Domtar Corporation

Second Quarter 2010 Earnings Call

July 30, 2010

(All financial information is in U.S. dollars, and all earnings per share results are diluted, unless otherwise noted.)

FORWARD-LOOKING STATEMENTS / NON-GAAP MEASURES

Domtar

Forward-Looking Statements

All statements in this presentation that are not based on historical facts are "forward-looking statements." While management has based any forward-looking statements on its current expectations, the information on which such expectations are based may change. These forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to materially differ from those projected in the forward-looking statements.

Risk Factors

For a summary of the risk factors, please refer to Domtar's Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission.

Non-GAAP Financial Measures

This presentation refers to non-U.S. GAAP financial information. For a reconciliation to U.S. GAAP financial measures, please refer to the investors section of the company's website at http://www.domtar.com.

2Q'10 OVERVIEW

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- **Best EBITDA performance on record**
- **Higher average selling prices in all businesses**
- **Strong free cash flow**
- **Much improved financial performance in pulp**
- **Reduced debt through a successful debt tender**
- **Announced the first quarterly dividend of $0.25**
- **Repurchased a total of 340k shares of common stock**
- **Credit ratings upgraded by the rating agencies**

2Q'10 FINANCIAL HIGHLIGHTS

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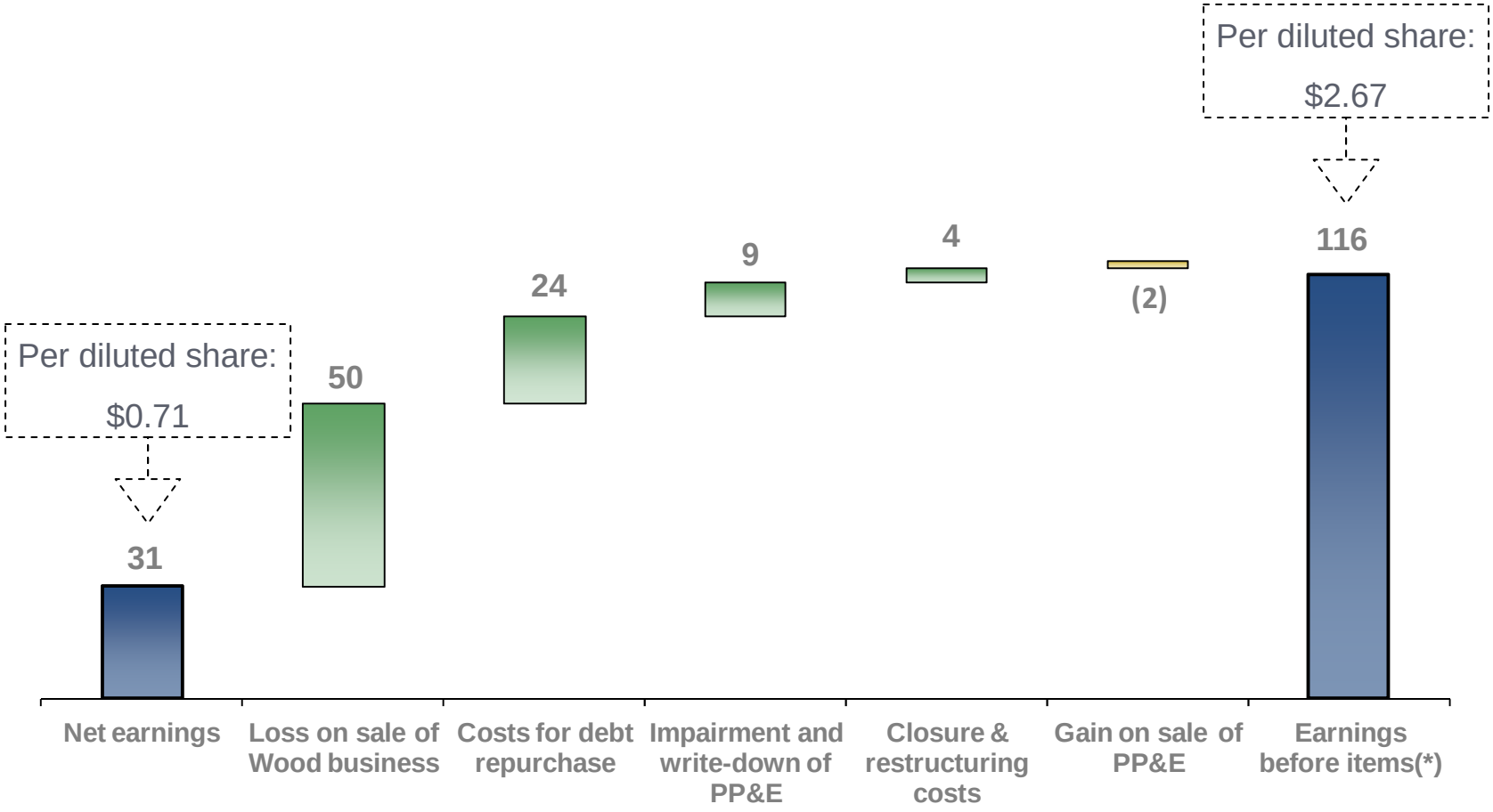
- **Net earnings $0.71 per share**
- **Earnings before items(*) of $2.67 per share**
- **EBITDA before items(*) of $264 million**
- **Cash flow from operating activities of $610 million**
  (incl. cash of $368 million from Alternative Fuel Mixture Tax Credit)
- **Capital expenditures of $43 million**
- **Free cash flow(*) of $567 million**

