Domtar Corporation

Fourth Quarter 2010 Earnings Call

February 4, 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

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.

2010 OVERVIEW

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- **2010 a banner year for Domtar**
- **Continued focus on three key objectives of the 3C's: Customers, Costs, Cash**
- **Sustained margins improvement**
- **Improved results in the pulp business**
- **Sale of Woodland hardwood pulp mill and investments in Plymouth fluff conversion**
- **Sale of wood products business**

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

4Q'10 OVERVIEW

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- **Best ever fourth quarter earnings before items(*) of $2.41 per share**
- **Strong EBITDA margins despite seasonal weakness**
- **Stable paper pricing despite seasonally lower shipments**
- **Impact from some production-related issues and unplanned shutdowns**
- **Successful startup of new 50MW bio-fueled steam turbine generator at Marlboro**
- **Completed systematic debt repayment with redemption of 2011 notes**

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

2010 FINANCIAL HIGHLIGHTS

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- **Net earnings of $14.00/share**
- **Earnings before items(*) of $10.90/share**
- **EBITDA before items(*) > $1 billion**
- **Cash flow from operating activities of $1.166 billion**
- **Capital expenditures of $153 million**
- **Free cash flow(*) > $1 billion**
- **Sold non-performing assets totaling $211 million**

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

4Q'10 FINANCIAL HIGHLIGHTS

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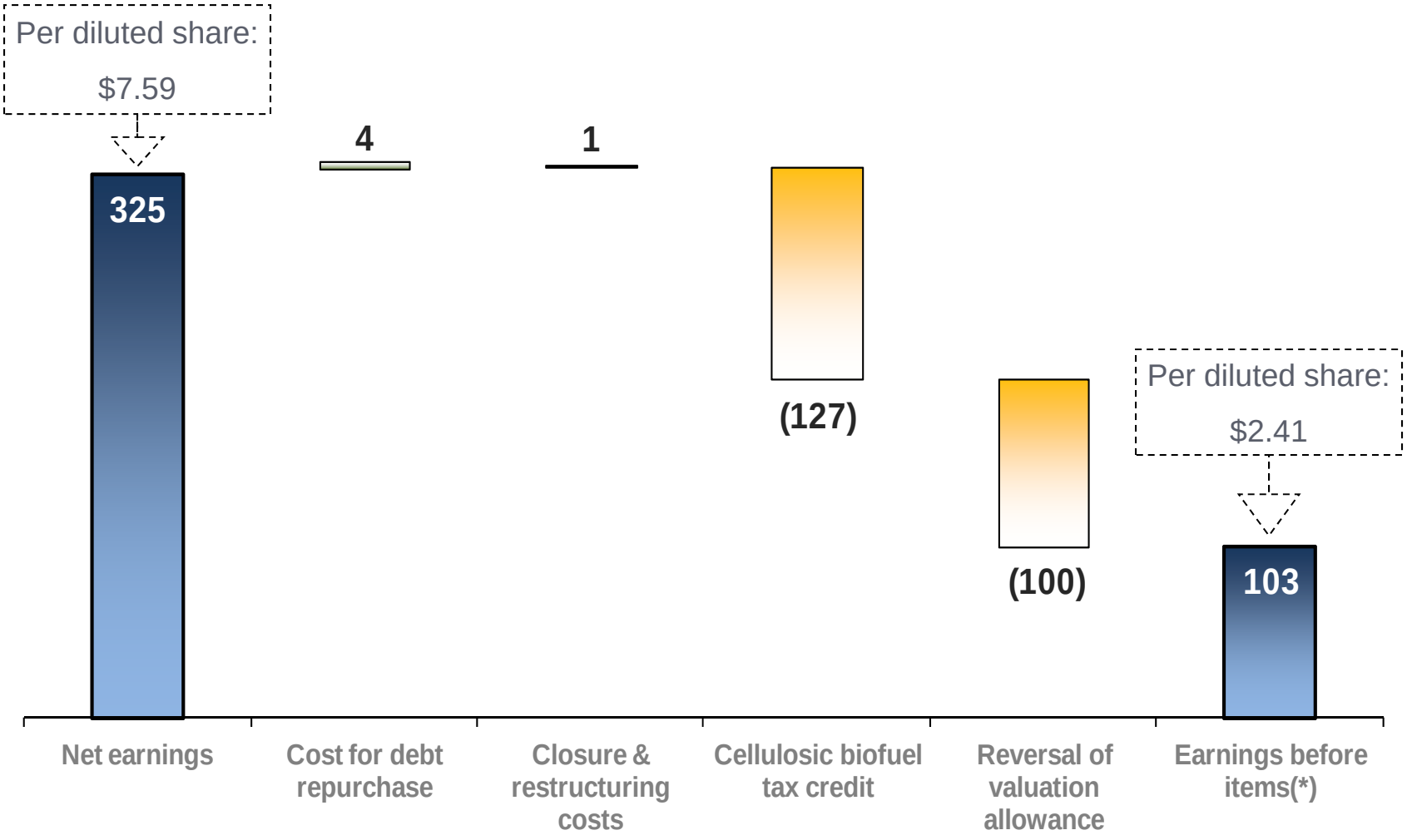
- **Net earnings of $7.59 per share**
- **Earnings before items(*) of $2.41 per share**
- **EBITDA before items(*) of $251 million**
- **Cash flow from operating activities of $166 million**
- **Capital expenditures of $41 million**
- **Free cash flow(*) of $125 million**

