DOMTAR INC /CANADA
Form 6-K
April 01, 2004

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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of April, 2004.

DOMTAR INC.

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

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

Form 20-F o Form 40-F þ

[Indicate by check mark whether the registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.]

Yes o No þ

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

Enclosed are copies of the Notice of Meeting, the Management Proxy Circular and Form of proxy in connection with the Annual and Special Meeting of the shareholders of Domtar Inc. to be held on April 29, 2004.

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Domtar Inc.
395 de Maisonneuve Blvd. West
Montreal, H3A 1L6QC Canada

April 1, 2004

TO HOLDERS OF COMMON SHARES

You are invited to the Annual and Special Meeting of holders of Common Shares of Domtar Inc. that will be held in the Grand Salon of the Mount Royal Centre, 2200 Mansfield Street, Montreal, Quebec, Canada, on Thursday, April 29, 2004 at 1:30 p.m.

The items of business to be considered at this meeting are listed in the Notice of Meeting and described more fully in the attached Proxy Circular.

Should you be unable to attend the meeting, it would be appreciated if you would complete, sign, and return the Proxy Form to our transfer agent, Computershare Trust Company of Canada, in the enclosed envelope at your earliest convenience.

Yours truly,

Raymond Royer
President and Chief Executive Officer

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17.5%
minimum

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Domtar Inc.

NOTICE OF THE ANNUAL AND SPECIAL MEETING OF THE HOLDERS OF COMMON SHARES

NOTICE IS HEREBY GIVEN that the Annual and Special Meeting of the holders of Common Shares of Domtar Inc. (the Corporation) will be held in the Grand Salon of the Mount Royal Centre, 2200 Mansfield Street, Montreal, Quebec, Canada, on Thursday, April 29, 2004, at 1:30 p.m., local time, for the purposes of:

1. Receiving and considering the audited consolidated financial statements of the Corporation for the year ended December 31, 2003 and the auditors report thereon;

2. Electing directors;

3. Appointing auditors for the ensuing year;

4. Considering and, if deemed advisable, adopting a Special Resolution (the full text of which is reproduced as Schedule A to the accompanying Management Proxy Circular) authorizing the Corporation to apply for a Certificate of Amendment under the *Canada Business Corporations* Act to amend the Articles of the Corporation to add a provision to the effect that the Directors will be authorized to appoint additional directors from time to time; and

5. Considering such other business as may properly be brought before the meeting.

The directors have by resolution fixed the close of business on March 18, 2004 as the record date for the determination of the shareholders of the Corporation entitled to receive notice of the aforementioned meeting.

Given at Montreal, Quebec, on this 1st day of April, 2004.

BY ORDER OF THE BOARD OF DIRECTORS,

RAZVAN L. THEODORU Corporate Secretary

SHAREHOLDERS MAY EXERCISE THEIR RIGHTS BY ATTENDING THE MEETING OR BY COMPLETING A FORM OF PROXY. SHOULD YOU BE UNABLE TO ATTEND THE MEETING IN PERSON, KINDLY COMPLETE, DATE AND SIGN THE ENCLOSED FORM OF PROXY AND RETURN IT IN THE ENVELOPE PROVIDED AT YOUR EARLIEST CONVENIENCE. YOUR SHARES WILL BE VOTED IN ACCORDANCE WITH YOUR INSTRUCTIONS AS INDICATED ON THE PROXY.

Domtar Inc.

MANAGEMENT PROXY CIRCULAR

Except as otherwise indicated, the information contained herein is given as of March 18, 2004, and all dollar amounts set forth herein are expressed in Canadian dollars.

SOLICITATION OF PROXIES

This Management Proxy Circular is provided in connection with the solicitation by the management of Domtar Inc. (the Corporation) of proxies for use at the Annual and Special Meeting (the Meeting) of the holders of Common Shares (the Common Shares) of the Corporation to be held on April 29, 2004 at the time, place and for the purposes set forth in the foregoing Notice of Meeting and at any adjournment or adjournments thereof. The management of the Corporation does not propose to solicit proxies otherwise than by mail; however, it reserves the right to solicit proxies at nominal cost by telephone, Internet, telegram or by personal interview. Banks, brokerage houses and other custodians, nominees or fiduciaries will be requested to forward the soliciting material to their principals and to obtain authorization for the execution of proxies. The Corporation shall, upon request, reimburse banks, brokerage houses and other custodians, nominees or fiduciaries for their reasonable expenses in forwarding proxy material to their principals. The cost of solicitation will be borne by the Corporation.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named as proxies in the enclosed form of proxy are Directors and/or Officers of the Corporation. **A shareholder has the right to appoint some other person who need not be a shareholder to represent him at the Meeting but, in the case of a corporation, such person must have been duly authorized in writing to act at the Meeting.** In order to appoint such other person, the shareholder should insert such person s name in the blank space provided on the form of proxy and delete the names printed thereon or complete another proper form of proxy. To be effective, proxies must be received by Computershare Trust Company of Canada, Stock Transfer Services, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1 not later than 5:00 p.m. on the last business day preceding the day of the Meeting or any adjournment thereof, or be presented at the Meeting.

A shareholder who executes and returns the accompanying form of proxy may revoke the same by instrument in writing executed by the shareholder, or by his attorney authorized in writing, and deposited either at the principal executive offices of the Corporation, to the attention of the Secretary of the Corporation, 395 de Maisonneuve Boulevard West, Montreal, Quebec, Canada H3A 1L6, at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof at which the proxy is to be used or with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof or in any other manner permitted by law.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The Corporation has only one class of voting securities, its Common Shares, of which 229,442,182 shares are issued and outstanding. Each holder of Common Shares is entitled to one vote at the Meeting or any adjournment thereof for each such Common Share registered in the holder s name as at the close of business on March 18, 2004 (the Record Date). Only shareholders of record at the close of business on March 18, 2004, who either attend the Meeting personally or complete, sign and deliver a form of proxy in the manner and subject to the provisions described above will be entitled to vote or to have their shares voted at the Meeting.

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If Common Shares are not registered in a shareholder s own name (beneficial shareholder) and are held in the name of a nominee , which is usually a trust company, securities broker or other financial institution, the nominee will be required to seek instructions as to how to vote the shares of the beneficial shareholder. For that reason, a beneficial shareholder will need to receive this Circular from the nominee, together with a voting instruction form. Each nominee has its own signing and return instructions which a beneficial shareholder should follow carefully. If a beneficial shareholder has voted and wants to change the voting instructions and vote in person, the beneficial shareholder must contact his nominee to discuss whether this is possible and what procedure to follow.

Since the Corporation does not have access to the names of its beneficial shareholders, if a beneficial shareholder attends the meeting, the Corporation will have no record of his shareholding or of his entitlement to vote, unless the nominee has appointed the shareholder as proxyholder. Therefore, a beneficial shareholder who wishes to vote in person at the meeting, should insert his own name in the space provided on the voting instruction form sent to him by the nominee. By doing so, the nominee is instructed to appoint the beneficial shareholder as proxyholder. Then the beneficial shareholder must follow the signing and return instructions provided by his nominee. The beneficial shareholder should not otherwise complete the form, as he will be voting at the meeting.

To the knowledge of the Directors and Officers of the Corporation, the only persons who own beneficially or exercise control or direction over more than 10% of the Common Shares are George Weston Limited which beneficially owns 35,565,533 Common Shares representing 15.50% of all voting shares, and Caisse de dépôt et placement du Québec (Caisse) which beneficially owns 31,272,272 Common Shares representing 13.63% of all voting shares.

