



Domtar Corporation

Second Quarter 2011 Earnings Call

July 28, 2011

(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

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, 2010 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'11 OVERVIEW

- **EBITDA before items(*) of \$260 million**
- **Higher selling prices in pulp and paper**
- **Seasonally high level of scheduled maintenance in mills**
- **Higher input costs in freight, fiber and chemicals**
- **Free cash flow payout of over 61% to Domtar shareholders**
- **Company recently added to the S&P MidCap 400 Index**



2Q'11 FINANCIAL HIGHLIGHTS

- **Net earnings of \$1.30 per share**
- **Earnings before items^(*) of \$2.37 per share**
- **Cash flow from operating activities of \$306 million**
- **Capital expenditures of \$20 million**
(excluding \$28 million of Pulp & Paper Green Transformation projects)
- **Free cash flow^(*) of \$286 million**

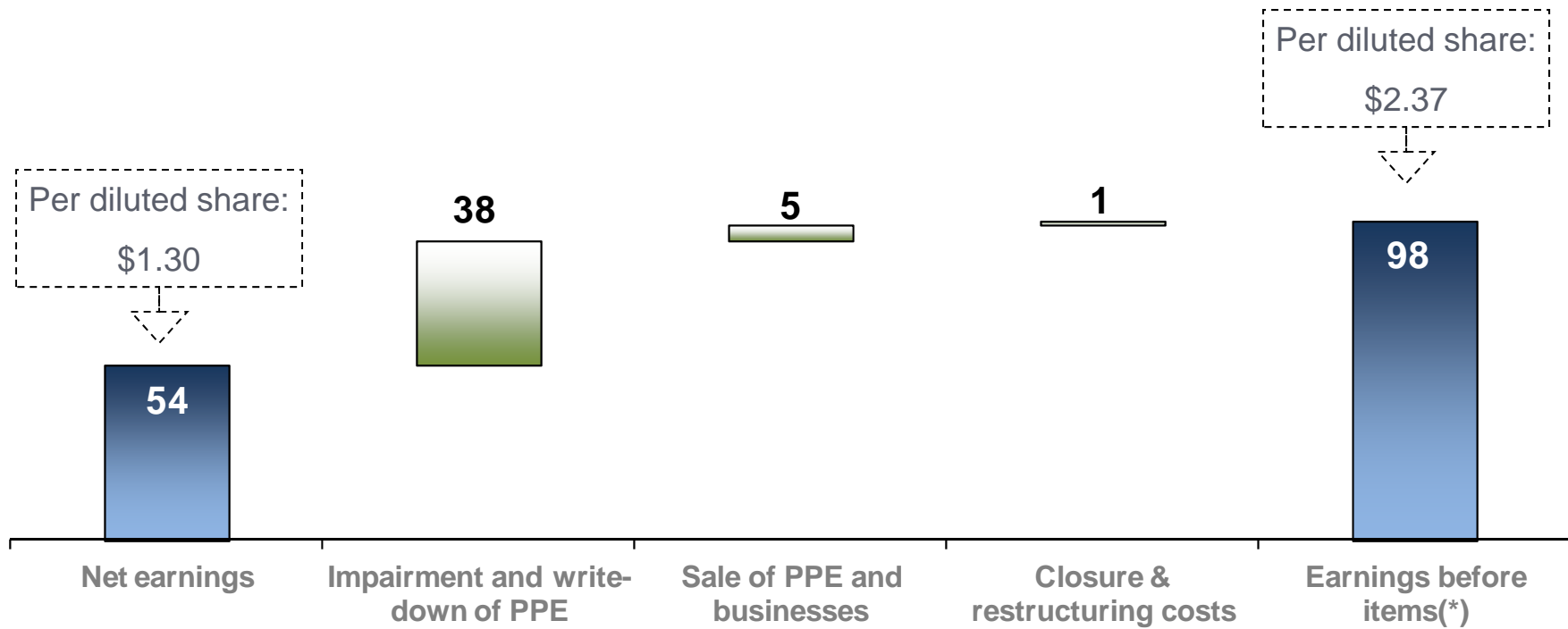
(*) Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com.