(*) Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com.

EARNINGS BEFORE ITEMS(*)

2Q'10

(In millions of dollars)



(*) Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com.

EARNINGS STATEMENT

2Q'10 vs 1Q'10

(In millions of dollars)

	1Q'10	2Q'10	Ch.	
Sales	**$1,457**	**$1,547**	**$90**	Higher prices in pulp, paper and wood; higher shipments in pulp
Cost of sales	1,142	1,207	65	
Depreciation and amortization	102	101	(1)	
SG&A	84	69	(15)	Post retirement harmonization benefit and stock-based comp.
Impairment and write-down of PP&E	22	14	(8)	Columbus closure and accelerated depreciation at Plymouth
Closure and restructuring costs	20	5	(15)	
Other operating income	(29)	55	84	Loss on Wood, AFTC and FX
Operating income	**116**	**96**	**(20)**	
Interest expense	32	70	38	Costs for debt repurchase
Income tax expense (recovery)	26	(5)	-	Change in pre-tax income forecast for Canadian operations
Net earnings	**58**	**31**	**(27)**	

CASH FLOW STATEMENT

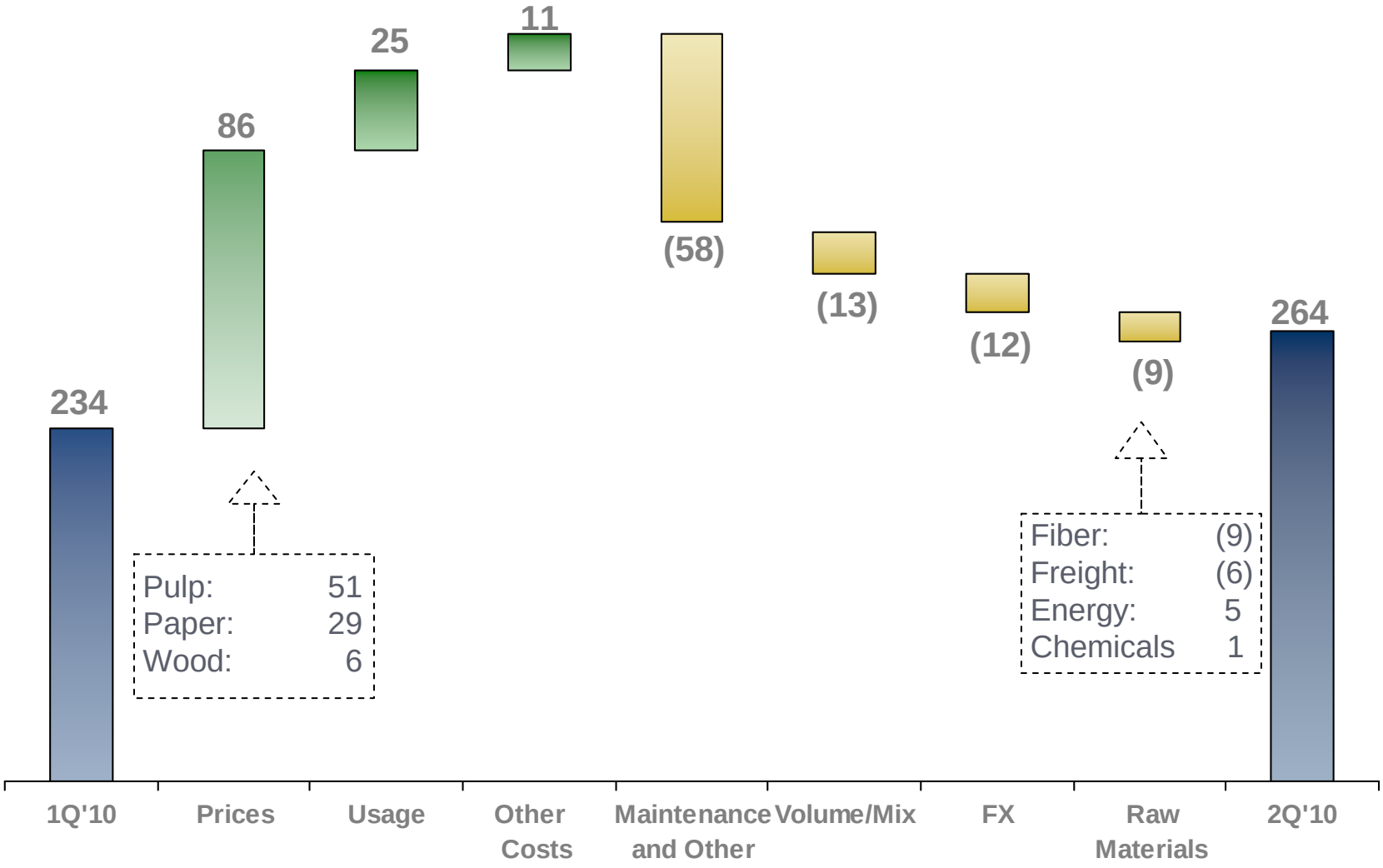
2Q'10 vs 1Q'10

(In millions of dollars)	1Q'10	2Q'10	
Net earnings (loss)	**$58**	**$31**	
Depreciation and amortization	102	101	
Deferred income taxes	15	(12)	
Impairment and write-down of PP&E	22	14	
Net losses (gains) on disposal of PP&E	(1)	48	Sale of Wood business
Other	-	36	Loss on repurchase of debt
Changes in assets and liabilities			
Receivables	(90)	(57)	
Inventories	10	69	
Trade and other payables	(25)	30	