VOTING OF SHARES REPRESENTED BY PROXY

Common shares represented by proxies in the accompanying form of proxy will be voted in accordance with the instructions indicated thereon.

If no instruction is specified, such shares will be voted in favour of the election as Directors of the persons named under the heading Election of Directors, in favour of the appointment as auditors of the firm named under the heading Appointment of Auditors and in favour of the Special Resolution of Shareholders under the heading Amendment to Articles of the Corporation - Additional Directors. The form of proxy also confers discretionary voting authority on those persons designated therein with respect to amendments to the proposals identified in the Notice of Meeting and with respect to other business, which may properly be brought before the Meeting. If such amendments or other business is properly brought before the Meeting, the management nominees designated in such form of proxy will vote the Common Shares represented thereby at their discretion in respect of such amendments or other matters.

The management of the Corporation knows of no such amendments or other business to be brought before the Meeting.

ELECTION OF DIRECTORS

The Articles of the Corporation provide that the Board of Directors shall consist of not less than three and not more than twenty-one directors with the specific number to be determined by the Board of Directors from time to time. The number of directors was last established by resolution of the Board at nine and, accordingly, nine nominee directors are being proposed for election at the Meeting. The reduction in size of the Board to nine directors from twelve directors elected last year results from the fact that four members of the Corporation s current Board are not standing for re-election at the Meeting. The Board of Directors is proposing one new nominee director for election at the Meeting while the Nominating and Corporate Governance Committee continues to search for and consider potential candidates for recommendation as directors. As you will note below (see Amendment to Articles of the Corporation - Additional Directors), shareholders are being asked to approve an amendment to the Articles of the Corporation so as to provide the Board of Directors with the flexibility to make these type of subsequent appointments in the future. The Corporation is of the view that the flexibility afforded to the Board of Directors to select and appoint additional Directors between annual meetings would allow the

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Corporation to act quickly and efficiently when new candidates for membership on the Board of Directors are identified. In this way, a worthwhile candidate would be able to contribute as member of the Board of Directors immediately. Further, the Corporation would not risk losing the candidate to other opportunities which may arise before that candidate s actual appointment can take place at the next annual shareholders meeting.

Except where authority to vote on the election of Directors is withheld, the persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth on the following page. Each Director will be elected to hold office until the earlier of the next annual meeting of shareholders or such other meeting of shareholders called to elect Directors as provided in the Articles of the Corporation unless, prior thereto, a Director resigns or the office of such Director becomes vacant by death, removal or other cause. If prior to the Meeting, any of the said nominees shall be unable or, for any reason, shall become unwilling to serve as a Director, it is intended that the discretionary power granted by the form of proxy shall be used to vote for any other person or persons as Directors. The management of the Corporation is not aware that any of such nominees would be unwilling to serve if elected. As you will note from the attached form of proxy, in accordance with best practices, starting this year, shareholders may vote individually for each director or collectively for a single slate of directors.

The following table sets forth the name, principal occupation, and/or major positions and offices within the Corporation, and length of service as a Director of each of the persons proposed for election as Directors of the Corporation, as well as the number of Common Shares beneficially owned, the number of Deferred Share Units (a) held by each of them and their committee memberships. The Board held 6 meetings in 2003 while Committees of the Board met 21 times during the year. Each director attended at least 75% of the combined meetings of the Board and of the Committees on which such director served, with the exception of one director due to exceptional circumstances and for reasons that had been discussed and accepted by the Nominating and Corporate Governance Committee. Overall, the combined attendance by the directors at both Board and Committee meetings was 88%.

Paul-Henri Couture
Montreal, QC
Director since: 1994
Share ownership:
DSU ownership:
Committee memberships: Executive - Human Resources

Mr. Couture is Vice-President of Capital d Amérique CDPQ Inc. (investment company), a wholly owned subsidiary of Caisse de dépôt et placement du Québec.

Louis P. Gignac
Montreal, QC
Director since: 1995
Share ownership: 2,800
DSU ownership: 10,181
Committee membership: Audit

Mr. Gignac is President and Chief Executive Officer of Cambior Inc. (mining) since 1986. He is also a Director of Gaz Métro Inc.

Claude R. Lamoureux
Toronto, ON
Director since: 1992
Share ownership: 7,800
DSU ownership: 22,054
Committee memberships: Executive - Audit -
Nominating and Corporate Governance - Pension

Mr. Lamoureux is President and Chief Executive Officer of the Ontario Teachers Pension Plan Board (pension fund management).

(a) See Directors Compensation on page 5 for a description of the Deferred Share Units Plan for Outside Directors.

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Jacques Laurent
Montreal, QC
Director since: 1996
Share ownership: 4,800
DSU ownership: 18,726
Committee memberships: Audit - Nominating and Corporate Governance - Environment and Health and Safety

Mr. Laurent is a partner with Borden Ladner Gervais, LLP (lawyers). From 2001 to 2003, he was Chairman of the Board of Hydro-Québec. He is also a director of the St. Lawrence Cement Group.

Brian M. Levitt
Montreal, QC
Director since: 1997
Share ownership: 5,800
DSU ownership: 15,210
Committee membership: Pension

Mr. Levitt is Co-Chair and Partner of Osler, Hoskin & Harcourt LLP (lawyers) since 2001. From 1995 to 2001, he was President and Chief Executive Officer of Imasco Limited. He is also a director of BCE Inc.

Gilles Ouimet
Montreal, Quebec
Director since: new nominee
Share ownership:
DSU ownership: new nominee
Committee memberships: new nominee

Mr. Ouimet is Chairman of the Board of Pratt & Whitney Canada since 2002. With the company since 1977, he held various executive positions including President and Chief Operating Officer and President and Chief Executive Officer.

Louise Roy
Montreal, QC
Director since: 1997
Share ownership: 800
DSU ownership: 14,999
Committee memberships: Human Resources - Environment and Health and Safety

Mrs. Roy is Associate Fellow of CIRANO (liaison and transfer organization). Previously, she was Vice- President, Marketing and Commercial Services of the International Air Transport Association (IATA). She is also a director of ING Canada Inc.

Raymond Royer
Montreal, QC
Director since: 1996
Share ownership: 467,915
DSU ownership: (b)
Committee memberships: Executive -
Environment and Health and Safety - Pension

Mr. Royer is President and Chief Executive Officer of the Corporation since 1996. He is also a director of Norampac Inc., Power Financial Corporation and Shell Canada Limited.

Edward J. Waters
Greenwich, Connecticut
Director since: 1982
Share ownership: 800
DSU ownership: 14,875
Committee memberships: Nominating and
Corporate Governance - Pension

Mr. Waters is Chairman, President and Chief Executive Officer of Cape & Islands Investment Company Ltd. (investment banking).

(b) Mr. Royer is a participant in the Executive Deferred Share Unit Plan see Deferred Share Units on page 9, CEO Compensation on page 10 and Summary Compensation Table on page 11.

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DIRECTORS COMPENSATION

Annual and attendance fees

Only Directors who are not full-time employees of the Corporation receive compensation for acting as members of the Board of Directors and as members of any committee of the Board. Directors are paid an annual fee of $15,000 plus $1,200 for each Board meeting attended, and an annual fee of $4,000 as members of any committee of the Board (plus $6,000 each in the case of the chairman of the Audit Committee and the chairman of the Human Resources Committee, and $1,000 in the case of the chairman of any other committee), plus $1,200 for each committee meeting attended. The amount of fees paid by the Corporation to its Directors in respect of the 27 meetings of the Board and committees of the Board held during 2003 was $437,400. Effective January 1, 2004, the Board of Directors approved the increase of the annual fee to $22,000 from $15,000.