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

EARNINGS BEFORE ITEMS(*)

4Q'10

(In millions of dollars)



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

EARNINGS STATEMENT

4Q'10 vs 3Q'10

(In millions of dollars)

	3Q'10	4Q'10	Chg	
Sales	**1,473**	**1,373**	**(100)**	Lower paper shipments, sale of Woodland mill, lower pulp prices
Cost of sales	1,048	1,020	(28)	
Depreciation and Amortization	97	95	(2)	
SG&A	91	94	3	
Write-down and impairment of PP&E	14	-	(14)	
Closure and restructuring costs	1	1	-	
Other operating loss (income)	(14)	8	22	
Operating income	**236**	**155**	**(81)**	
Interest expense	24	29	5	Costs related to debt repurchase
Income tax expense (benefit)	21	(199)	(220)	Cellulosic biofuel tax credit and reversal of valuation allowance
Net earnings	**191**	**325**	**134**	

CASH FLOW STATEMENT

2010 vs 2009

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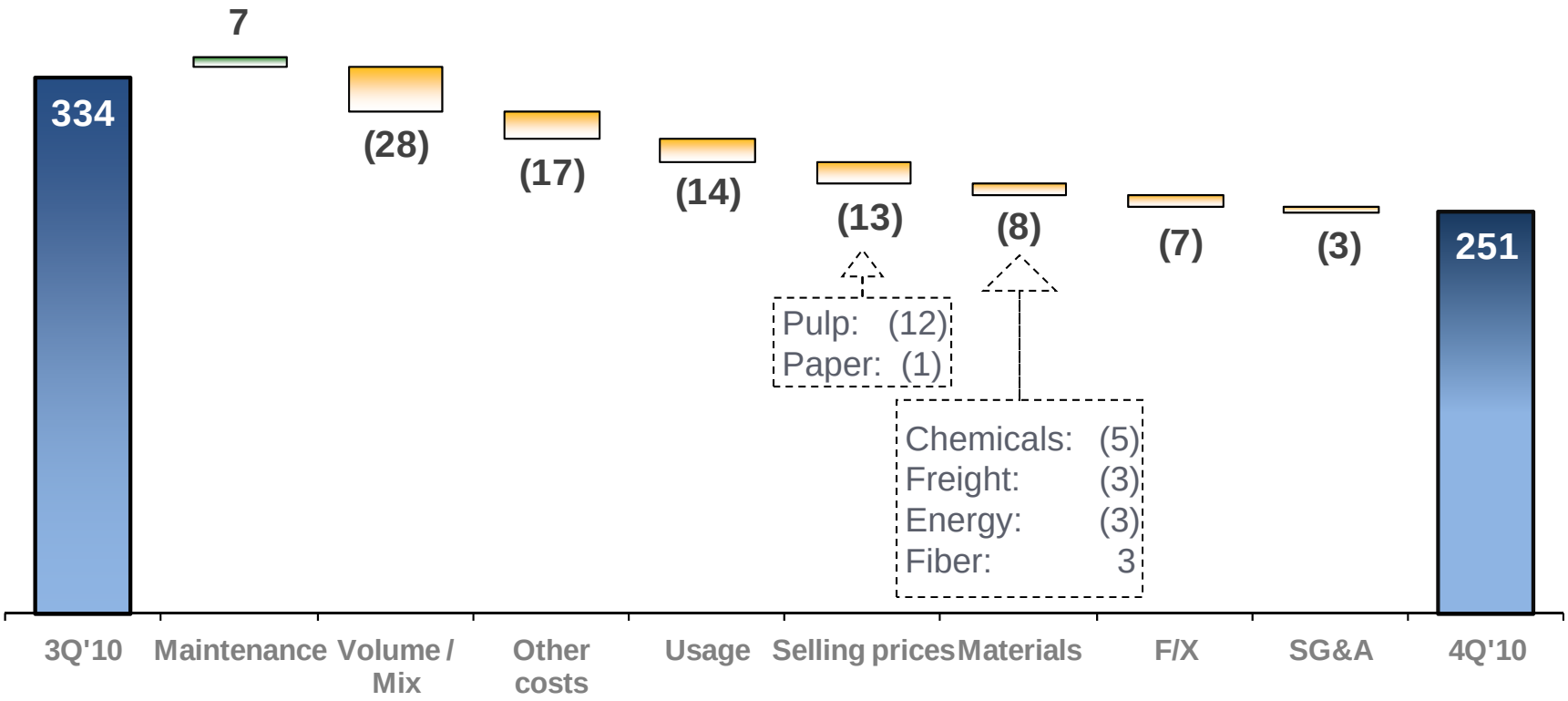
(In millions of dollars)	2009	2010
Net earnings (loss)	**310**	**605**
Depreciation and amortization	405	395
Deferred income taxes	157	(174)
Impairment and write-down of PP&E	62	50
Net losses (gains) on disposal of PP&E and sale of businesses	(7)	33
Loss (gain) on repurchase of long-term debt	(12)	47
