferred charges

Unrealized exchange losses on long-term debt are amortized over the remaining term of the debt.

Expenses on the issue of long-term debt are amortized on a straight-line basis over the terms of the related obligations.

Goodwill represents the excess of the cost of shares of acquired companies over the values attributed to the underlying net assets. The Corporation follows the policy of amortizing goodwill on a straight-line basis over periods not exceeding twenty-five years.

Other intangibles are amortized on a straight-line basis over their estimated useful lives.

### Pension costs

Pension costs associated with current service are expensed and funded in the period in which the service is rendered. Past service costs remaining to be charged to operations are amortized and funded over periods not exceeding those during which funding is permitted by the applicable regulatory bodies.

### Research

Research expenses are charged against earnings as incurred.

### Capitalization of interest

The Corporation capitalizes interest costs on additions to property and plant in excess of \$1 million and for which the period of construction exceeds one year. The interest rate used is equal to the weighted average of the interest rates on its long-term debt.

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2. Cash and short-term investments	1981	1980
Cash	\$14,100	\$ 14,912
Short-term investments		
Treasury bills	\$ 2,936	\$ 24,434
Bank obligations	62,900	100,742
Corporate bonds	1,186	15,022
Other	1,741	130
	68,763	140,328
	<u>\$82,863</u>	<u>\$155,240</u>

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<b>3. Inventories</b>	<b>1981</b>	<b>1980</b>
Raw materials	\$ 98,094	\$ 84,212
Work in process	7,045	10,783
Finished goods	105,307	91,122
Operating and maintenance supplies	35,199	28,511
	<b>\$245,645</b>	<b>\$214,628</b>

#### **4. Unused bank lines of credit**

In 1981 the Corporation entered into a Credit Agreement with a Canadian chartered bank pursuant to which the Corporation at December 31, 1981 has a committed unused line of credit totalling \$450 million for a period of 18 months in either U.S. or Canadian funds. Interest rates vary from bankers' acceptances (usually below bank prime) to bank prime for Canadian funds and are  $\frac{3}{8}$  of 1% above the London Interbank Offered Rate for U.S. funds.

In addition, the Corporation has unused uncommitted bank lines of credit of \$165.6 million (1980 - \$327.1 million), which are subject to annual review. Loans thereunder would bear interest at rates varying from the bankers' acceptance cost to the banks' prime lending rates plus  $\frac{1}{4}$ %.

<b>5. Payables</b>	<b>1981</b>	<b>1980</b>
Trade payables	\$167,361	\$156,818
Accruals		
Payrolls and commissions	18,795	23,624
Interest on long-term debt	7,703	6,565
	<b>\$193,859</b>	<b>\$187,007</b>

<b>6. Long-term debt</b>	<b>Maturity</b>	<b>1981</b>	<b>1980</b>
Sinking fund debentures			
5 $\frac{1}{2}$ % Series "C"	1982	\$ 3,974	\$ 4,087
5 $\frac{3}{4}$ % Series "D"	1984	6,391	7,460
5 $\frac{5}{8}$ % Series "E"	1990	21,083	22,519
6 $\frac{3}{4}$ % Series "F"	1987	22,486	24,937
11% Series "G"	1995	45,109	49,004
9 $\frac{5}{8}$ % Series "H" (U.S. \$50,000)	1996	59,295	59,735
12 $\frac{1}{4}$ % Series "I" (U.S. \$42,000)	2000	49,808	50,177
		<b>208,146</b>	<b>217,919</b>
Less: Held for sinking fund		-	6,029
		<b>208,146</b>	<b>211,890</b>
17 $\frac{1}{4}$ % Bank loan (U.S. \$50,000)	1986	59,295	-
Convertible Notes	1990	2,700	2,700
		<b>270,141</b>	<b>214,590</b>
Less: Due within one year		7,546	-
		<b>\$262,595</b>	<b>\$214,590</b>

#### 6. Long-term debt (cont'd)

The Convertible Notes, which bear interest at the prime rate, have been issued to certain officers of the Corporation and are convertible into common shares at the rate of \$25.21 per common share, determined on the basis of the fair market value of the common shares immediately prior to the issue of the Notes. The Notes are also redeemable at any time by the Corporation.

Amounts due for retirement or sinking fund provisions in each of the next five years:

	1982	1983	1984	1985	1986
	\$7,546	\$9,957	\$14,880	\$9,280	\$71,862

#### 7. Deferred credit

The government grants received by the Corporation during 1980 include amounts totalling \$15.8 million which are contingent upon making certain capital expenditures over a five-year period. These grants are credited to fixed assets only when the related capital expenditures are incurred. The amount of \$3.5 million has been credited to fixed assets in each of the years 1981 and 1980.

#### 8. Stated capital

Changes in the number and stated value of common shares since January 1, 1979 are as follows:

	1981		1980		1979	
	Number of shares	\$	Number of shares	\$	Number of shares	\$
Balance at beginning of year	17,443,217	253,545	14,841,358	181,997	14,827,300	181,674
Shares issued in lieu of cash dividends	393,061	11,062	1,859	48	—	—
Shares issued for cash	23,012	516	2,600,000	71,500	14,058	323
Balance at end of year	17,859,290	265,123	17,443,217	253,545	14,841,358	181,997
Book value per common share at end of year		\$34.79		\$33.36		\$30.54

There is no limit on the number of common shares the Corporation may issue. There has been no change in preference shares authorized and outstanding during the three-year period.