EARNINGS BEFORE ITEMS^(*)

2Q'11

(In millions of dollars)



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



EARNINGS STATEMENT

2Q'11 vs 1Q'11

(In millions of dollars)

	1Q'11	2Q'11	Chg	
Sales	1,423	1,403	(20)	Lower paper shipments mostly in paper distribution business
Cost of sales	1,021	1,056	35	Higher scheduled maintenance costs
Depreciation and Amortization	93	95	2	
SG&A	90	88	(2)	
Write-down and impairment of PP&E	3	62	59	Announced closure of Ashdown PM 61
Closure and restructuring costs	11	2	(9)	
Other operating loss (income), net	(6)	5	(11)	
Operating income	211	95	(116)	
Interest expense	21	21	-	
Income tax expense	57	20	(37)	
Net earnings	133	54	(79)	



CASH FLOW STATEMENT

2Q'11 vs 2Q'10

(In millions of dollars)

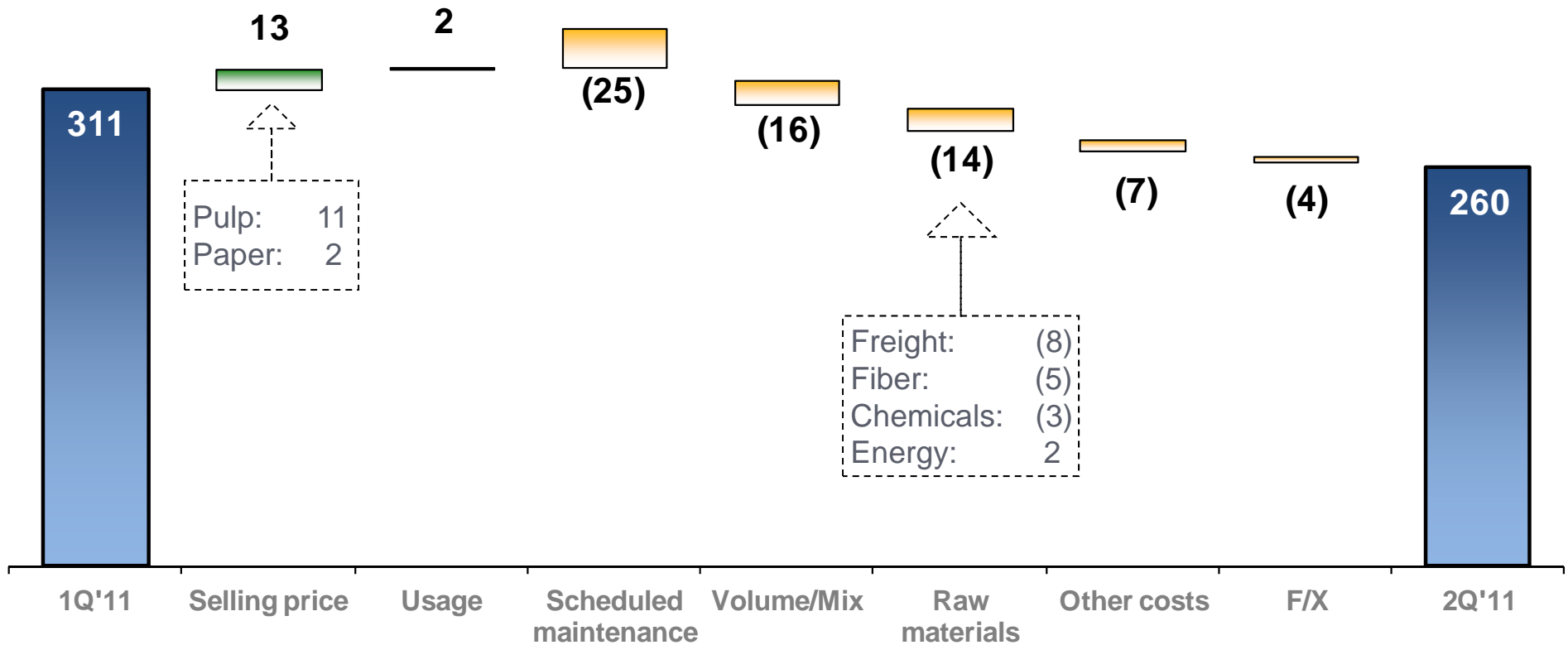
	2Q'10	2Q'11	
Net earnings	31	54	
Depreciation and amortization	101	95	
Deferred income taxes and tax uncertainties	(12)	1	
Impairment and write-down of PP&E	14	62	
Net losses (gains) on disposal of PP&E and sale of businesses	48	6	
Other/ loss on repurchases of LT debt and debt restructuring costs	36	1	
Changes in assets and liabilities			
Receivables	(57)	50	\$77 million working capital reduction
Inventories	69	33	
Prepaid expenses	(7)	(12)	Alternative Fuel Tax Credit received in Q2 2010
Trade and other payables	30	7	
Income and other taxes	369	(1)	
Pension expense over contribution and other	(12)	10	
Cash flow provided from operating activities	610	306	
Additions to PP&E	(43)	(20)	Excluding \$28 million of PPGTP projects
Proceeds from disposal of PP&E and businesses	104	25	
Cash flows provided from investing activities	61	5	
Dividend payments and stock repurchase, net	(29)	(175)	1,682,047 shares repurchased
Net changes in bank indebtedness	10	(1)	
Repayment of long - term debt	(427)	-	
Other	(26)	2	
Cash flows used for financing activities	(472)	(174)	