Deferred Share Units Plan

Effective January 1, 1999, the Corporation adopted the Deferred Share Units Plan for Outside Directors. Every year, the Board of Directors determines the number of deferred share units (DSUs) to be received by an outside director. A DSU is a unit equivalent in value to a Common Share, credited by means of a bookkeeping entry in the books of the Corporation to an account in the name of the outside director and payable only at the end of his mandate on the Board of Directors. When normal cash dividends are paid on Common Shares, equivalent amounts in the form of additional DSUs are credited to the individual director s account. A director may elect to receive his annual retainer and attendance fees in DSUs. When the director s mandate on the Board ends, the DSUs are paid in cash or by way of Common Shares purchased on the market, based on the market value of the Common Shares at that time, less applicable deductions. DSUs represent the variable component (at risk) of the directors compensation. For 2003, the number of DSUs was established at 300 per quarter per director (875 in the case of the Chairman of the Board). Each DSU granted respectively on March 31, June 30, September 30 and December 31, 2003 had a value equal to the market price of one common share of the Corporation on such dates, i.e., $14.55, $14.80, $15.22 and $16.25 respectively.

Under the terms of the Plan, a Participant shall receive, not later than the 31st of January following the end of the year during which the Participant s Termination Date occurred, a lump sum payment in cash equal to the number of DSUs recorded in the Participant s account on the Termination Date multiplied by the Termination Value of the Common Shares or, if the Participant so elects, a number of Common Shares to be purchased on the open market equal to the number of DSUs then recorded in the Participant s account, less in either case any applicable withholding tax. Under the terms of the Plan, Mr. Gilles Blondeau, who ceased to be a director of the Corporation on May 1, 2003, received a gross payment of $168,306 after having served on the Board for 23 years.

On December 13, 2001, the Board of Directors adopted a policy stating that the directors will hold a personal investment in shares and DSUs of the Corporation, of at least six (6) times the amount of their annual base compensation over a period of three (3) years. This policy does not apply to directors who, by reason of policies of their own employers, may not benefit personally from the director compensation paid by the Corporation.

Service Agreement

The Corporation entered into an agreement with Mr. Jacques Girard, effective August 5, 1996, to retain his services as Chairman of the Board for an indefinite term, which agreement can be terminated by either party upon prior notice or payment-in-lieu thereof. Mr. Girard is not eligible to participate in the Corporation s pension and bonus plans. He will be entitled to receive, upon termination of his services, (i) an amount equal to one-half of his base annual amount plus, for each year of service, one-twelfth of the base annual amount up to a maximum of one time his base annual amount, (ii) a lump sum pension allowance of 3% per year of service calculated on the basis of the base annual amount above mentioned, and (iii) should his services be terminated as a result of a merger of the Corporation or an unsolicited offer for the common shares of the Corporation, an amount equal to one-half of his base annual amount in addition to the amount referred to under (i) above.

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Mr. Girard currently receives for his services a base annual amount of $100,000 as well as the director s fees, the attendance fees and the DSUs referred to above. He is also entitled to a *per diem* fee of $1,000 for each day spent in excess of two days per week attending to the Corporation s business; no amount was paid to Mr. Girard in this respect during 2003. Mr. Girard has informed the Corporation that he will not stand for re-election this year.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Corporation has purchased a Directors and Officers Liability Insurance policy for the benefit of the Corporation, its Directors and Officers against certain liabilities incurred by them in their capacity as Directors or Officers of the Corporation, subject to all the terms, conditions and exclusions of the policy. This insurance provides for an annual coverage of $100,000,000 combined limit for liability and reimbursement of payments. The amount of the premium paid by the Corporation in respect of the period from January 1, 2003 to December 31, 2003 was $853,529, approximately $42,676 of which is attributable to Directors as a group and approximately $42,676 of which is attributable to Officers as a group, the balance of approximately $768,177 being attributable to the Corporation. The deductible applicable to the Corporation is $500,000 for any occurrence and there is no deductible applicable to individual Directors and Officers.

REPORT ON EXECUTIVE COMPENSATION

The Corporation s executive compensation program is administered by the Human Resources Committee (the H.R. Committee) of the Board of Directors of the Corporation. As part of its mandate, the H.R. Committee recommends the Corporation s compensation policy to the Board for approval and administers the hiring, termination, promotion, and compensation of the members of the Management Committee of the Corporation, composed of the President and Chief Executive Officer (CEO) and the officers of the Corporation who report directly to him and who, together, constitute the executive officers of the Corporation (Executive Officers). For the position of CEO, the H.R. Committee makes hiring and compensation recommendations which are submitted for approval by the Board. The H.R. Committee approves the hiring and the compensation levels for all other members of the Management Committee and reports on its decisions to the Board.

The H.R. Committee also evaluates the performance of the Corporation s CEO, and it reviews the performance of his direct reports, their succession planning, as well as the Corporation s human resources policies and organization, including the design and competitiveness of the Corporation s compensation plans. A more detailed description of the H.R. Committee s mandate (charter), may be found in the corporate information section of our web site at www.domtar.com.

Executive Compensation Program

The Corporation s executive compensation program is based on a philosophy that links pay with company performance and increased shareholder value with each executive officer s responsibilities and performance over time. The executive compensation program is designed to attract, retain and motivate the broad-based management talent needed to achieve the Corporation s strategic objectives and to reward employees on the basis of individual and corporate performance, both in the short and the long term.

Independent compensation and benefits consultants are retained periodically by both the H.R. Committee and the management of the Corporation to assess the design and competitiveness of the executive compensation program. The Corporation participates in and subscribes to various surveys on executive compensation and independently collects competitive information about other corporations within the industry and about North American manufacturing corporations of similar size.

Compensation for each of the Executive Officers (including the Named Executive Officers, as hereinafter defined) consists of four components: a base salary, a cash-based annual incentive component, a long-term incentive component, and employee benefits. As an Executive Officer s level of responsibility increases, a greater percentage of total compensation (as opposed to base salary and

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standard employee benefits) is based on performance, and the mix of total compensation shifts towards variable compensation, i.e., annual incentive based on a profit-sharing plan (Profit-Sharing Plan) (see below under Annual Incentive Compensation) and a long-term incentive program in the form of stock options and share purchase rights, and deferred share units (see Long-Term Incentive Compensation), thereby increasing the common interest between executive officers and shareholders.

The Corporation s compensation policy is to pay total cash compensation above the median of its comparison group of companies for exceptional results and at the median for satisfactory results. Its compensation practices result in a competitive compensation that largely follows Canadian practices; however, when appropriate, factors related to the North American markets are considered and applied.

The H.R. Committee believes that these components collectively provide a fair and competitive compensation structure and an appropriate relationship between executive compensation level, the Corporation s financial and strategic management performance, and shareholder value.

Base salary

Base salaries are set at levels which are competitive with the base salaries paid by leading Canadian corporations of a comparable size doing business in Canada or on international markets. A salary range is established for each salaried position in the Corporation. An executive officer s base salary movement is determined by reviewing his sustained performance and his increased job experience over time, and, correspondingly, positioning his salary within the salary range for his position.

Annual Incentive Compensation

Annual incentive compensation is directly linked to corporate performance and is part of the Corporation s short-term incentive program.

Every year, the H.R. Committee approves the corporate performance objectives and sets the criteria under the Profit-Sharing Plan for annual incentive compensation or pay at risk. This Profit-Sharing Plan applies to all the Corporation s non-unionized employees, including members of the Management Committee. Unionized employees may participate in the Plan following negotiation with the Corporation.

The Profit-Sharing Plan is designed to reinforce behavior and decision-making that take into consideration the interest of the Corporation as a whole, encourage team spirit and link employee performance with the Corporation s annual financial results.