Book value per common share is the sum of the stated value of common shares and retained earnings divided by the number of common shares outstanding at the year-end.

#### 9. Retained earnings

The Trust Deeds securing the sinking fund debentures contain restrictions on the payment of dividends, other than stock dividends, on common shares. Under the most restrictive provision, \$140.3 million of retained earnings at December 31, 1981 are not available for payment as dividends on common shares other than through stock dividends.

#### 10. Earnings per common share

Earnings per common share are based on the weighted average number of shares outstanding. Fully diluted earnings per share have not been disclosed since conversion of the Convertible Notes does not cause dilution.

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**11. Accounting change – capitalization of interest costs**

Commencing in 1980, the Corporation capitalized interest costs on major additions to property and plant during the period of construction. In 1981 and 1980 interest of \$6.5 million and \$3.1 million respectively was capitalized. This had the effect of increasing net earnings in 1981 by \$3.5 million (\$0.20 per common share) and in 1980 by \$1.7 million (\$0.10 per common share). The total amount of interest on long-term debt incurred for the year ended December 31, 1981 was \$22.1 million (1980 – \$17.6 million).

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**12. Pension plans**

The Corporation has pension plans for its employees. The cost charged against earnings for the year ended December 31, 1981 was \$15.3 million; 1980 – \$13.0 million; 1979 – \$13.6 million.

At December 31, 1981, the Corporation's liability for benefits in respect of past service remaining to be charged to operations is \$45.0 million (1980 – \$40.3 million). This liability is calculated on the assumption that operations will continue and on the basis of actuarial determinations used for funding purposes which reflect assumed future compensation levels, where appropriate. The amount is being amortized and funded over periods of up to 15 years in Canada and up to 35 years in the United States.

The market value of the net assets in trust and available for benefits at December 31, 1981 is \$221.4 million (1980 – \$209.5 million).

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**13. Income taxes**

The following analyzes the Corporation's income tax provisions on earnings of its Canadian and foreign operations:

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	1981	1980	1979
Earnings before income taxes, minority interest and extraordinary items			
Canada	\$83,821	\$151,916	\$133,878
Foreign	(2,426)	10,102	32,857
	81,395	162,018	166,735
Current income taxes (recoverable)			
Canada	7,921	44,611	42,184
Foreign	(12,841)	679	10,526
	(4,920)	45,290	52,710
Deferred income taxes			
Canada	23,894	17,986	16,123
Foreign	2,166	1,574	(293)
	26,060	19,560	15,830
Earnings before minority interest and extraordinary items			
Canada	52,006	89,319	75,571
Foreign	8,249	7,849	22,624
	\$60,255	\$ 97,168	\$ 98,195

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**13. Income taxes (cont'd)**

The following analyzes the Corporation's deferred income tax provisions:

	1981	1980	1979
<b>Canada</b>			
Excess of income tax allowance over financial statement depreciation and depletion	\$25,212	\$20,717	\$13,407
Other items	(1,318)	(2,731)	2,716
	<b>\$23,894</b>	<b>\$17,986</b>	<b>\$16,123</b>
<b>Foreign</b>			
Excess of income tax allowance over financial statement depreciation and depletion	\$ 3,533	\$ 1,378	\$ 550
Other items	(1,367)	196	(843)
	<b>\$ 2,166</b>	<b>\$ 1,574</b>	<b>\$ (293)</b>

The effective income tax rate differed from the Canadian statutory income tax rate. The principal factors causing this difference were as follows:

	1981	1980	1979
Statutory Canadian tax rate	49.0%	49.0%	48.0%
Canadian manufacturing and processing allowance	(4.9)	(5.0)	(4.5)
Investment tax credit	(10.8)	(2.8)	(2.1)
Inventory allowance	(2.9)	(1.2)	(1.0)
Foreign income	(3.4)	(1.7)	(0.8)
Other items	(1.0)	1.7	1.5
Effective income tax rate	<b>26.0%</b>	<b>40.0%</b>	<b>41.1%</b>

**14. Extraordinary items**

The extraordinary items consisted of:

	1981	1980
Gain on sale of productive facilities, net of income taxes of \$2,903	\$4,149	\$ —
Loss on discontinuation of the United Kingdom mill operation	—	(4,659)
Gain on sale of investment	—	2,615
	<b>\$4,149</b>	<b>\$(2,044)</b>

Under generally accepted accounting principles in the United States, these items would enter into the determination of earnings from continuing operations rather than being treated as extraordinary.