Other	24	3
Changes in assets and liabilities		
Receivables	(55)	(73)
Inventories	261	39
Prepaid expenses	(3)	6
Trade and other payables	38	(11)
Income and other taxes	(357)	344
Pension contribution over expense	(61)	(120)
Other	30	22
Cash flow provided from operating activities	**792**	**1,166**
Additions to PP&E	(106)	(153)
Proceeds from sale of assets	21	211
Cash flows from (used) for investing activities	**(85)**	**58**
Dividend payment	-	(21)
Stock repurchase and related costs, net	-	(42)
Change in debt and Others	(414)	(955)
Cash flows (used) for financing activities	**(414)**	**(1,018)**

- Cellulosic biofuel tax credit and reversal of valuation allowance
- Alternative fuel tax credit
- Capex @ 39% of D&A
- Sale of Wood business and Woodland pulp mill

EBITDA BEFORE ITEMS(*)

4Q'10 vs 3Q'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)

	4Q'10	vs 3Q'10	vs 4Q'09
Sales	$1,212	(6.5%)	2.0%
EBITDA before items(*)	$255	($79)	$56

Variances (4Q'10 / 3Q'10):

Lower wood fiber costs

Lower paper and pulp shipments
Lower pulp prices
Higher input costs
Higher usage

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

PAPERS SEGMENT

Uncoated Freesheet Paper

(In millions of dollars, unless otherwise noted)