EBITDA BEFORE ITEMS^(*)

2Q'11 vs 1Q'11

(In millions of dollars)



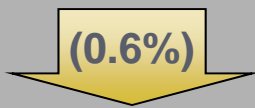
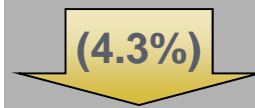


(*) Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com.



PAPERS SEGMENT

Overview

(In millions of dollars, unless otherwise noted)

	2Q'11	vs 1Q'11	vs 2Q'10
Sales	\$1,261	(0.6%) 	(4.3%) 
EBITDA before items ^(*)	\$261	\$50 	\$1 

Variiances (2Q'11 / 1Q'11):



Higher prices for pulp and paper



Higher costs related to scheduled maintenance
 Lower shipments for paper and pulp
 Higher raw material costs

(*) 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'11	vs 1Q'11	vs 2Q'10
Sales (incl. sales to our Paper Merchants)	\$965	(1.3%) 	2.7%
EBITDA before items^(*)	\$206	\$37 	\$3
	2Q'11	vs 1Q'11	vs 2Q'10 ^{**}
Shipments (in tons, including internal sales)	901	(1.3%) 	1.3%
Transaction prices (US\$ / ton - net, all regions)		\$2 	\$17

(*) Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com. (**) Excludes Columbus' coated groundwood paper shipments in Q2/10.



PAPERS SEGMENT

Pulp

(In millions of dollars, unless otherwise noted)

	2Q'11	vs 1Q'11	vs 2Q'10**
Sales (incl. intrasegment sales)	\$363	↑ 1.9%	↓ (18%)
EBITDA before items^(*)	\$55	↓ \$13	↓ \$2
	2Q'11	vs 1Q'11	vs 2Q'10**
Shipments (in ADMT, excluding internal sales)	361	↓ (3.7%)	↓ (26%)
Transaction prices (US\$ / ADMT - net, all regions)		↑ \$36	↑ \$34

(*) Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com. (**) Includes Woodland's pulp shipments in Q2/10.

