



Domtar Corporation

Fourth Quarter 2011 Earnings Call

February 3, 2012

(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>.



2011 OVERVIEW

- **Strong performance led to record results**
- **Excellent free cash generation**
- **Continued focus on three key objectives: Customers, Costs, Cash**
- **Softness in pulp prices in 2nd half of the year**
- **Paper business delivered strong returns and continues to be a platform for growth**



4Q'11 OVERVIEW

- **Strong EBITDA margins in paper despite seasonal demand slowdown**
- **Further downward price adjustments in pulp**
- **Personal Care segment benefited from full quarter of earnings; performance well up to expectations**
- **Healthy free cash flow despite planned increase in capital spending**
- **Announced an increase of our buyback program to \$1 billion**



2011 FINANCIAL HIGHLIGHTS

- **Net earnings of \$9.08 per share**
- **Earnings before items^(*) of \$11.24 per share**
- **EBITDA before items^(*) of \$1.1 billion dollars**
- **Cash flow from operating activities of \$883 million**
- **Capital expenditures of \$144 million**
(excluding \$83 million of Pulp & Paper Green Transformation projects)
- **Free cash flow^(*) of \$739 million**

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



4Q'11 FINANCIAL HIGHLIGHTS

- **Net earnings of \$1.63 per share**
- **Earnings before items^(*) of \$2.49 per share**
- **EBITDA before items^(*) of \$243 million dollars**
- **Cash flow from operating activities of \$172 million**
- **Capital expenditures of \$80 million**
- **Free cash flow^(*) of \$92 million**
- **36.8 M shares outstanding as at December 31, 2011
(including exchangeable shares)**

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



EARNINGS BEFORE ITEMS^(*)

4Q'11

(In millions of dollars)



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



EARNINGS STATEMENT

4Q'11 vs 3Q'11

(In millions of dollars)

	3Q'11	4Q'11	Chg	
Sales	1,417	1,369	(48)	Lower pulp prices and paper shipments offset by full quarter of Attends results
Cost of sales	1,055	1,039	(16)	
Depreciation and Amortization	93	95	2	
SG&A	75	87	12	Mark-to-market of stock-based compensation
Write-down and impairment of PP&E	8	12	4	LSQ in Q4, Ashdown PM 61 in Q3
Closure and restructuring costs	1	38	37	Restructuring of certain U.S. pension benefit plans
Other operating loss (income), net	(2)	(1)	1	
Operating income	187	99	88	
Interest expense	25	20	(5)	Premium paid on debt repurchase in Q3
Income tax expense	45	11	(34)	
Equity loss, net of taxes	-	7	7	
Net earnings	117	61	(56)	



CASH FLOW STATEMENT

2011 vs 2010

(In millions of dollars)