	4Q'10	vs 3Q'10	vs 4Q'09**
Sales *(incl. sales to our Paper Merchants)*	$922	(5.3%)	(3.4%)
EBITDA before items(*)	$198	($52)	$7

	4Q'10	vs 3Q'10	vs 4Q'09**
Shipments *(in tons, including internal sales)*	850	(5.1%)	(9.9%)
Transaction prices *(US$ / ton - net, all regions)*		($2)	$75

(*) Non-GAAP financial measure. (**) Includes Columbus' coated groundwood paper shipments in Q4/09

PAPERS SEGMENT

Pulp

(In millions of dollars, unless otherwise noted)

	4Q'10	vs 3Q'10**	vs 4Q'09**
Sales *(incl. intrasegment sales)*	$350	(11.2%)	21.1%
EBITDA before items(*)	$57	($27)	$49

	4Q'10	vs 3Q'10**	vs 4Q'09**
Shipments *(in ADMT, excluding internal sales)*	376	(8.7%)	(2.6%)
Transaction prices *(US$ / ADMT - net, all regions)*		($12)	$161

(*) Non-GAAP financial measure. (**) Includes Woodland's pulp shipments in Q3/10 and Q4/09

PAPERS SEGMENT

Inventories

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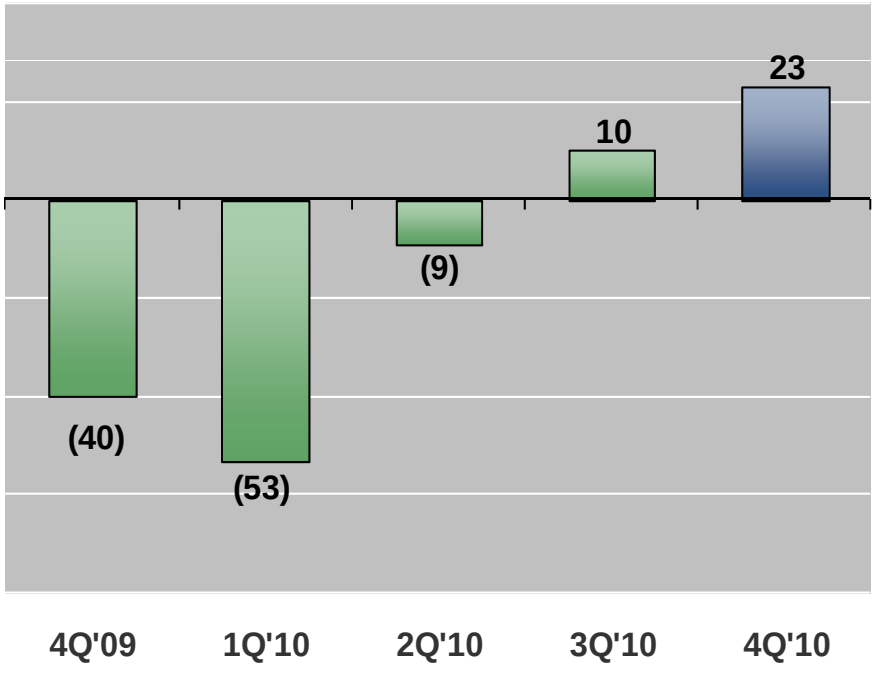
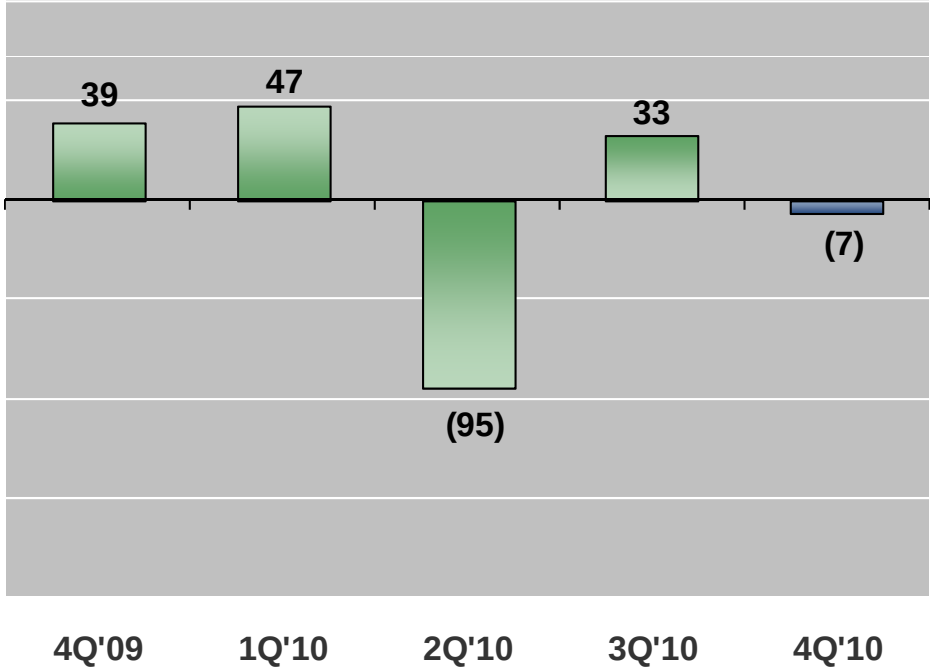
Paper