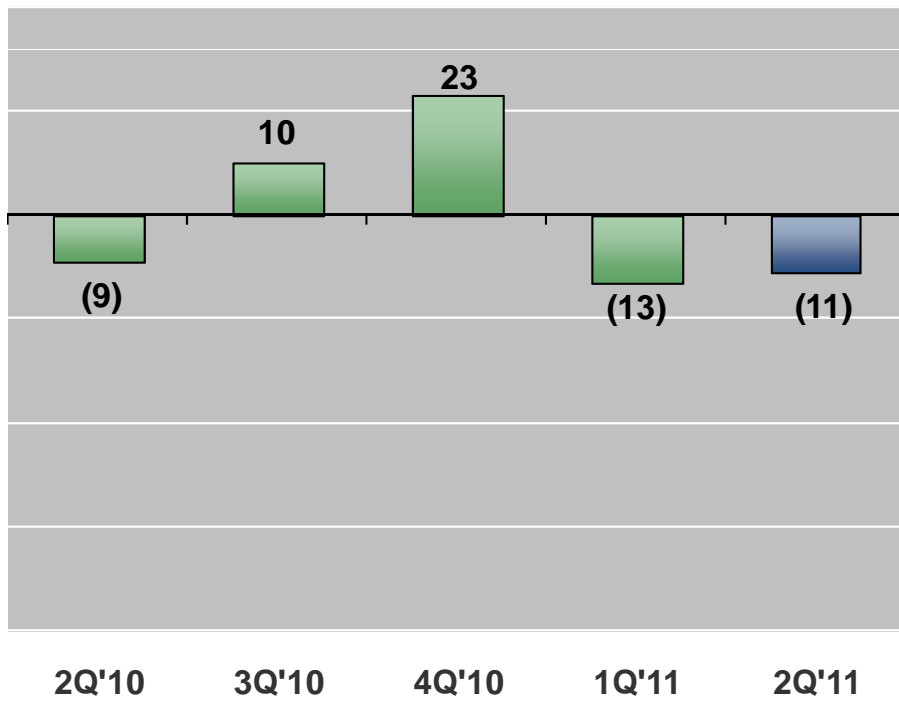
PAPERS SEGMENT

Inventories



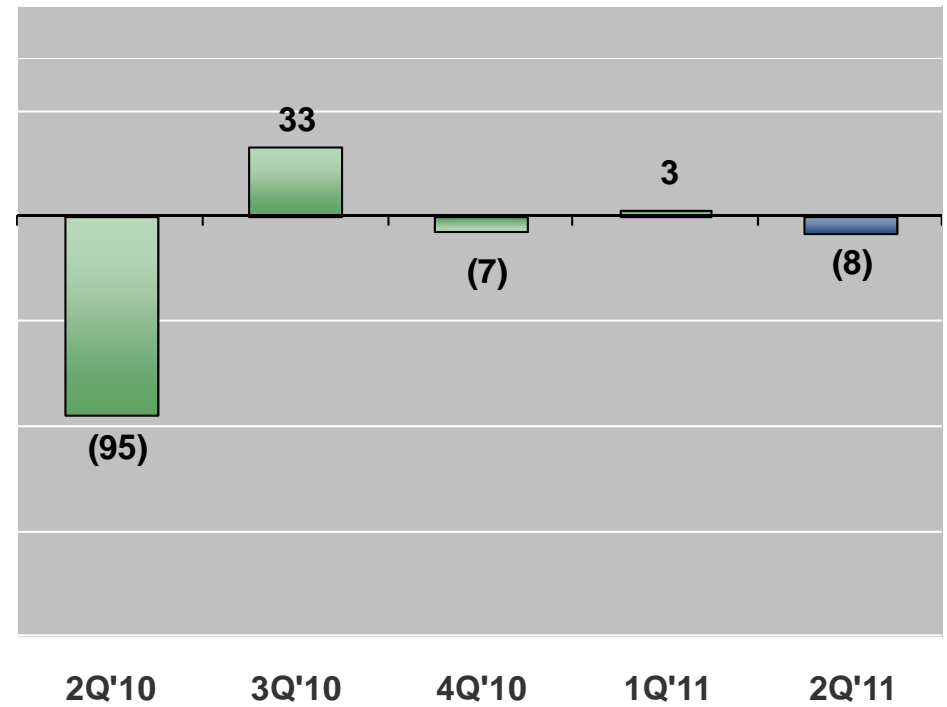
Paper

(Sequential variations in thousands of tons)



Pulp

(Sequential variations in thousands of metric tons)