**15. Information presented in accordance with generally accepted accounting principles in the United States**

**Net earnings**

Statement No. 8 of the Financial Accounting Standards Board in the United States requires that all gains and losses resulting from the translation of foreign currencies, including unrealized gains and losses on long-term monetary assets and liabilities, be included directly in net earnings rather than deferred and amortized. A reconciliation of net earnings determined in accordance with generally accepted accounting principles in Canada with net earnings determined in accordance with those in the United States is set forth below:

	1981	1980	1979
Net earnings as reported	\$63,556	\$94,630	\$97,917
Add: Amortization of unrealized exchange losses on long-term debt	969	1,037	800
	64,525	95,667	98,717
Exchange gain (loss) on translation of long-term debt at exchange rates prevailing at the end of each year	490	(2,457)	895
Net earnings in accordance with generally accepted accounting principles in the United States	\$65,015	\$93,210	\$99,612
Net earnings per common share in accordance with generally accepted accounting principles in:			
United States	\$3.67	\$5.57	\$6.68
Canada	\$3.59	\$5.66	\$6.57

**Pension plans**

The present value of accumulated plan benefits under the Corporation's pension plans as at December 31, 1981 is \$245.2 million (1980 - \$222.6 million) of which \$231.1 million (1980 - \$211.0 million) is for vested and \$14.1 million (1980 - \$11.6 million) for non-vested benefits. These actuarially determined benefits are calculated on the basis of existing compensation levels from valuation data as of December 31, 1980, projected to December 31, 1981. The weighted average rate of return assumed in determining the actuarial present value is 6%. Net assets available for benefits at December 31, 1981 are \$221.4 million (1980 - \$209.5 million).

**16. Businesses acquired**

The Corporation purchased on April 10, 1981, 100 percent of the shares of Delta Brick & Tile Company, Inc. (a manufacturing company) for U.S.\$28.1 million by means of notes payable for U.S.\$8.3 million and the balance in cash. The purchase gives rise to goodwill of U.S.\$5.2 million which is being amortized over a period of 12 years and the acquisition has been accounted for by the purchase method. In addition, during 1981 the Corporation purchased the wallboard plant, mine and gypsum deposits of Grand Rapids Gypsum Company for U.S.\$2.7 million.

**16. Businesses acquired (cont'd)**

The following is a summary of net assets obtained through acquisitions:

(thousands of Canadian dollars)	1981	1980
<b>Net assets acquired at assigned values</b>		
Fixed assets	\$17,559	\$11,174
Investments	6,952	—
Working capital	5,989	2,850
	30,500	14,024
Excess of cost over assigned values of net assets acquired	6,211	40
Net assets acquired for cash and notes payable	\$36,711	\$14,064
<b>Acquisitions by industry segment</b>		
Construction materials	\$36,595	\$ —
Packaging	116	14,064
	\$36,711	\$14,064
<b>Acquisitions by geographic area</b>		
Canada	\$ 116	\$14,064
United States	36,595	—
	\$36,711	\$14,064

**17. Commitments and contingent liabilities**

The Corporation has commitments for capital expenditures totalling approximately \$33.8 million at December 31, 1981.

Minimum rental commitments under operating leases, determined as at December 31, 1981 amount to:

	1982	1983	1984	1985	1986
	\$12,963	\$10,282	\$9,468	\$6,708	\$6,205

Total rental expense amounted to \$14.8 million in 1981, \$12.5 million in 1980 and \$10.7 million in 1979.

There are outstanding lawsuits and claims against the Corporation as follows:

a) Proceedings instituted by certain Cree Indians alleging that the mercury content of the environment has partly been caused by mercury discharges of the Corporation's chemical plant at Lebel-sur-Quévillon, Québec. They are claiming from the Corporation, jointly and severally with several other defendants, approximately \$5.2 million in damages.

b) Various lawsuits and claims aggregating \$6 million.

The Corporation is contesting these lawsuits and claims and does not consider that their outcome will have a material adverse effect on the Corporation.

**18. Segmented information**

The Corporation's operations and assets by industry segment and by geographic area are as follows:

(millions of Canadian dollars)	1981	1980	1979	1978	1977
<b>By industry segment</b>					
<b>Trade sales</b>					
Pulp and paper					
Fine papers	\$ 424.3	\$ 449.3	\$ 421.1	\$ 327.8	\$ 271.3
Newsprint and groundwood specialty papers	240.0	215.0	181.7	160.8	122.0
Other	188.9	172.2	155.4	135.4	101.3
	853.2	836.5	758.2	624.0	494.6
<b>Packaging</b>					
Corrugated containers and containerboard	257.4	217.8	174.5	120.8	106.4
Other	40.7	34.2	29.4	25.0	45.2
	298.1	252.0	203.9	145.8	151.6
Construction materials	354.8	323.9	321.2	281.0	197.4
Chemicals	255.6	240.2	211.9	190.1	165.9
Gas and oil	3.0	0.6	0.2	—	—
Consolidated sales	\$1,764.7	\$1,653.2	\$1,495.4	\$1,240.9	\$1,009.5
Inter-segment sales	\$ 25.8	\$ 27.8	\$ 23.4	\$ 14.5	\$ 23.6
<b>Operating profit (loss)</b>					
Pulp and paper	\$ 62.6	\$ 96.1	\$ 98.7	\$ 49.8	\$ 11.4
Packaging	21.5	27.4	22.5	14.7	12.7
Construction materials	(10.2)	11.8	33.1	26.3	11.2
Chemicals	26.9	39.0	30.9	26.3	20.8
Gas and oil	(1.8)	(1.4)	—	—	—
	99.0	172.9	185.2	117.1	56.1
Corporate administrative expenses	(12.7)	(9.3)	(7.1)	(5.5)	(5.2)
Fixed asset disposals — (net loss)	—	—	—	(2.3)	—
Corporate interest and other income	13.0	13.7	5.4	11.3	7.8
	99.3	177.3	183.5	120.6	58.7
Interest expense	(17.9)	(15.3)	(16.8)	(17.0)	(16.9)
Earnings before income taxes, minority interest and extraordinary items	\$ 81.4	\$ 162.0	\$ 166.7	\$ 103.6	\$ 41.8