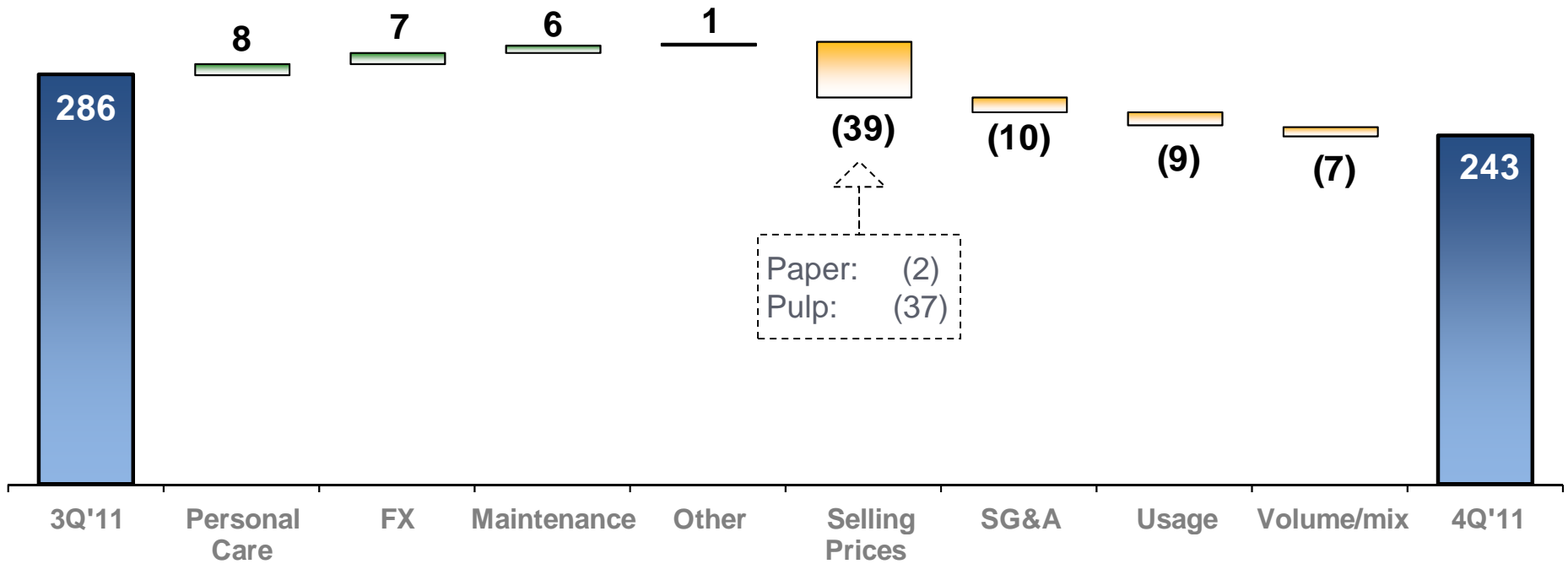
	2010	2011
Net earnings	605	365
Depreciation and amortization	395	376
Deferred income taxes and tax uncertainties	(174)	40
Impairment and write-down of PP&E	50	85
Net losses (gains) on disposal of PP&E and sale of businesses	33	(6)
Other	50	14
Changes in assets and liabilities		
Receivables	(73)	(12)
Inventories	39	2
Prepaid expenses	6	2
Trade and other payables	(11)	(17)
Income and other taxes	344	33
Pension expense over contribution and other	(98)	1
Cash flow provided from operating activities	1,166	883
Additions to PP&E	(153)	(144)
Acquisition of business, net of cash acquired	-	(288)
Proceeds from disposition and other	211	37
Cash flows provided from investing activities	58	(395)
Dividend payments and stock repurchase, net	(65)	(543)
Net changes in bank indebtedness	(19)	(16)
Repayment of long - term debt and other	(934)	(15)
Cash flows used for financing activities	(1,018)	(574)



EBITDA BEFORE ITEMS^(*)

4Q'11 vs 3Q'11

(In millions of dollars)



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



BUSINESS SEGMENTS

(In millions of dollars, unless otherwise noted)

4Q'11

vs 3Q'11

vs 4Q'10

Sales

Pulp and Paper

1,177

6%

3%

Distribution

177

10%

17%

Personal Care

54

218%**

n/a

EBITDA before items^(*)

Pulp and Paper

231

\$54

\$24

Distribution

2

\$2

\$3

Personal Care

10

\$8**

n/a

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

^(**) Personal Care results in 3Q'11 included 1 month of results



PULP AND PAPER SEGMENT

Uncoated Freesheet Paper

(In millions of dollars, unless otherwise noted)

	4Q'11	vs 3Q'11	vs 4Q'10
Sales <i>(incl. sales to Distribution)</i>	\$905	7% ↓	2% ↓
EBITDA before items^(*)	\$190	\$20 ↓	\$8 ↓
	4Q'11	vs 3Q'11	vs 4Q'10
Shipments <i>(in tons, including internal sales)</i>	831	7% ↓	2% ↓
Transaction prices <i>(US\$ / ton - net, all regions)</i>		\$3 ↓	\$1 ↑

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



PULP AND PAPER SEGMENT

Pulp

(In millions of dollars, unless otherwise noted)

	4Q'11	vs 3Q'11	vs 4Q'10
Sales (incl. intrasegment sales)	\$339	-	3% 
EBITDA before items^(*)	\$41	\$34 	\$16 
	4Q'11	vs 3Q'11	vs 4Q'10
Shipments (in ADMT, excluding internal sales)	403	13% 	7% 
Transaction prices (US\$ / ADMT - net, all regions)		\$97 	\$81 