Income and other taxes	23	369	Alternative Fuel Tax Credit
Other	9	(19)	
Cash flow provided from operating activities	**123**	**610**	
Additions to PP&A	(31)	(43)	
Proceeds from disposal of PP&E	7	7	
Proceeds from sale of business	-	97	
Cash flows from (used) for investing activities	**(24)**	**61**	
Repayment of long term debt	(103)	(453)	
Share repurchase program	-	(19)	
Other	(6)	-	
Cash flows (used) for financing activities	**(109)**	**(472)**	

EBITDA BEFORE ITEMS(*)

2Q'10 vs 1Q'10

(In millions of dollars)



(*) Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com.

PAPERS SEGMENT

Overview

(In millions of dollars, unless otherwise noted)

	2Q'10	Qr / Qr (vs 1Q'10)	Yr / Yr (vs 2Q'09)
Sales	$1,317	↑ 6%	↑ 17%
EBITDA before items(*)	$260	↑ $27	↑ $139

Variances (2Q'10 / 1Q'10):

↑ Higher average selling prices
Higher shipments for pulp

↓ Higher maintenance costs
Unfavorable exchange rate
Lower shipments for paper

(*) Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com.

PAPERS SEGMENT

Uncoated Freesheet Paper

(In millions of dollars, unless otherwise noted)

	2Q'10	Qr / Qr (vs 1Q'10)	Yr / Yr (vs 2Q'09)
Sales *(incl. sales to our Paper Merchants)*	$940	↓ 4%	↔
EBITDA before items(*)	$203	↑ $3	↑ $8

	2Q'10	Qr / Qr (vs 1Q'10)	Yr / Yr (vs 2Q'09)
Shipments *(in tons, including internal sales)*	891	↓ 7%	↓ 4%
Transaction prices *(US$ / ton - net, all regions)*		↑ $35	↑ $40

(*) Non-GAAP financial measure.