(Sequential variations in thousands of tons)



Pulp

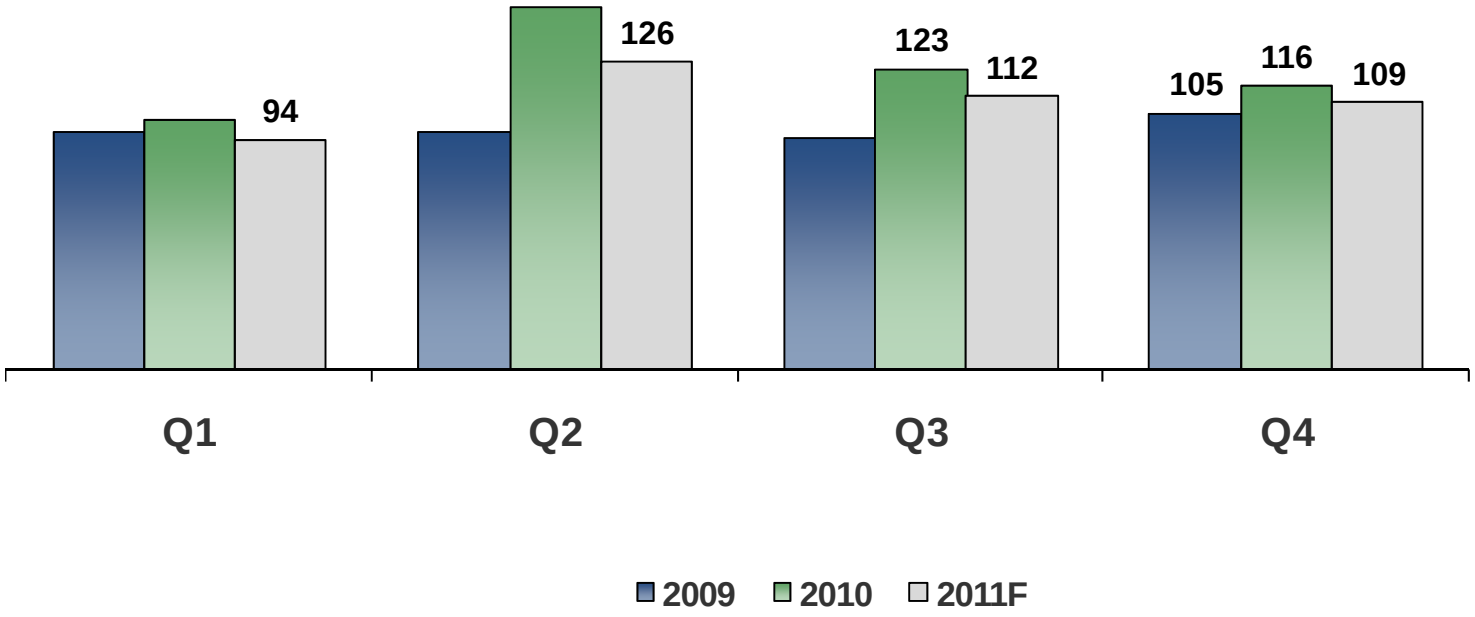
(Sequential variations in thousands of metric tons)