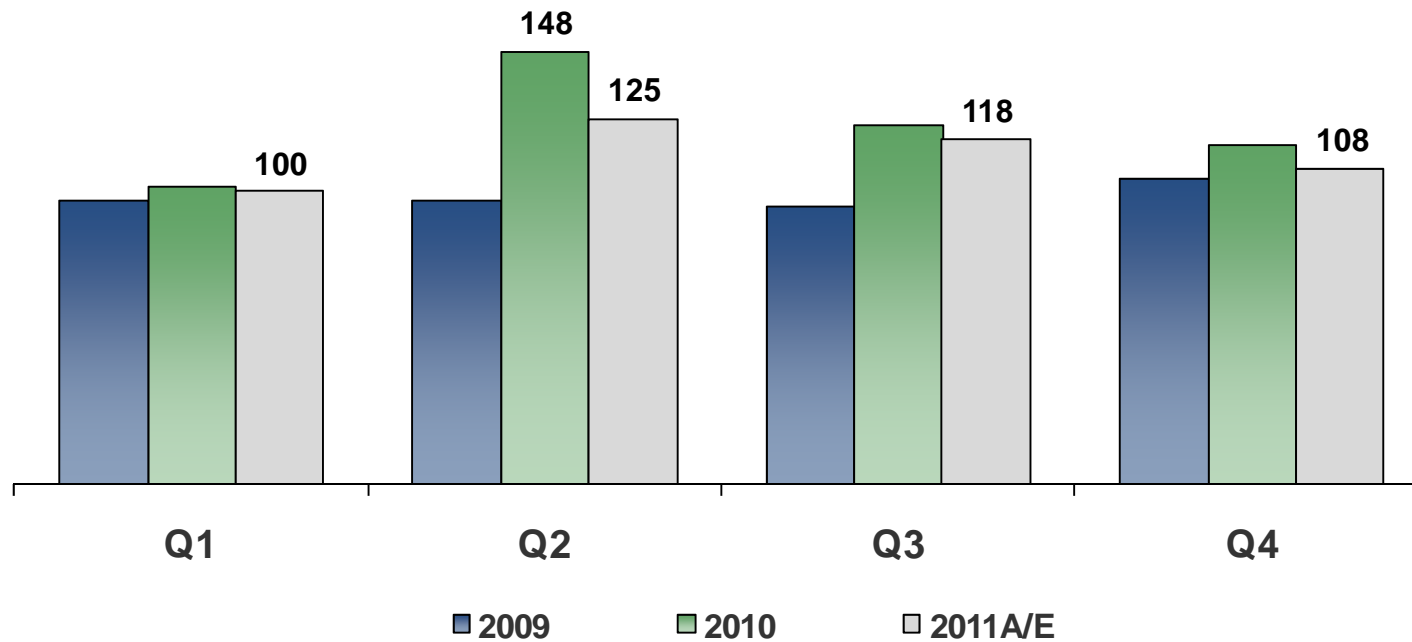




MAINTENANCE COSTS^(*)

Actual 2009, 2010 and Actual/Estimates 2011

(In millions of dollars)



(*)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 2011

Selected Financial Assumptions

(In millions of dollars, unless otherwise noted)

	Original	Revised	Variation
CAPEX⁽¹⁾	\$180 – 200	\$140 – 160	
Contribution to pension fund over pension expense	0 – 30	0 – 30	
Depreciation and amortization	370 – 390	370 – 390	
Interest expense	80 – 90	80 – 90	
Income tax rate	30 – 35%	30 – 35%	

(1) Excludes investments made under the Canadian Pulp and Paper Green Transformation Program.



OUTLOOK

- **The benefits from announced price increases for business papers and lower costs stemming from maintenance in the mills are expected to favorably impact financial results.**
- **Selling prices for pulp are likely to decline on average compared to the first half of the year.**
- **Uncoated freesheet paper shipments for 2011 are expected to remain steady when compared to 2010.**
- **Inflation pressures due to recent rises in commodity prices are expected to continue throughout the second half of the year.**



Domtar



SALES AND EBITDA* BY SEGMENT

PAPERS SEGMENT

<i>(In millions of dollars)</i>	2Q'10	3Q'10	4Q'10	1Q'11	2Q'11
Paper (incl. sales to Paper Merchants)	940	974	922	978	965
Pulp (incl. intrasegment sales)	442	394	350	356	363
Intrasegment sales – Pulp	(65)	(72)	(60)	(65)	(67)
Pulp	377	322	290	291	296
SALES	1,317	1,296	1,212	1,269	1,261
Paper	203	250	198	243	206
Pulp	57	84	57	68	55
EBITDA before items*	260	334	255	311	261

ARIVA™ – PAPER MERCHANTS SEGMENT

<i>(In millions of dollars)</i>	2Q'10	3Q'10	4Q'10	1Q'11	2Q'11
SALES	213	233	212	217	190
EBITDA before items*	-	1	(1)	1	(1)

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