PAPERS SEGMENT

Pulp

(In millions of dollars, unless otherwise noted)

	2Q'10	Qr / Qr (vs 1Q'10)	Yr / Yr (vs 2Q'09)
Sales	$377	42%	105%
EBITDA before items(*)	$57(1)	$24	$131

	2Q'10	Qr / Qr (vs 1Q'10)	Yr / Yr (vs 2Q'09)
Shipments *(in ADMT, excluding internal sales)*	486	25%	24%
Transaction prices *(US$ / ADMT - net, all regions)*		$106	$310

(1) Including the unabsorbed costs of $14 million for the Kamloops, BC mill upgrade.

(*) Non-GAAP financial measure.

PAPERS SEGMENT
Inventories

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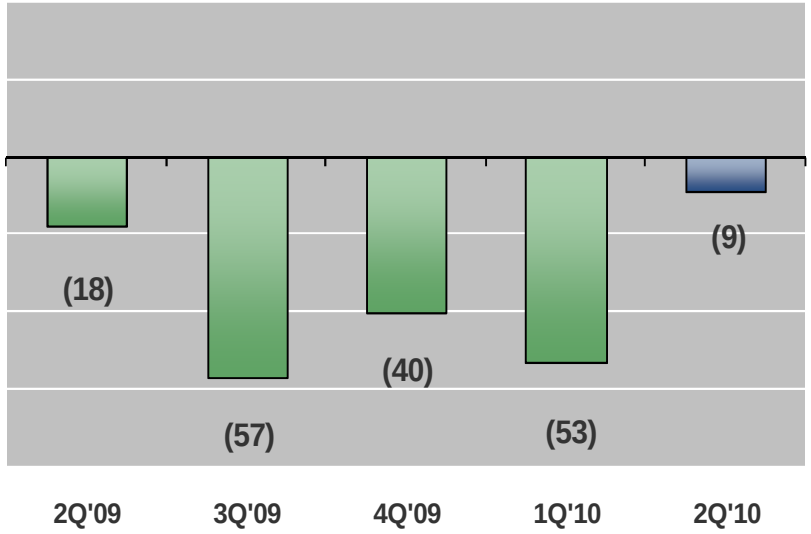
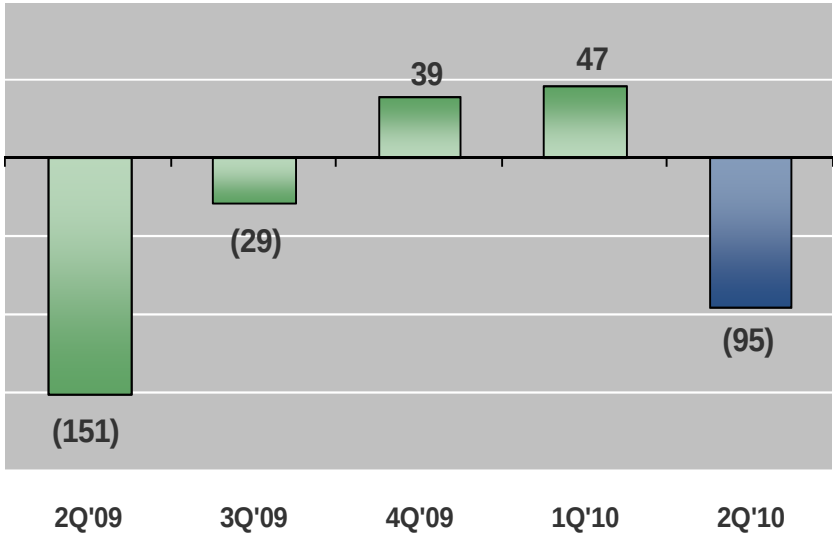
Paper

(Sequential variations in thousands of tons)



Pulp

(Sequential variations in thousands of metric tons)