The Plan ties incentive awards to the Corporation s net earnings (after income taxes, interest, foreign exchange hedging, and accounting provisions). The total amount of profits that can be shared pursuant to the Plan may go up to 15% of the Corporation s net earnings if certain objectives approved by the H.R. Committee are met. The amount of the incentive award, expressed as a percentage of salary, varies between 5% and 50% of earned salary for non-unionized employees, depending on the position level. Under the Plan, the target bonus for the CEO is 50% of his annual base salary, and the target bonus for the other members of the Management Committee varies between 35% and 40% of their base salaries.

Long-Term Incentive Compensation

The H.R. Committee considers grants of stock options (including performance options), share purchase rights, deferred share units, and performance share units when reviewing executive compensation annually.

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A. Executive Stock Option and Share Purchase Plan

The Executive Stock Option and Share Purchase Plan (the Stock Plan) is designed to motivate participants and to help encourage the retention of high-performance executives over the long term and to encourage executive stock ownership thereby enhancing a mutuality of interest with other shareholders. The Stock Plan is administered by the H.R. Committee of the Board of Directors which, subject to the terms of the Stock Plan, has the sole authority to interpret the Stock Plan and to prescribe such rules and regulations as it deems necessary. The Stock Plan provides for the granting of stock options (Options), share appreciation rights (SARs), rights to purchase Common Shares (Rights) to selected executives of the Corporation and its subsidiaries (Participants). The Stock Plan authorizes the issuance of up to 16,000,000 Common Shares (subject to adjustment in the event of any stock dividend, subdivision, reclassification or other similar event). No SARs have been granted since 1991, and the H.R. Committee has decided not to grant any SARs for the time being.

Individual grants of stock options and share purchase rights are granted upon the recommendation of the CEO to candidates identified in succession plans for key management and specialist positions in operating divisions and corporate departments, to high-potential employees to ensure their development and retention, and to qualified candidates when it is necessary, according to market conditions, to attract and retain them in key positions. The amount of the payment will depend on the individual s commitment to the long-term goals of the Corporation and maximization of shareholder value in future years.

Options

The eligible executives to whom Options under the Stock Plan may be awarded, and the number of Common Shares subject to such Options, are determined by the H.R. Committee.

One-fourth of the Options granted may be exercised at the end of each 12-month period after the date of the grant unless otherwise determined by the H.R. Committee. Options expire 10 years after the grant date except in special circumstances. Options are not transferable and may be exercised only for as long as the Participant remains an eligible executive or employee, subject to certain exceptions such as death or retirement. Participants must pay for the Common Shares in full on the date of exercise of any Option. No financial assistance is available to Participants on the exercise of Options.

In February 2003, the H.R. Committee introduced a new performance feature in order to align the vesting of Options with the performance of the Corporation s common shares. Previously granted options were not affected by this change. Accordingly, these new performance options will vest in four increments of 25% on each anniversary date of the grant (each an Annual Portion), provided the performance (expressed in %) of the Corporation s common share price during the Reference Period, as defined below, is equal to or exceeds the average performance (expressed in %) of an index (the Index) composed of the S&P 500 Materials (U.S.) index (50%) and the S&P/TSX Materials (Canada) index (50%).

On each anniversary date of the grant, the average closing price of the Corporation s Common Shares (the Average Price) during the 20 consecutive trading days on the Toronto Stock Exchange immediately preceding each anniversary date of the grant (the Reference Period), will be used to measure the performance of the Corporation s common share price and will be compared to the average performance of the Index (the Average Index) during the same Reference Period.

The relevant Annual Portion will only vest on a given anniversary date if the performance (expressed in %) in the Average Price equals or exceeds the Average Index during the relevant Reference Period. Should this not be the case, the Annual Portion will not vest but may vest on any following anniversary date if the foregoing test, applied on a cumulative basis, is satisfied on a subsequent anniversary date. Any Annual Portion which has not vested on or before the Expiry Date of the Option will automatically lapse on such Expiry Date.

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Rights

The eligible executives to whom Rights under the Stock Plan may be awarded, and the number of Common Shares to be subject to such Rights, and all other terms and conditions attaching thereto are determined by the H.R. Committee.

Notice of a grant is given to the Participant who immediately and for a period of 30 days thereafter is entitled to accept such grant (or a portion thereof) at the Specified Price. At the time of exercise of a Right, the Participant must pay in full the Specified Price multiplied by the number of Common Shares for which the Right is being exercised (Subscription Price). The Corporation makes available through the trustee under the Stock Plan (Trustee) to each Participant other than an Executive Officer, a loan for the purpose of paying the Subscription Price. Such loan bears interest at a rate determined from time to time by the H.R. Committee, and may be in an amount within the limits established and subject to such other terms and conditions as may be determined by the H.R. Committee. All loans must be paid in full no later than the tenth anniversary of making the grant or sooner if the Common Shares are sold. The Participant must pledge to the Trustee the Common Shares purchased with the proceeds of the loan as security for its repayment. Any discount given upon the grant of a Right for the purchase of Common Shares must be repaid by the Participant if the shares are sold within a period of 12 months after the date of the grant.

In addition, a Participant who exercises a Right will receive from the Corporation on the third anniversary of the date of grant of such Right, or such other date as the H.R. Committee may determine, provided that the Participant still qualifies as an eligible executive on such date, one Common Share (Bonus Share) for every four Common Shares purchased by the Participant on the exercise of such Right and still beneficially owned by the Participant on the third anniversary of the date of exercise of such Right or such other date as determined by the H.R. Committee. Bonus Shares issued under the Stock Plan shall be considered fully paid in consideration of past service that is not less in value than the fair equivalent that the Corporation would have received if the Bonus Shares had been issued for money.

The Participant who is an Executive Officer does not have access to financial assistance as indicated above. Upon receipt of the notice of a grant, he may choose to purchase the shares and pay the Subscription Price in full, or to enter into a non-transferable purchase contract with the Corporation under which the participant will irrevocably commit to purchase the number of Common Shares of the grant at the Subscription Price not later than ten years after the date such contract is entered into.

B. Deferred Share Units

Deferred share units (DSUs) may be provided to members of the Management Committee, to vice-presidents of levels 1 and 2 reporting to Management Committee members, and to key employees upon the recommendation of the CEO. Since the inception of the program in 2000, DSUs have been provided to the members of the Management Committee.

The amount of the grant is determined based on the Corporation s return on equity during a financial year calculated as the total of: i) the return of a risk-free investment (i.e., the annual average yield on long-term Government of Canada bonds), and ii) a risk premium which corresponds to the historical difference between the yield on long-term Government of Canada bonds and the S&P/TSX index return.

Once this return on equity is achieved, the participant becomes entitled to a target grant which will vary depending on the participant s position, namely, 25% of base salary for the CEO, 15% for the other members of the Management Committee.

The value of the DSUs is based on a price equal to the average closing price of the Corporation s Common Shares during the previous financial year. DSUs are paid only upon the retirement, death or permanent disability of participants. The value of the payment is determined at that time according to market value of the Corporation s Common Shares during a 12-month period preceding the event, and payment is made within a period of time determined in accordance with the applicable tax rules.

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No DSU becomes vested until the retirement, death or permanent disability of participants or before termination of employment of an Executive Officer provided he was a member of the Management Committee during a continuous period of at least seven (7) years, except with the approval of the H.R. Committee.