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

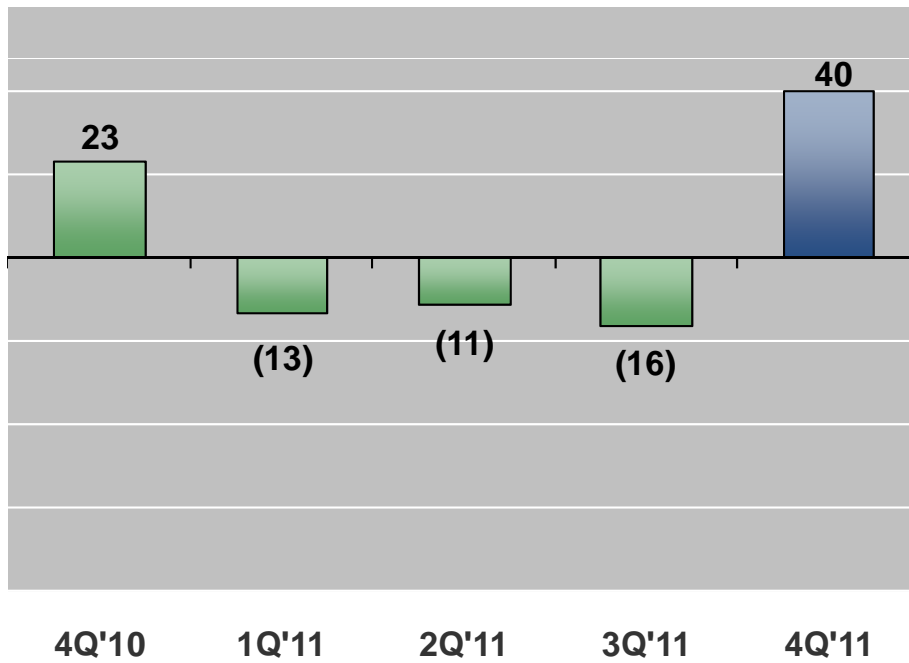
PULP AND PAPER SEGMENT

Inventories



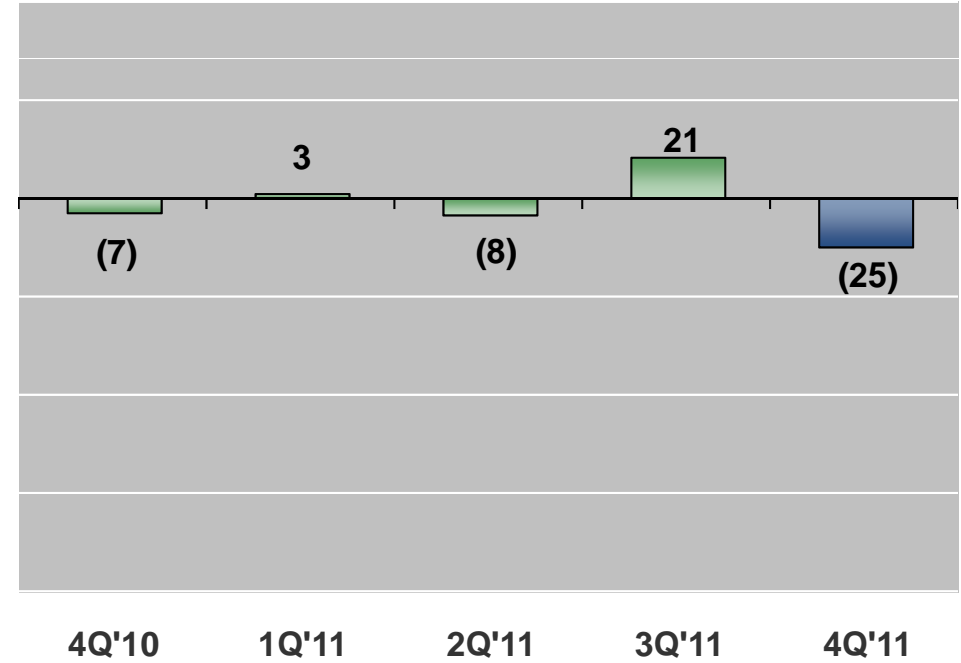
Paper

(Sequential variations in thousands of tons)