## 18. Segmented information (cont'd)

(millions of Canadian dollars)	1981	1980	1979	1978	1977
<b>By industry segment (cont'd)</b>					
<b>Identifiable assets</b>					
Pulp and paper	\$ 492.1	\$ 435.4	\$ 416.3	\$ 378.6	\$ 381.9
Packaging	223.1	176.7	139.0	100.5	97.9
Construction materials	260.4	206.2	179.3	143.8	85.9
Chemicals	177.1	152.4	137.5	123.8	115.7
Gas and oil	56.2	50.7	45.9	—	—
	<b>1,208.9</b>	<b>1,021.4</b>	<b>918.0</b>	<b>746.7</b>	<b>681.4</b>
Corporate	93.0	182.5	59.0	116.7	101.1
	<b>\$1,301.9</b>	<b>\$1,203.9</b>	<b>\$ 977.0</b>	<b>\$ 863.4</b>	<b>\$ 782.5</b>
<b>Depreciation and depletion</b>					
Pulp and paper	\$ 25.6	\$ 24.1	\$ 25.7	\$ 23.7	\$ 21.6
Packaging	9.0	8.3	7.5	6.4	6.3
Construction materials	12.8	8.4	7.3	6.2	4.3
Chemicals	8.8	7.8	7.0	6.9	6.3
Gas and oil	1.2	0.5	0.1	—	—
	<b>57.4</b>	<b>49.1</b>	<b>47.6</b>	<b>43.2</b>	<b>38.5</b>
Corporate	0.3	0.3	0.4	0.4	0.4
	<b>\$ 57.7</b>	<b>\$ 49.4</b>	<b>\$ 48.0</b>	<b>\$ 43.6</b>	<b>\$ 38.9</b>
<b>Capital expenditures (excluding acquisitions)</b>					
Pulp and paper	\$ 50.8	\$ 46.4	\$ 36.3	\$ 13.0	\$ 14.7
Packaging	49.3	20.8	7.8	4.6	5.8
Construction materials	29.7	32.0	35.3	13.3	3.6
Chemicals	28.8	13.7	12.7	9.1	13.9
Gas and oil	5.2	4.7	0.5	—	—
	<b>163.8</b>	<b>117.6</b>	<b>92.6</b>	<b>40.0</b>	<b>38.0</b>
Corporate	0.5	0.7	0.5	1.0	—
	<b>\$ 164.3</b>	<b>\$ 118.3</b>	<b>\$ 93.1</b>	<b>\$ 41.0</b>	<b>\$ 38.0</b>
<b>By geographic area</b>					
<b>Trade sales</b>					
<b>Canada</b>					
Within Canada	\$1,220.2	\$1,141.0	\$ 999.2	\$ 863.2	\$ 755.0
To United States	323.3	276.7	262.6	227.0	164.2
Offshore	72.6	63.8	49.5	27.3	32.8
	<b>1,616.1</b>	<b>1,481.5</b>	<b>1,311.3</b>	<b>1,117.5</b>	<b>952.0</b>
United States	119.6	117.4	134.8	85.4	26.3
Other	29.0	54.3	49.3	38.0	31.2
Consolidated sales	<b>\$1,764.7</b>	<b>\$1,653.2</b>	<b>\$1,495.4</b>	<b>\$1,240.9</b>	<b>\$1,009.5</b>
Transfers between geographic areas	\$ 32.0	\$ 40.2	\$ 38.3	\$ 17.1	\$ 10.3



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**18. Segmented information (cont'd)**

(millions of Canadian dollars)	1981	1980	1979	1978	1977
<b>By geographic area (cont'd)</b>					
<b>Operating profit (loss)</b>					
Canada	\$ 106.7	\$ 161.0	\$ 149.9	\$ 103.6	\$ 54.3
United States	(12.5)	9.8	32.0	13.1	3.0
Other	4.8	2.1	3.3	0.4	(1.2)
	99.0	172.9	185.2	117.1	56.1
Corporate administrative expenses	(12.7)	(9.3)	(7.1)	(5.5)	(5.2)
Fixed asset disposals – (net loss)	–	–	–	(2.3)	–
Corporate interest and other income	13.0	13.7	5.4	11.3	7.8
	99.3	177.3	183.5	120.6	58.7
Interest expense	(17.9)	(15.3)	(16.8)	(17.0)	(16.9)
Earnings before income taxes, minority interest and extraordinary items	\$ 81.4	\$ 162.0	\$ 166.7	\$ 103.6	\$ 41.8
<b>Identifiable assets</b>					
Canada	\$1,031.9	\$ 887.3	\$ 787.2	\$ 659.8	\$ 635.3
United States	139.5	90.5	69.9	59.0	25.8
Other	37.5	43.6	60.9	27.9	20.3
	1,208.9	1,021.4	918.0	746.7	681.4
Corporate	93.0	182.5	59.0	116.7	101.1
	\$1,301.9	\$1,203.9	\$ 977.0	\$ 863.4	\$ 782.5

Sales to other segments reflect transfer prices at market value.