C. Executive Performance Share Unit Plan

Approved by the Board of Directors on recommendation of the H. R. Committee in December 2003, the Executive Performance Share Unit Plan (the EPSU Plan) provides that Performance Share Units (PSUs) may be granted by the H. R. Committee to members of the Management Committee, executives and other key employees of the Corporation or any of its affiliates upon recommendation of the CEO. Each PSU, subject to the vesting conditions (including certain conditions relating to the relative performance of the Corporation s Common Shares) set out in each grant being fulfilled, gives a participant the right to receive one Common Share of the Corporation or, at his option, the cash equivalent at the time of vesting. In the event a participant elects to receive Common Shares, the Corporation will make arrangements for delivery of such shares through purchases on the open market. No grants of PSUs were effective in 2003.

Other Compensation Components

Each of the Corporation s Executive Officers is entitled to receive additional compensation in the form of payments, allocations, or accruals under various compensation and benefit plans, such as improved medical, life insurance and retirement benefits. The H.R. Committee believes that each of these plans or programs is an integral part of the overall executive compensation program and that, based on advice from independent consultants, they ensure that the Executive Officers of the Corporation receive competitive compensation.

CEO Compensation

The Board of Directors approved a salary increase to bring Mr. Royer s base salary to $975,000 from $880,000, effective September 1, 2003.

In 2004, no incentive award has been paid to Mr. Royer in respect of 2003. The incentive award is calculated in accordance with the provisions of the Profit-Sharing Plan (see Annual Incentive Compensation above).

Pursuant to the Stock Plan, in February 2003, Mr. Royer was granted an Option to purchase 90,000 Common Shares of the Corporation at the market price of $15.95 per share. The Option will vest in four increments of 25% on each anniversary date of the grant provided the performance (expressed in %) of the Corporation s common share price during the Reference Period is equal to or exceeds the average performance (expressed in %) of an index composed of the S&P 500 Materials (U.S.) index (50%) and the S&P/TSX Materials (Canada) index (50%), and will expire on the tenth anniversary date of the grant. Mr. Royer also purchased 25,000 Common Shares upon the exercise of a Right granted to him concurrently under the share purchase feature of the Stock Plan at a price of $14.36 per share, representing a 10% discount from the market price on the date of the grant. Pursuant to the Executive Deferred Share Units Plan, Mr. Royer was granted 1,596 DSUs in February 2003. Mr. Royer also receives improved group insurance, and pension benefits.

In setting the CEO s compensation, the H.R. Committee reviewed a survey of companies within a comparative group provided by independent consultants with a view to offering a base salary that is competitive with the base salaries paid by companies of comparable size in the industries in which the Corporation competes. His increase in base salary was granted in recognition of the leadership demonstrated by Mr. Royer relative to the Corporation s financial performance, strategic growth and, generally, the Corporation s ability to differentiate itself from its competitors. This increase in his base salary, together with his incentive compensation and pension arrangements, brings his total compensation package slightly above the median of companies within the comparative group, which is in line with the Corporation s compensation policy (see under Executive Compensation Program).

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Submitted on behalf of the H.R. Committee: Jacques Girard, Chairman; André L Écuyer, Paul-Henri Couture, and Louise Roy.

The above-named individuals served as members of the H.R. Committee during all of the last completed financial year ended December 31, 2003, except for Louise Roy who was appointed on May 1, 2003.

EXECUTIVE COMPENSATION

Summary Compensation Table

The Summary Compensation Table shows certain compensation information for each of the Executive Officers named therein (collectively, the Named Executive Officers) for services rendered in all capacities during the financial years ended December 31, 2003, 2002 and 2001.

		Annual Compensation (1)				Long-Term Compensation	
						Awards	
Name and Principal Position	Year	Salary ($)		Bonus ($) (2)		Securities Under Options/SARs Granted (#)	Deferred Share Units (#) (3)
Raymond Royer	2003	880,000		0		115,000	1,730
President and	2002	860,000		344,000		99,900	7,119
Chief Executive Officer	2001	750,000		288,750		399,900	15,590
Roger H. Brear	2003	US 305,000		0		52,000	488
Senior Vice-President -	2002	US 276,231		US 88,394		46,700	2,012
U.S. Pulp and Paper							
Manufacturing							
Group	2001	US 100,000	(4)	US 30,800		140,000	
George Kobrynsky	2003	419,507	(5)	0		38,500	474
Senior Vice-President - Pulp and							
Paper Sales, Marketing and	2002	393,333		125,867		33,300	1,809
Customer Relations Group	2001	358,000		160,264	(6)	158,300	4,490
Roland Gagnon	2003	385,000		0		38,500	426
Senior Vice-President -							
Canadian							

Pulp and Paper	2002	356,667		114,133	33,300	1,708
Manufacturing Group	2001	335,583		103,359	158,300	3,830
C. Lance Skerratt (7)	2003	344,833	(8)	0	38,500	382
Senior Vice-President -	2002	318,333		101,867	33,300	1,558
Paper Merchants Group	2001	309,167		95,224	108,300	4,010

(1) Perquisites and personal benefits did not exceed the lesser of $50,000 and 10% of the annual salary and bonus for any of the Named Executive Officers, except for Mr. Skerratt who received in 2001 a payment of $251,000 for vacation banked and not taken.

(2) Bonuses are generally paid in cash in the year following the financial year in which they were earned. No bonuses were earned for 2003 as the Corporation did not meet its targets pursuant to the Profit-Sharing Plan (see page 7).

(3) See Long-Term Incentive Compensation on page 9 for a description of the Executive Deferred Share Units Plan. Each DSU granted had a value equal to the average price of a common share of the Corporation during the preceding fiscal year, i.e., $16.54.

(4) Mr. Brear joined the Corporation in August 2001.

(5) Includes a payment of $9,507 for vacation not taken.

(6) Includes a special bonus of $50,000 in connection with the acquisition of four pulp and paper mills in the United States in August 2001.

(7) Mr. Skerratt no longer holds the position of Senior Vice-President - Paper Merchants Group, effective January 13, 2004.

(8) Includes a payment of $16,500 for vacation not taken.

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The table below shows information regarding grants of Options and Rights made to the Named Executive Officers under the Stock Plan during the financial year ended December 31, 2003.

Options/Rights Grants During the Most Recently Completed Financial Year

Name	Securities Under Options (1)/ Rights (2) Granted (#)	% of Total Options/Rights Granted to Employees in Financial Year	Exercise or Base Price ($/Security)	Market Value of Securities Underlying Options/Rights on the Date of Grant ($/Security)	Expiration Date
Raymond Royer	90,000(1)	7.2%	15.95	15.95	Feb. 3, 2013
	25,000(2)	6.4%	14.36	15.95	March 6, 2003
Roger H. Brear	40,000(1)	3.2%	15.95	15.95	Feb. 3, 2013
	12,000(2)	3.1%	14.36	15.95	March 6, 2003
George Kobrynsky	30,000(1)	2.4%	15.95	15.95	Feb. 3, 2013
	8,500(2)	2.2%	14.36	15.95	March 6, 2003
Roland Gagnon	30,000(1)	2.4%	15.95	15.95	Feb. 3, 2013
	8,500(2)	2.2%	14.36	15.95	March 6, 2003
C. Lance Skerratt	30,000(1)	2.4%	15.95	15.95	Feb. 3, 2013
	8,500(2)	2.2%	14.36	15.95	March 6, 2003

The following table summarizes for each of the Named Executive Officers the number of Options (which for purposes hereof include Rights) exercised during the financial year ended December 31, 2003, the aggregate value realized upon exercise, and the total number of unexercised Options held at December 31, 2003. Options covering 356,105 Common Shares were exercised during 2003. Value realized upon exercise is the difference between the fair market value of the underlying stock on the exercise date and the exercise or base price of the Options. Value of unexercised-in-the-money Options at financial year-end is the difference between its exercise or base price and the fair market value of the underlying stock which was $16.25 per share on December 31, 2003. These values, unlike the amounts set forth in the column Aggregate Value Realized, have not been, and may not be, realized. The underlying Options have not been and may not be exercised; and actual gains, if any, on exercise will depend on the value of the Corporation s Common Shares on the date of exercise. There can be no assurance that these values will be realized.