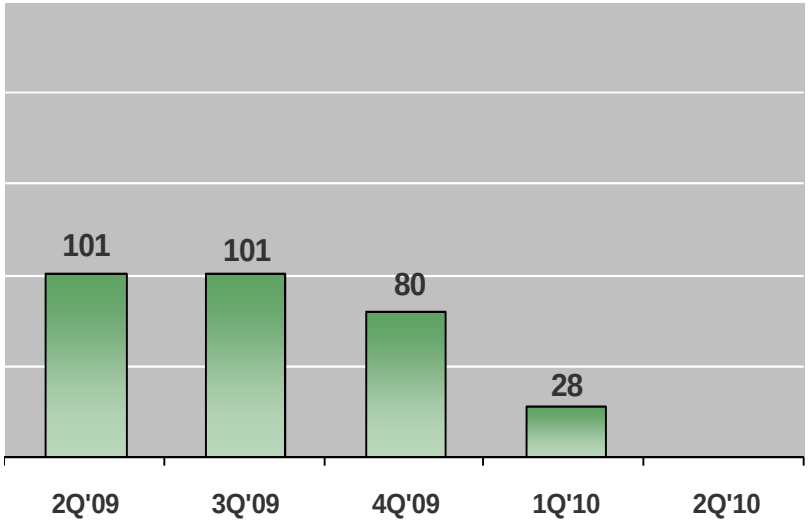


PAPERS SEGMENT

Lack-of-order downtime and machine slowdowns

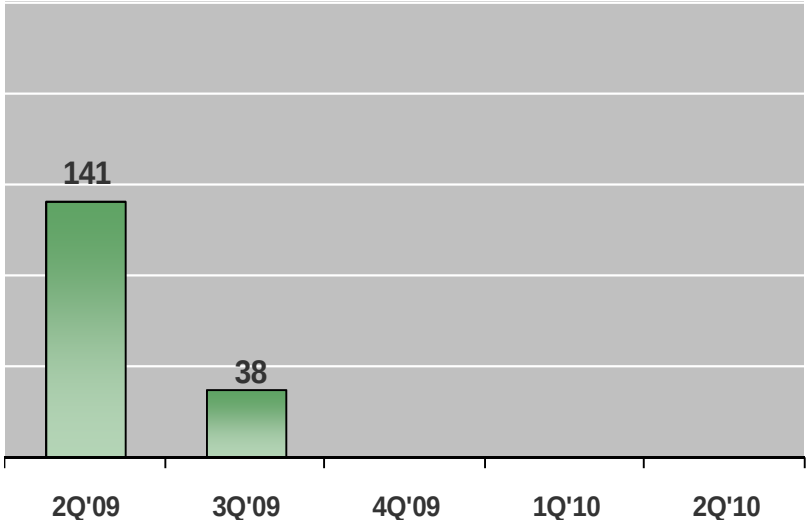
Paper

(in thousands of tons)



Pulp

(in thousands of metric tons)



PAPER MERCHANTS SEGMENT

Overview

(In millions of dollars, unless otherwise noted)

	2Q'10	Qr / Qr (vs 1Q'10)	Yr / Yr (vs 2Q'09)
Sales	$213	↑ 1%	↑ 4%
EBITDA before items(*)	$-	↓ $2	↓ $3

Variances (2Q'10 / 1Q'10):

↓ Margin squeeze due to supplier price increases

↑ Higher average selling prices

(*) Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com.

WOOD SEGMENT

Overview

(In millions of dollars, unless otherwise noted)

	2Q'10	Qr / Qr (vs 1Q'10)	Yr / Yr (vs 2Q'09)
Sales	$83	↑ 24%	↑ 80%
EBITDA before items(*)	$5	↑ $6	↑ $11

Variances (2Q'10 / 1Q'10):

↑ Higher shipments
Higher average selling prices

↓ Unfavorable exchange rate

(*) Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com.