Segment operating profit is revenue less allocable operating expenses.

Segment identifiable assets are those which are directly used in segment operations or geographic areas. Corporate assets are principally marketable securities, certain non-trade receivables, prepaid items and other assets.

During the second quarter of 1981, management responsibility for the Corporation's kraft paper and boxboard mill was transferred from the Packaging Group to the Pulp and Paper Products Group. The above segmented information reflects the retroactive application of this change.

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**19. Related parties**

Société générale de financement du Québec, a holding company (wholly-owned by the Government of Québec) engaged in commercial investment, and Caisse de dépôt et placement du Québec, the Government of Québec's deposit and investment fund, hold respectively, at December 31, 1981 approximately 21.7 percent and 22.2 percent of the common shares of the Corporation. The Corporation is not aware of having entered into any transactions with the above-mentioned organizations or any parties related thereto other than on normal commercial terms in the ordinary course of business.

# Inflation Accounting

Since 1974, Domtar has included in its annual report supplementary financial information which attempts to show the overall impact of inflation on its sales and earnings. Pending the establishment of Canadian guidelines for accounting for inflation, the Corporation has decided to use the constant dollar method (also known as price level adjusted) to translate its audited financial statements into real terms.

The reader is cautioned that constant dollar accounting is experimental and it does not necessarily measure the precise impact of inflation. It does, however, provide a reasonable indication of the real trend of revenues, costs and expenses after taking inflation into account.

## Methodology

The Corporation has restated its 1981 financial statements into year-end 1981 dollars using the Consumer Price Index published by Statistics Canada. Sales, other expenses (net) and income taxes have been restated to 1981 year-end dollars based on the assumption that the level of transactions was consistent throughout the year. The inventories in cost of sales, together with depreciation and extraordinary items, have been restated in year-end 1981 dollars from those prevailing at the specific transaction dates. The gain on net monetary liabilities represents a holding gain resulting directly from inflation throughout the year. The comparative constant dollar amounts for 1980 have been restated in 1981 year-end dollars.

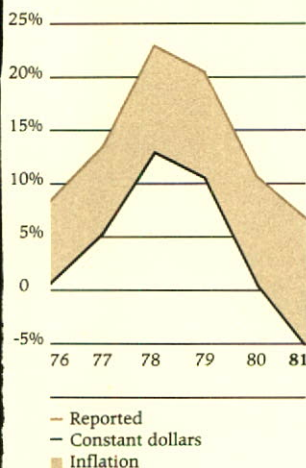
## Restatement of net earnings on a constant dollar basis

Year ended December 31 (millions of Canadian dollars, except per share amounts)

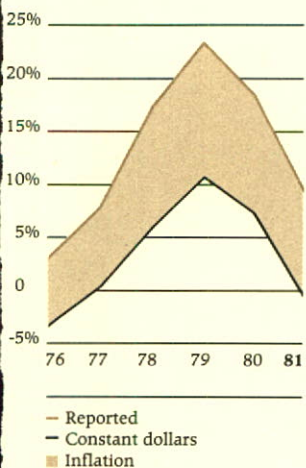
	1981		1980	
	Historical dollars (per financial statements)	Constant dollars (in restated 1981 year-end dollars)	Historical dollars (per financial statements)	Constant dollars (in restated 1981 year-end dollars)
Sales	\$ 1,765	\$ 1,847	\$ 1,653	\$ 1,946
Cost of sales	1,462	1,559	1,311	1,569
Depreciation	58	103	49	95
Other expenses (net)	164	186	131	156
Earnings from continuing operations	81	(1)	162	126
Income taxes	21	22	65	76
Earnings (loss) before extraordinary items	60	(23)	97	50
Extraordinary items	4	1	(2)	(3)
Net earnings (loss)	\$ 64	\$ (22)	\$ 95	\$ 47
Effective income tax rate	26%	-	40%	60%
Earnings per share	\$ 3.59	\$ (1.23)	\$ 5.66	\$ 2.81
Gain attributable to holding net monetary liabilities		\$ 17		\$ 12
Income (loss) including gain on net monetary liabilities		\$ (5)		\$ 59

### Sales growth

(percentage increase year over year)



### Return on common shareholders' equity



### Constant dollar information

Since 1975, Domtar has reported in its financial statements sales growth ranging from 6.7% to 22.9% for a compound annual increase of 14%. The impact of inflation is evident on the adjacent graph where the sales growth, in constant dollars, ranges from a negative 5.1% to 12.9%, for a compound annual increase of only 4%. The negative growth in 1981 results from the impact of strikes and from sales price increases failing to keep pace with the inflation rate.