Aggregated Option/SAR Exercises During the Most Recently Completed Financial Year and Financial Year-End Option/SAR Values

Value of Unexercised

Name	Securities Acquired On Exercise (#) (1)	Aggregate Value Realized ($)	Unexercised Options and SARs at FY-End (#) Exercisable/ Unexercisable	in-the-Money Options and SARs at FY-End ($) Exercisable/ Unexercisable
Raymond Royer(2)	25,000	39,750	505,031 / 498,750 (nil / nil) (3)	2,342,445 / 1,079,625 (nil / nil) (3)
Roger H. Brear	0	0	28,750 / 186,250 (nil / nil) (3)	37,000 / 348,000 (nil / nil) (3)
George Kobrynsky(2)	80,186	366,999	21,250 / 191,250 (nil / nil) (3)	nil / 434,625 (nil / nil) (3)
Roland Gagnon(2)	8,500	13,515	69,924 / 191,250 (nil / nil) (3)	282,041 / 434,625 (nil / nil) (3)
C. Lance Skerratt(2)	0	0	47,750 / 141,250 (nil / nil) (3)	146,725 / 285,125 (nil / nil) (3)

(1) Securities acquired during 2003 upon the exercise of Rights under the share purchase feature of the Stock Plan.

(2) Messrs. Royer, Kobrynsky, Gagnon and Skerratt received respectively 5,000, 1,675, 1,675 and 1,675 bonus shares on April 6, April 4, March 15 and March 21, 2003 respectively, pursuant to the Stock Plan. The bonus shares issued on such dates had a market value of $14.88, $14.88, $14.95 and $15.90 respectively.

(3) The amounts shown in parentheses represent SARs granted under the Stock Plan. No SARs have been granted since 1991. See Executive Stock Option and Share Purchase Plan.

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INDEBTEDNESS UNDER SECURITIES PURCHASE PROGRAMS

The aggregate indebtedness to the Corporation and its subsidiaries as at December 31, 2003 of all present and former directors, officers and employees entered into in connection with purchases of securities of the Corporation, excluding routine indebtedness (as defined under applicable Canadian securities laws), was $12,248,349. The following table gives the details of the loans granted to the persons who, during the year ended December 31, 2003, were Directors, Executive Officers or Senior Officers of the Corporation.

INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS UNDER SECURITIES PURCHASE PROGRAMS

Name and Principal Position	Involvement of Issuer or Subsidiary	Largest Amount Outstanding During Year Ended December 31, 2003 ($)	Amount Outstanding as at December 31, 2003 ($)	Financially Assisted Securities Purchases During Year Ended December 31, 2003 (#) (1)	Security for Indebtedness (#) (2)
Claude Belley Senior Vice-President - Human Resources and Organizational Development	Lender	341,584	341,584	n/a	26,351
Roger H. Brear Senior Vice-President - U.S. Pulp and Paper Manufacturing Group	Lender	173,979	173,979	n/a	11,700
Christian Dubé Senior Vice-President and Chief Financial Officer	Lender	496,588	0	n/a	0
Roland Gagnon Senior Vice-President - Canadian Pulp and Paper Manufacturing Group	Lender	429,323	429,323	n/a	36,395
George Kobrynsky Senior Vice-President - Pulp and Paper Sales, Marketing and Customer Relations	Lender	386,036	90,387	n/a	8,300
C. Lance Skerratt(3) Senior Vice-President - Paper Merchants Group	Lender	386,036	386,036	n/a	31,900

(1) Effective in 2003, no financial assistance is available to the Executive Officers for the purchase of the Corporation s securities.

(2) Common Shares of the Corporation pledged as security.

(3) Mr. Skerratt no longer holds the position of Senior Vice-President - Paper Merchants Group effective January 13, 2004.

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Retirement Benefits

To encourage the Executive Officers to remain in the Corporation s service, the Corporation provides certain benefits through basic pension and supplemental pension benefit plans in the event of retirement.

a) Basic Pension Benefits

The table below shows the estimated annual benefits payable to participants under the Domtar Pension Plan for Non-Negotiated Employees (the Domtar Pension Plan) upon normal retirement.

Remuneration ($)	Years of Service(1) 15	20	25	30	35
100,000	25,830	34,440	43,050	51,660	60,270
200,000	25,830	34,440	43,050	51,660	60,270
300,000	25,830	34,440	43,050	51,660	60,270
400,000	25,830	34,440	43,050	51,660	60,270
500,000	25,830	34,440	43,050	51,660	60,270
600,000	25,830	34,440	43,050	51,660	60,270
700,000	25,830	34,440	43,050	51,660	60,270
800,000	25,830	34,440	43,050	51,660	60,270

(1) The maximum annual pension allowed is $1,722 for each year of service. This maximum annuity will increase to $1,833 in 2004 and to $2,000 in 2005.

The Domtar Pension Plan is registered with the Canadian federal and provincial authorities. It has a defined benefit option and a defined contribution option.

In December 1997, the participation to the defined benefit option or to the defined contribution option at January 1, 1998 was offered to all non-negotiated employees. Since January 1, 1998, all non-unionized employees may only participate in the defined contribution option.

Participation in the Domtar Pension Plan is optional for the non-negotiated employees hired prior to January 1, 1998, and they may join the defined contribution option every year on January 1st. For the non-negotiated employees hired since January 1, 1998, participation is mandatory no later than January 1st following the completion of two years of continuous service with the Corporation. However, they may join the Domtar Pension Plan sooner, either on January 1st following their date of employment or on the first day of any month following completion of six full calendar months of continuous service with the Corporation, whichever is earlier.

Under the defined benefit option, the Domtar Pension Plan is funded by the Corporation and by the contributions of the employees. It provides for normal retirement benefits beginning at age 65, while permitting early retirement with reduced benefits. The annual benefits payable are equal to 1.5% (1.3% for the contributing years before January 1, 2000) of the average of the Yearly Maximum Pensionable Earnings (YMPE) during the five years preceding the employee s retirement, plus 2% of the employee s best average earnings during any consecutive 60 months in the last 120-month period prior to his retirement divided by five (the best average earnings), in excess of the average of the YMPE referred to above, multiplied by his years of contributory service. Employees with at least 15 years of continuous employment and retiring after attainment of age 55 but prior to age 65 will also be eligible for a bridging supplement based upon the employee s number of years of continuous service with the Corporation (maximum of 30 years). Benefits are computed on a life annuity five-year guaranteed basis and are not subject to offset by social security or other retirement-type benefits.

Under the defined contribution option, the Domtar Pension Plan is funded by the Corporation and by the employees contributions. Since September 1, 2000, the level of contributions varies from 1.5% to 6.5% of the pensionable earnings depending upon the employee s age and years of continuous service. The Corporation matches the employees contributions at 100%.