MAINTENANCE COSTS(*)

Actual 2009 and 2010 / 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.

PAPER MERCHANTS SEGMENT

Overview

(In millions of dollars, unless otherwise noted)

	4Q'10	vs 3Q'10	vs 4Q'09
Sales	$212	(9%)	↔
EBITDA before items(*)	($1)	($2)	($4)

Variances (4Q'10 / 3Q'10):

↓ Lower deliveries

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

MANAGEMENT'S FINANCIAL ASSUMPTIONS

Actual 2010 / Estimates 2011

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Selected Financial Assumptions

(In millions of dollars, unless otherwise noted)	2010A	2011E	Variation
CAPEX[1]	$153	$180 - 200	↑
Contribution to pension fund over pension expense	120	0 – 30	↓
Depreciation and amortization	395	380 – 390	↔
Interest expense	155	80 – 90	↓
Income tax rate	n/a	32 – 35%	

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

2010, A BANNER YEAR IN REVIEW

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1	**Achieved record free cash flow generation**	• Generated over $1 billion of free cash flow (including alternative fuel tax credits)
2	**Paid down debt; improved liquidity position**	• Repaid over $900 million in debt • Finished the year with a cash balance of over $500 million • $750 million revolving credit facility; $150 million of accounts receivable securitization
3	**Strengthened credit profile**	• Increased credit ratings with rating agencies
4	**Realigned asset portfolio**	• Divested challenging businesses, including hardwood pulp mill, forest products and coated groundwood paper • Invested in growth opportunities, including fluff pulp and nanocrystalline cellulose
5	**Biomass energy projects**	• Enhanced efficiency at some mills, namely Marlboro and Kamloops • Self-generated electricity reach 76% total mill self-sufficiency
6	**Sustainability leadership**	• Launched our PAPER Because campaign aimed at promoting the responsible use of paper products
7	**Increased total shareholder return**	• Introduced quarterly dividend of $0.25/share in Q2/10 • Repurchased 738,000 shares during the year totaling $42 million

OUTLOOK

- **Paper shipments expected to continue to decline long-term, partially offset by near-term gradual return of employment in the U.S. to pre-recession levels**
- **Pulp shipments expected to benefit from more favorable product mix, reducing price volatility**
- **Input costs are expected to be negatively impacted by rising commodity pricing in 2011**

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PAPER SEGMENT SALES AND EBITDA*

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(In millions of dollars)

	1Q'09	2Q'09	3Q'09	4Q'09	1Q'10	2Q'10	3Q'10	4Q'10
Papers (incl. sales to Paper Merchants)	954	943	976	954	979	940	974	922
Pulp (incl. intrasegment sales)	190	215	278	289	320	442	394	350
Intrasegment sales	(38)	(31)	(43)	(55)	(54)	(65)	(72)	(60)
Pulp	152	184	235	234	266	377	322	290
Sales - Papers Segment	**1,106**	**1,127**	**1,211**	**1,188**	**1,245**	**1,317**	**1,296**	**1,212**
Papers	171	195	243	191	200	203	250	198
Pulp	(72)	(74)	(10)	8	33	57	84	57
EBITDA before items*	**99**	**121**	**233**	**199**	**233**	**260**	**334**	**255**

(*) Non-GAAP financial measure.