Net earnings in 1981 in historical dollars were \$64 million compared to a loss of \$22 million in constant dollars. The inability to match inflationary cost increases with offsetting price increases resulted in a decline in margins of \$15 million. However, the impact on net earnings of accounting for depreciation and income taxes in constant dollars was more significant.

Providing for depreciation based on historical costs does not adequately provide for the replacement of fixed assets during inflationary periods. The increase of 78% in depreciation reflects the average cumulative effect of inflation since the various assets were acquired.

In constant dollars, the Corporation has no earnings before income taxes. However, it is still subject to \$22 million in taxes because businesses are unable to exclude the impact of inflation when calculating taxes.

Holders of monetary liabilities (debt and other amounts owed to creditors) gain in times of inflation by repaying such liabilities with cheaper dollars. Since monetary liabilities exceed monetary assets, the Corporation has a gain of \$17 million on holding net monetary liabilities in 1981. This gain may be viewed as a hedge against the decline in the value of the dollar and represents that part of the inflation burden carried by creditors and not by the common shareholders.

The return on common shareholders' equity is materially affected as a result of the restatement into constant dollars. In the adjacent graph, for 1981 Domtar reported a return on common shareholders' equity of 9.8% compared to (0.8%) on a restated basis. Since 1975, the reported return on common shareholders' equity has averaged 13.4% versus 3.3% on a constant dollar basis.

### Domtar's position on inflation accounting pronouncements

In 1979, the Canadian Institute of Chartered Accountants (CICA) published an exposure draft entitled "Current Cost Accounting", a method of measuring the effect of changes in the prices of specific goods and services on the results and financial position of a business. The Corporation responded to the exposure draft expressing concern that the proposed disclosure requirements differed significantly from those required by regulatory authorities in the United States. In December 1981, the CICA issued a re-exposure draft entitled "Reporting the Effects of Changing Prices". The revised requirements are less complex than in the previous draft. By introducing a section on constant dollar information, the re-exposure draft moves somewhat closer to the reporting requirements in the United States.

# Domtar Inc.

## Eleven Year Review of Selected Financial Data

(millions of Canadian dollars except per share amounts and statistical data)

			1981	1980	1979		
<b>Earnings</b>	<b>Revenues</b>	Sales	\$ 1,764.7	1,653.2	1,495.4		
		Other revenues	\$ 13.6	15.8	8.7		
	<b>Expenses</b>	Operating expenses	\$ 1,614.1	1,435.7	1,267.0		
		Interest expense	\$ 17.9	15.3	16.8		
		Other expenses	\$ 64.9	56.0	53.6		
		Income taxes	\$ 21.1	64.9	68.5		
		Minority interest	\$ 0.8	0.5	0.3		
		Extraordinary items	\$ (4.1)	2.0	-		
<b>Net earnings</b>		\$ 63.6	94.6	97.9			
<b>Financial Position</b>	<b>Assets</b>	Cash and short-term investments	\$ 82.9	155.2	39.8		
		Other current assets	\$ 498.6	441.4	402.4		
		Net fixed assets	\$ 692.4	584.7	512.8		
		Other assets and intangibles	\$ 28.0	22.6	22.0		
		Total assets	\$ 1,301.9	1,203.9	977.0		
	<b>Liabilities and equity</b>	Bank indebtedness	\$ -	3.6	0.4		
		Trade and other current payables	\$ 217.7	228.0	211.7		
		Long-term debt	\$ 262.6	214.6	167.0		
		Deferred credit	\$ 8.7	12.3	-		
		Deferred income taxes	\$ 176.3	148.4	128.9		
		Minority interest	\$ 3.2	3.0	3.6		
		Shareholders' equity	\$ 633.4	594.0	465.4		
		Total liabilities and shareholders' equity	\$ 1,301.9	1,203.9	977.0		
		<b>Changes in Financial Position</b>	<b>Provided by</b>	Cash flow from operations	\$ 145.5	168.0	163.7
				Long-term debt and equity financing	\$ 70.6	120.6	-
Other	\$ 24.5			24.0	4.2		
<b>Used for</b>	Purchase of fixed assets		\$ 164.3	118.4	93.1		
	Acquisitions		\$ 30.7	11.2	67.3		
	Dividends		\$ 35.8	35.3	27.2		
	Long-term debt reduction and other		\$ 11.1	12.8	9.4		
	Increase (decrease) in working capital		\$ (1.3)	134.9	(29.1)		
	Increase (decrease) in non-cash working capital		\$ 67.5	22.7	12.5		
	Increase (decrease) in cash items		\$ (68.8)	112.2	(41.6)		
<b>Statistics</b>	<b>Per common share</b>	Net earnings	\$ 3.59	5.66	6.57		
		Dividends	\$ 2.00	2.00	1.80		
		Cash flow from operations	\$ 8.24	10.04	11.01		
		Shareholders' equity	\$ 34.79	33.36	30.54		
		Price range					
		high	\$ 37½	30¾	29¼		
	low	\$ 20	21¾	22¾			
	<b>Ratios</b>	Return on capital employed	6.7%	12.2%	14.8%		
		Return on common shareholders' equity	9.8%	18.6%	23.3%		
		Debt/equity ratio	29:71	27:73	26:74		
	<b>Other statistics</b>	Number of shareholders					
		common	18,551	20,882	19,995		
		preference	1,350	1,415	1,457		
		Common shares outstanding	17,859,290	17,443,217	14,841,358		
		Employees					
number	17,409	18,130	18,353				
salaries, wages and benefits	\$ 473.7	419.2	389.5				