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The years of service determined under the provisions of the Pension Plans as of December 31, 2003 for Messrs. Royer, Brear, Kobrynsky, Gagnon and Skerratt were 7 years and 4 months, 2 years and 4 months, 28 years and 9 months, 6 years and 8 months and 30 years and 1 month, respectively. For purposes of determining the benefit payable under the Domtar Pension Plan, base salary and bonuses are used (see Summary Compensation Table).

b) Supplemental Pension Benefits

The Corporation also has a supplemental pension benefit program for senior management employees in Canada with benefits payable out of the general funds of the Corporation. Subject to a retirement agreement in the case of Mr. Royer and one other executive officer, the normal retirement benefits payable annually on a five-year guarantee basis to certain executives of the Corporation, including the Executive Officers, are equal to 2% of the best average earnings for each year of contributory service up to ten years plus, if the number of years of contributory service exceeds 10, 10% and, for each year of contributory service in excess of 10 years, 21/2% of the best average earnings, with a maximum of 60%, less any amounts payable under the Domtar Pension Plan.

Under this plan, the benefits are funded for the members of the Management Committee in the event of a change of control in which case there will be immediate funding, or if they continue to occupy their position until normal retirement age (currently age 65) in which case funding will be made over a period of five years starting at age 60.

The Corporation has entered into a retirement agreement with Mr. Royer providing for supplemental pension benefits, which, with those provided by the Domtar Pension Plan, will provide him with an annual pension calculated as provided in the supplemental pension benefit program mentioned above except that each year of service will count for two years of credited service. The annual estimated amount (assuming current base salary plus target bonus as best average earnings) payable at normal retirement to Mr. Royer under the terms of his agreement would be $609,375. This amount is inclusive of the Domtar Pension Plan amount.

Under E.B. Eddy s supplemental pension benefit program for designated executives in Canada, benefits are payable out of the general funds of the Corporation. The normal retirement benefits payable annually are equal to 2% of the final average annual salary (maximum $200,000) multiplied by the years of executive service (maximum 25 years). This supplemental pension is reduced by the bridging supplement and by a certain amount of the pension earned during those executive years and payable under the Eddy Pension Plan. This amount depends on whether the employee was contributing or not. The final average salary means the average of the rate of annual base salary in effect in the three years prior to retirement (maximum $200,000). The executive service means service from the date of executive appointment under this plan. Benefits are computed on a life annuity 15-year guaranteed basis for a member who does not have a spouse at retirement, or on a joint and survivor 66 % basis with a minimum life annuity five-year guaranteed basis for a member who has a spouse at retirement. On October 1, 1998, the designated executives, including Mr. Skerratt, have been transferred to the Domtar supplemental pension benefit program mentioned in the first paragraph of this section b).

The annual estimated amounts payable at normal retirement under the supplemental pension benefit program (assuming current base salary plus target bonus as best average earnings) would be $412,140 for Mr. Kobrynsky, $148,330 for Mr. Gagnon, and $162,730 for Mr. Skerratt (at age 60) inclusive of other pension arrangements with a prior employer. These amounts are inclusive of the amount payable under the Pension Plans.

Mr. Brear also has a supplemental pension benefit agreement. Benefits under this agreement are payable out of the general funds of the Corporation. Normal annual pension benefits correspond to 50% of his average annual earnings during the 48 months prior to his retirement, less any benefit payable under the Corporation s pension plan and any benefit attributable to the Corporation s contributions under the 401(k) plan. Benefits will also be reduced by the amount of any benefit payable pursuant to pension arrangements with his prior employer. Benefits are computed on a life annuity 10-year guaranteed basis if he does not have a spouse at retirement or on a joint and survivor 50% basis if he has a spouse at retirement. The annual estimated amount payable to Mr. Brear at normal retirement under the terms of

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his agreement (assuming current base salary plus target bonus as average earnings) would be US $217,000 inclusive of benefits payable under the other plans of the Corporation and his prior employer.

Employment Agreements

Since September 3, 1996, the Corporation has retained the services of Mr. Royer as President and Chief Executive Officer for an indefinite term. Upon termination at any time of Mr. Royer s employment for reasons other than cause, resignation, death, long-term disability, his 65th birthday, or upon a substantial change in his responsibilities or compensation, he will be entitled to receive an amount equal to two times the sum of his annual base salary and target annual bonus plus one month of his base salary and one-twelfth of his target annual bonus for each year of service with the Corporation, up to a maximum of two-and-a-half times the sum of his annual base salary and target annual bonus. In December 2002, the Board of Directors approved an extension of Mr. Royer s employment agreement until the end of 2006, i.e. beyond his 65th birthday.

In September 1997, E.B. Eddy Limited, which became a subsidiary of the Corporation on July 31, 1998 and was dissolved on May 18, 2001, entered into an employment agreement with Mr. Skerratt guaranteeing the payment of two times his annual base salary upon termination of his employment for reasons other than cause, reaching age 65, mutual agreement, resignation, death, total disability, or upon a substantial change in his conditions of employment.

The Corporation has a policy pursuant to which the executive officers of the Corporation (see below under Report on Executive Compensation) will be compensated in the event of termination of their employment for reasons other than cause, resignation, death, or uninterrupted continuous employment with a successor corporation. Pursuant to this policy, each of Messrs. Brear, Kobrynsky and Gagnon would be entitled to receive an amount equal to two times the amount of their annual base salary.

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PERFORMANCE GRAPH

The following Performance Graph shows the yearly percentage change in the cumulative total shareholder return on the Corporation s Common Shares compared with the cumulative total return of the S&P/TSX Composite, the TSX Paper and Forest Products and the S&P/TSX Canadian Materials Indices.

The year-end values of each investment are based on share appreciation plus dividends paid in cash, with the dividends reinvested on the date they were paid. The calculations exclude trading commissions and taxes. Total shareholder returns from each investment, whether measured in dollars or percent, can be calculated from the year-end investment values shown in the graph below.

FIVE-YEAR CUMULATIVE TOTAL RETURNS
Value of $100 invested on December 31, 1998

NORMAL COURSE ISSUER BID

On January 30, 2004, the Corporation filed with the Toronto Stock Exchange its application to purchase on the open market, between February 3, 2004 and February 2, 2005, up to a maximum of 10% of the Common Shares issued and outstanding not held by insiders, or 14,132,140 of its outstanding Common Shares. These purchases may be made through the facilities of the Toronto Stock Exchange in accordance with its policies on normal course issuer bids. The price which the Corporation pays for any Common Shares is the market price at the time of acquisition plus brokerage fees. Shareholders may obtain without charge a copy of the documents filed with the regulatory authorities concerning the purchases by writing to the Secretary of the Corporation.

APPOINTMENT OF AUDITORS

Pursuant to the recommendation of the Directors of the Corporation, except where authorization to vote with respect to the appointment of auditors is withheld, the persons named in the enclosed form of proxy intend to vote for the re-appointment of PricewaterhouseCoopers LLP, who have served as auditors of the Corporation since 1952, as auditors of the Corporation until the next annual meeting of shareholders.

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AUDIT AND NON-AUDIT SERVICES FEES

The Audit Committee of the Board of Directors of the Corporation adopted in April 2003 the Audit and Non-Audit Services Pre-Approval Policy that may be found on our web site at www.domtar.com.

Fees paid to PricewaterhouseCoopers LLP in 2003 for completion of the 2003 audit of the consolidated financial statements and related services amounted to $1,769,718; fees paid to PricewaterhouseCoopers LLP in 2003 for professional non-audit services amounted to $74,040.

AMENDMENT TO ARTICLES OF THE CORPORATION ADDITIONAL DIRECTORS

The *Canada Business Corporations Act* provides that if the articles of a corporation contain a provision to this effect, the directors may appoint one or more directors to hold office until the close of the next annual meeting of shareholders, subject to the total number of directors so appointed not exceeding one-third of the number of directors elected at the previous annual meeting of shareholders. The Corporation is of the view that the flexibility afforded to the Board of Directors to select and appoint additional Directors between annual meetings is important as it would allow the Corporation to act quickly and efficiently when new candidates for membership on the Board of Directors are identified. In this way, a worthwhile candidate would be able to contribute as member of the Board of Directors immediately. Further, the Corporation would not risk losing the candidate to other opportunities which may arise before that candidate s actual appointment can take place at the next annual shareholders meeting. The full text of the proposed special resolution relating to the appointment of additional Directors is reproduced as Schedule A.