SUMMARY

- **Remarkable execution to deliver strong results**
- **Paper price increases gradually moved through**
- **Pulp inventories significantly reduced**
- **Closed the sale of the Wood business**
- **Exited the coated groundwood paper business**
- **Completed the upgrade at the Kamloops, BC mill**
- **Announced a partnership in nanotechnologies**

OUTLOOK

- **Shipments for paper in the third quarter expected to be similar to the second quarter**
- **Selling prices for paper grade pulp will come under pressure**
- **Costs related to planned maintenance shutdowns will be materially reduced in the third quarter**
- **Inflation on input costs is expected to be relatively flat for the second half of the year**

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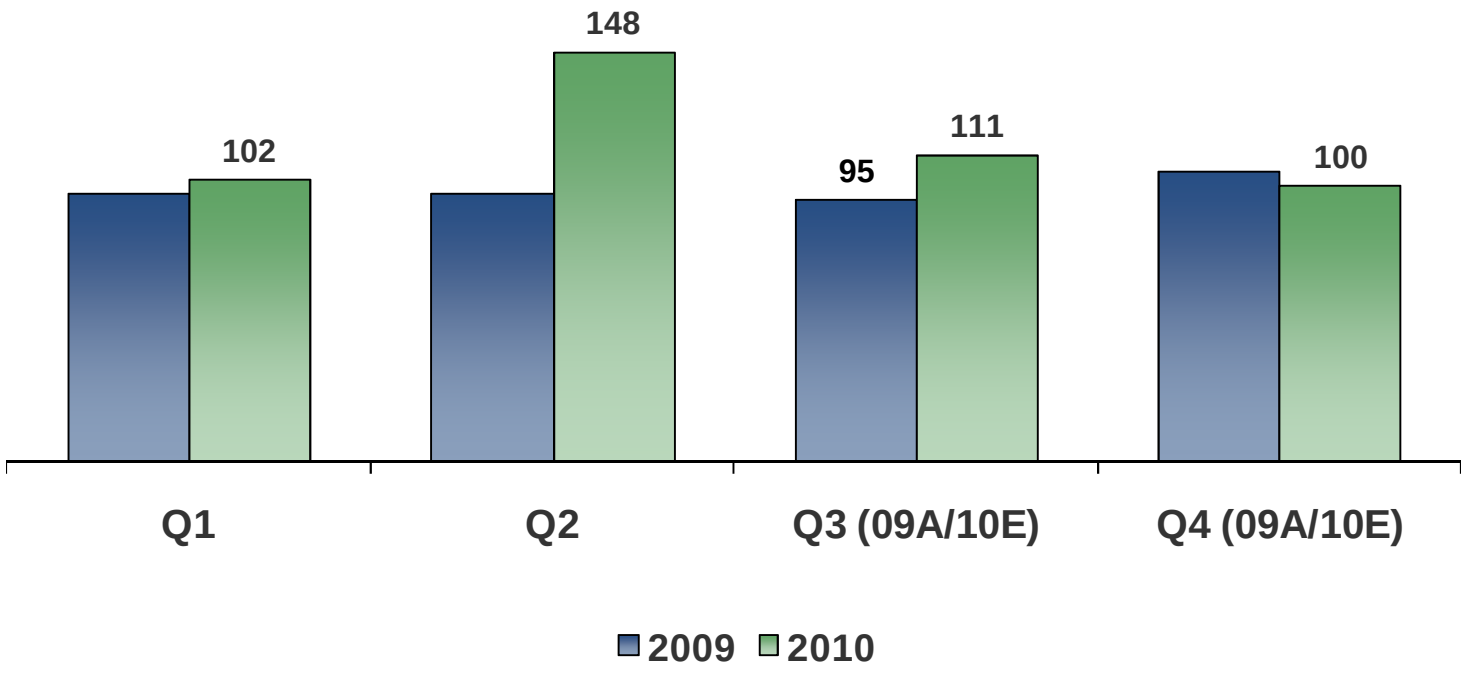
MAINTENANCE COSTS(1)

(In millions of dollars)



(1) Total maintenance costs includes planned maintenance, maintenance over $100k outside of planned shutdown period, and day-to-day maintenance expenses.

MANAGEMENT'S FINANCIAL ASSUMPTIONS

Estimates 2010

(In millions of dollars, unless otherwise noted)

Selected 2010 Financial Assumptions

	Original (2/4/2010)	Revised (7/30/2010)	Variation
CAPEX(1)	$160 - $180	$160 - 180	↔
Contribution to pension fund over pension expense	0 - 60	0 - 60	↔
Depreciation and amortization	400 - 420	390 - 410	↓
Interest expense(2)	130 - 150	100 - 120	↓
Income tax rate	40%	< 20%	↓

(1) Excludes investments made under the Canadian Pulp and Paper Green Transformation Program.
(2) Excluding costs for debt repurchase incurred in the 2Q'10.