1978	1977	1976	1975	1974	1973	1972	1971
1,240.9	1,009.5	886.8	815.2	897.7	655.8	560.8	516.4
14.0	9.0	11.2	11.9	9.0	6.3	1.4	3.0
1,083.3	916.8	824.0	721.5	716.8	556.7	493.3	461.6
17.0	16.9	14.3	9.5	7.3	7.3	7.9	8.5
51.0	42.9	40.1	35.8	34.1	30.1	29.2	29.0
39.6	13.8	7.9	23.9	64.5	26.6	13.6	9.0
0.7	1.3	1.1	1.1	1.5	0.8	0.8	0.8
-	-	-	-	-	-	4.1	8.7
63.3	26.8	10.6	35.3	82.5	40.6	13.3	1.8
100.9	85.1	94.7	86.8	58.0	55.1	20.0	13.8
336.2	297.8	280.3	255.0	280.9	202.8	182.7	173.7
402.8	385.8	378.7	364.3	339.2	294.8	295.8	299.7
23.6	13.8	14.2	15.3	19.1	26.4	26.4	25.2
863.5	782.5	767.9	721.4	697.2	579.1	524.9	512.4
19.9	12.2	7.8	7.8	19.9	9.3	10.2	4.5
158.0	133.8	119.3	114.8	143.5	96.2	62.3	58.8
175.0	173.9	190.5	150.1	108.1	115.2	123.0	127.1
-	-	-	-	-	-	-	-
113.1	103.5	102.5	97.8	85.8	76.5	71.3	67.5
3.2	11.2	13.9	12.2	12.2	11.6	12.4	12.7
394.3	347.9	333.9	338.7	327.7	270.3	245.7	241.8
863.5	782.5	767.9	721.4	697.2	579.1	524.9	512.4
123.0	68.2	49.8	76.3	123.6	73.7	50.4	41.8
-	-	48.9	49.0	-	-	-	-
8.2	4.8	5.0	9.5	11.1	17.3	1.1	3.5
41.0	38.0	44.4	57.7	74.9	43.4	29.6	25.6
33.4	12.7	5.1	-	1.4	-	-	-
16.8	12.4	15.4	24.3	24.3	15.4	9.5	9.5
17.6	21.0	10.0	9.1	11.1	10.0	6.4	18.0
22.4	(11.1)	28.8	43.7	23.0	22.2	6.0	(7.8)
14.4	2.9	20.9	2.8	30.8	(13.9)	5.6	(9.9)
8.0	(14.0)	7.9	40.9	(7.8)	36.1	0.4	2.1
4.23	1.78	0.68	2.34	5.53	2.70	0.86	0.08
1.10	0.80	1.00	1.60	1.60	1.00	0.60	0.60
8.26	4.56	3.32	5.11	8.30	4.93	3.36	2.78
25.78	22.65	21.67	22.00	21.25	17.33	15.63	15.37
247/8	165/8	26 1/2	247/8	28 1/2	263/4	183/8	15 1/2
14	13 1/4	13 3/4	175/8	18	16 1/2	11 3/4	9 1/8
11.1%	6.1%	3.2%	7.3%	17.4%	9.9%	5.0%	3.5%
17.5%	8.0%	3.1%	10.8%	28.6%	16.4%	7.3%	4.3%
31:69	33:67	36:64	31:69	25:75	30:70	33:67	34:66
20,393	22,244	23,330	25,815	26,920	27,705	34,824	39,027
1,486	1,537	1,613	1,654	1,671	1,784	1,825	1,775
14,827,300	14,827,300	14,827,300	14,827,300	14,827,300	14,827,300	14,827,300	14,827,300
17,414	16,815	17,520	17,637	18,450	18,017	17,436	17,607
337.0	297.3	273.9	232.9	230.7	195.1	175.4	167.4

# Domtar Inc.

## Directors and Officers

### Board of Directors

**\*Alex E. Barron, (1) (2) (3) (4)**  
Toronto, President, Canadian  
General Investments Limited

**\*Gilles Blondeau, (1) (2) (3)**  
Montréal, President,  
Groupe Optimum Inc.

**\*Lodwick M. Cook, (1)**  
Los Angeles,  
Executive Vice-President,  
Atlantic Richfield Company

**\*Pierre Côté, C.M., (1) (2)**  
Québec, Chairman of the Board,  
Celanese Canada Inc.

**\*Guy Coulombe, (4)**  
Montréal,  
President and Chief Executive  
Officer, Hydro-Québec

**\*H. Roy Crabtree, (1) (2) (4)**  
Montréal, Chairman of the Board  
and President, Wabasso Inc.

**\*Robert Després, (2) (3)**  
Québec, Chairman of the Board,  
Atomic Energy of Canada Limited

**Denis Giroux,**  
Montréal, Manager, Corporate  
Financing, Caisse de dépôt et  
placement du Québec

**\*Alex D. Hamilton, (1) (3) (4)**  
Montréal, Chairman of the Board  
and Chief Executive Officer,  
Domtar Inc.

**\*John G. Kirkpatrick, Q.C., (1) (2)**  
Montréal, Senior Partner in the  
legal firm of Ogilvy, Renault

**Camille Lacroix,**  
St. Romuald (Québec)  
Chairman of the Board,  
Compagnie Matapédia Limitée

**\*Jean-Claude Lebel, (1)**  
Montréal, Chairman of the Board,  
President and Chief Executive  
Officer, Société générale de  
financement du Québec