This special resolution must be approved by not less than two-thirds of the votes cast by holders of Common Shares.

In the absence of instructions to vote against the Amendment to the Articles as described above, the proxyholders whose names appear on the enclosed proxy form intend to vote FOR the said Amendment.

SHAREHOLDER PROPOSAL

The outside date for submission of proposals by shareholders to the Corporation for inclusion in next year s Management Proxy Circular in connection with next year s Annual Meeting of the Holders of Common Shares will be January 3, 2005.

APPROVAL BY DIRECTORS

The Directors of the Corporation have approved the contents and the sending of this Management Proxy Circular.

DATED at Montreal, Quebec	RAZVAN L. THEODORU
April 1, 2004	Corporate Secretary

Schedule A

SPECIAL RESOLUTION

AMENDMENT TO THE ARTICLES OF THE CORPORATION ADDITIONAL DIRECTORS

RESOLVED as a Special Resolution:

THAT Domtar Inc. (the Corporation) be and it is hereby authorized to apply for certificate of amendment under Section 173 of the *Canada Business Corporations Act* to amend its Articles by adding the following provision:

The directors may, from time to time in accordance with the laws governing the Corporation, appoint additional directors, who shall hold office for a term expiring not later than the close of the next annual meeting of shareholders, provided that the total number of directors so appointed may not exceed one third of the number of directors elected at the previous annual meeting of shareholders .

THAT any Director or any Officer of the Corporation be and he is hereby authorized to sign and deliver, for and on behalf of the Corporation, such other notices and documents and to do such other acts and things as may be considered necessary or desirable to give effect to this Special Resolution.

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DOMTAR INC.
395 de Maisonneuve Blvd.
West Montreal, Quebec
Canada H3A 1L6

UPON REQUEST TO THE SECRETARY OF THE CORPORATION AT THE ABOVE-MENTIONED ADDRESS, SECURITY HOLDERS OF THE CORPORATION MAY RECEIVE, FREE OF CHARGE, THE LATEST ANNUAL INFORMATION FORM, THE AUDITED COMPARATIVE FINANCIAL STATEMENTS AND THE PROXY CIRCULAR.

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Computershare Trust Company of Canada
9th Floor, 100 University Avenue
Toronto, Ontario M5J 2Y1
www.computershare.com

Security Class

Holder Account Number

Please print in ink. Print in CAPITAL letters inside the grey areas as shown in this example.

Fold

Proxy Form Annual and Special Meeting to be held on April 29, 2004

Notes to Proxy

1. **Every holder has the right to appoint some other person of his/her choice, who needs not be a holder, to attend and act on his/her behalf at the meeting. If you wish to appoint a person other than the persons whose names are printed herein, please insert the name of your chosen proxyholder in the space provided (see reverse) and strike out the other names.**

2. If the securities are registered in the name of more than one owner (for example, joint ownership, trustees, executors, etc.), then all those registered should sign this form. If you are voting on behalf of a corporation or another individual you must require documentation evidencing your power to sign the proxy with signing capacity stated.

3. The form of proxy should be signed in the exact manner as the name appears on the proxy.

4. If the form of proxy is not dated, it will be deemed to bear the date on which it was mailed to the holder.

5. The securities represented by this proxy will be voted as directed by the holder, however, if such a specification is not made in respect of any matter, this proxy will be voted as recommended by Management.

Fold

VOTE USING THE INTERNET 24 HOURS A DAY 7 DAYS A WEEK!
Voting by mail is the only method for holdings held in the name of a corporation or holdings being voted on behalf of another individual.
Voting by mail or by Internet are the only methods by which a holder may appoint a person as proxyholder other than the Management nominees named on the reverse of this proxy. Instead of mailing this proxy, you may choose to vote using the Internet to vote this proxy.

Go to the following web site:	Complete, sign and date the reverse hereof.
www.computershare.com/ca/proxy	Return this Proxy in the envelope provided.

You will need to provide your HOLDER ACCOUNT NUMBER and PROXY ACCESS NUMBER listed below.

HOLDER ACCOUNT NUMBER	**PROXY ACCESS NUMBER**

If you vote by the Internet, DO NOT mail back this proxy.
Proxies submitted must be received by 5:00 p.m. Eastern Time, on April 28, 2004.

THANK YOU

002WAE

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This Form of Proxy is solicited by and on behalf of Management.

Appointment of Proxy

The undersigned holder of Common Shares of Domtar Inc. (the Corporation) hereby appoints: Jacques Girard, the Chairman of the Board, or failing him, Raymond Royer, the President and Chief Executive Officer, or failing him, Razvan L. Theodoru, the Corporate Secretary	**OR**	**Print the name of the person you are appointing if this person is someone other than those designated**	______________________

the proxy of the undersigned, with powers of substitution, to attend, act at and vote for and on behalf of the undersigned any and all of the Common Shares of the Corporation held of record by the undersigned on March 18, 2004 at the Annual and Special Meeting of the holders of Common Shares to be held in the City of Montréal, Province of Québec, Canada, on April 29, 2004, and at any adjournment thereof and including, without limiting the general authorization and power hereby given:

1. Election of Directors

	For	**Withhold**		**For**	**Withhold**		**For**	**Withhold**	
01. Paul-Henri Couture	o	o	04. Jacques Laurent	o	o	07. Louise Roy	o	o	Fold
02. Louis P. Gignac	o	o	05. Brian M. Levitt	o	o	08. Raymond Royer	o	o	
03. Claude R. Lamoureux	o	o	06. Gilles Ouimet	o	o	09. Edward J. Waters	o	o	

	For	**Withhold**
OR All the proposed nominees	o	o

	For	**Withhold**
2. Appointment of Auditors to vote FOR or WITHHOLD from voting with respect to the appointment of the auditors	o	o

	For	**Against**
3. Special Resolution to vote FOR or AGAINST the Special Resolution regarding the amendment to the Articles of the Corporation	o	o

and to vote at the discretion of such proxy in respect of amendments to the foregoing or on such other matters as may properly be brought before the Annual and Special Meeting.

Fold

The Common Shares represented by this proxy will be voted or withheld from voting as specified but, if no specification is made, the Common Shares will be voted FOR each matter.

Authorized Signature(s) Sign Here This section must be completed for your instructions to be executed.

I/We authorize you to act in accordance with my/our instructions set out above. I/We hereby revoke any Proxy previously given with respect to the Meeting and ratifies all that said proxy may do by virtue hereof. Please give full title when signing as attorney, executor, administrator, trustee or guardian.

Signature(s)	Date-Day	Month	Year
______________________________	__ __ /	__ __ /	__ __ __ __

Interim Financial Statements Request			**Annual Report**		
In accordance with securities regulations, shareholders may elect annually to receive Interim Financial Statements, if they so request. If you wish to receive such mailings, please mark your selection.	o	Mark this box if you would like to receive Interim Financial Statements by mail.	As a registered holder you will receive an Annual Report. If you **DO NOT** want to receive an Annual Report, please mark the box. If you do not mark the box, you will continue to receive an Annual Report.	o	Mark this box if you **DO NOT** want to receive the Annual Report by mail.

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SIGNATURE

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

		DOMTAR INC.
		(Registrant)
Date: April 1, 2004.	By	**/s**
		Razvan L. Theodoru **Assistant Secretary**