**Raymond R. Pinard,**  
Montréal, Executive Vice-President  
and Chief Operating Officer,  
Domtar Inc.

**Michel Plessis-Bélair,**  
Montréal,  
Vice-President, Société générale  
de financement du Québec

**\*Yves Pratte, Q.C., (1) (4)**  
Montréal,  
Partner in the legal firm of  
Clarkson, Tétrault

**Joseph H. Robertson,**  
Montréal, Senior Vice-President,  
Domtar Inc.

**James H. Smith,**  
Montréal, President, Domtar Inc.

**\*Lorne C. Webster, (3) (4)**  
Montréal, Chairman of the Board  
and Chief Executive Officer,  
Groupe Prenor Ltée

\*Member of the:  
(1) Executive committee  
(2) Audit committee  
(3) Pension plans  
investment committee  
(4) Executive management and  
compensation committee

### Officers

**Alex D. Hamilton**  
Chairman of the Board and  
Chief Executive Officer

**Gilles Blondeau**  
Vice-Chairman of the Board

**James H. Smith**  
President

**Raymond R. Pinard**  
Executive Vice-President  
and Chief Operating Officer

**Joseph H. Robertson**  
Senior Vice-President

**Roger H. Ashby**  
Vice-President of the Corporation;  
President, Pulp & Paper Products  
Group

**Steven S. Danyluk**  
Vice-President, Research and  
Environmental Technology

**William D. Davidson**  
Vice-President of the Corporation;  
President, Chemicals Group

**N. Bruce Dephoure**  
Vice-President of the Corporation;  
President, Construction Materials  
Group

**Gordon M. Drodge**  
Vice-President – Administration

**Andrew S. Fleming**  
Vice-President of the Corporation;  
Vice-President, Forest Products  
Division

**Wilfrid L.P. Fournier**  
Vice-President – Human Resources

**André Gascon**  
Vice-President, General Counsel  
and Secretary

**Bruce R. Grant**  
Vice-President of the Corporation;  
Vice-President and General  
Manager, Fine Paper Merchants

**W. Boyd Henderson**  
Vice-President – Engineering

**Frederick E. Hertha**  
Vice-President – Energy

**J. Bernard O'Reilly**  
Vice-President – Labour Relations

**Elmer R. Puddington**  
Vice-President of the Corporation;  
President, Packaging Group

**Derek J. Speirs**  
Vice-President – Finance and  
Corporate Development

**Gilles Pharand**  
Assistant Secretary

**T. Brian Nutter**  
Controller

**Halford M. Wilson**  
Treasurer

**Definitions of terms used in the Highlights table on page 1**

**Return on capital employed**

Earnings before extraordinary items plus minority interest and long-term debt interest after tax as a percentage of the annual average of total assets less current liabilities.

**Return on common shareholders' equity**

Earnings before extraordinary items less preference dividends as a percentage of the annual average common shareholders' equity.

**Ratio of net tangible assets to long-term debt**

Net tangible assets, defined as total assets, excluding intangible assets and deferred charges, less current liabilities (other than long-term debt due within one year), deferred credits and minority interest stated as a multiple of total long-term debt.

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**Head Office**

395 de Maisonneuve Blvd. W.,  
Montréal, Canada  
H3A 1L6  
Telephone: (514) 282-5400

**Transfer Agents**

for preference and common shares:  
Montreal Trust Company –  
Halifax, N.S.; Saint John, N.B.;  
Montréal, Qué.; Toronto, Ont.;  
Winnipeg, Man.; Regina, Sask.;  
Calgary, Alta.; Vancouver, B.C.

for common shares only:  
The Bank of New York,  
New York, N.Y.

**Registrars**

for preference and common shares:  
The Royal Trust Company –  
Halifax, N.S.; Saint John, N.B.;  
Montréal, Qué.; Toronto, Ont.;  
Winnipeg, Man.; Regina, Sask.;  
Calgary, Alta.; Vancouver, B.C.

for common shares only:  
The Bank of New York,  
New York, N.Y.

**Definitions of terms used on pages 11, 15, 18, and 21**

**Trade sales**

Sales by the Corporation to customers.

**Operating profit**

Revenue less allocable operating expenses before income taxes, interest income and expense and general corporate expenses.

**Net operating assets**

The identifiable assets of the business less related current liabilities.

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**Trade Marks:**

Arborite®, Cladboard®, Gyproc®, Plainfield® and Sifto® are registered trade marks of Domtar Inc.

Domtar Inc. is also a registered user of the trade mark Fiberglas(\*).

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Les actionnaires qui préféreraient recevoir leurs rapports en français voudront bien en aviser le Secrétaire de Domtar Inc.

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