Pulp

(Sequential variations in thousands of metric tons)

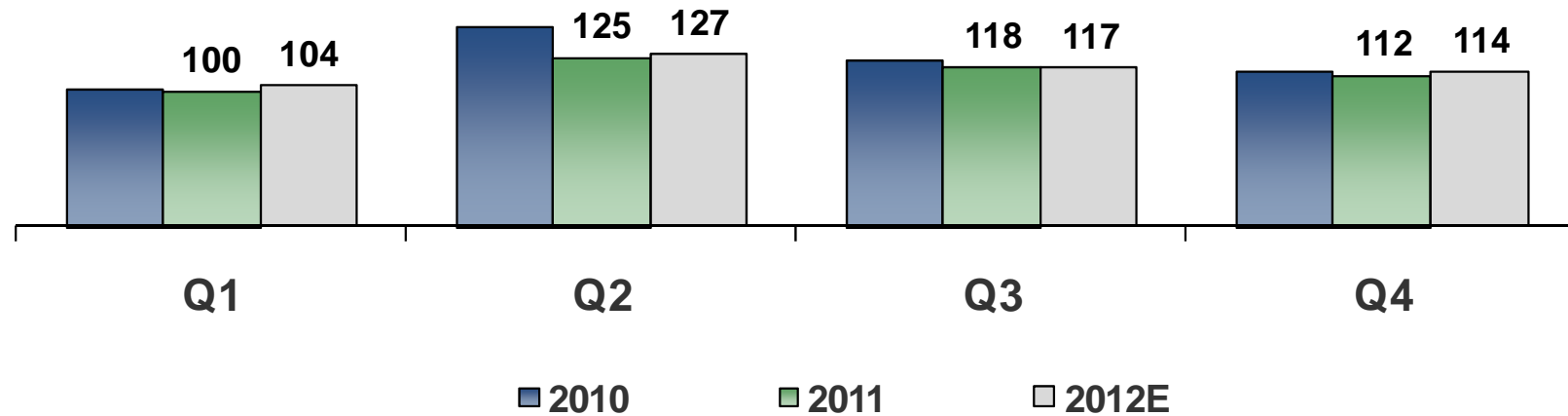




MAINTENANCE COSTS^(*)

Actual 2010, 2011 and Estimates 2012

(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

Actual 2011 / Estimates 2012

Selected Financial Assumptions

(In millions of dollars, unless otherwise noted)

	2011A	2012E	Variation
CAPEX⁽¹⁾	\$144	\$220-240	
Contribution to pension fund over pension expense	18	0-30	
Depreciation and amortization	376	370-390	
Interest expense	87	80-85	
Income tax rate	26%	30-32%	

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



2011 IN REVIEW

- 1** **Achieved record EBITDA**
 - Generated \$1.1 billion of EBITDA
- 2** **Capital allocation policy**
 - Increased buyback program to \$1 billion and increased dividend by 40%
 - Returned over \$540 million or \$13.50 per share, representing 73% of FCF
- 3** **Continued success on growth strategy**
 - Acquisition of Attends North America and signed a definitive agreement in early 2012 for the acquisition of Attends Europe
- 4** **Strategically investing in growth projects**
 - Started production of NCC at demonstration plant by the Windsor mill
 - Approved project for installation of LignoBoost technology at Plymouth mill
- 5** **Labor negotiations**
 - Ratified a 4-year master labor agreement covering 3,000 Domtar employees in 9 pulp and paper mills in the U.S.
- 6** **Sustainability and corporate responsibility**
 - Expanded range of EarthChoice papers to include specialty & book papers
 - PAPERbecause campaign recipient of a number of industry awards
 - Ranked 3rd of 50 Best Corporate Citizens in Canada by Corporate Knights



OUTLOOK

- **Prices for pulp are still expected to remain under pressure in certain geographies while market dynamics in the Asian markets are stabilizing.**
- **In fine papers, North American demand is expected to decline at a 2-4% rate in 2012, consistent with long-term trends. Any acceleration in employment growth may help mitigate the structural decline in paper demand.**
- **Inflation on input costs is expected to be moderate in 2012.**



SALES AND EBITDA* BY SEGMENT

PULP & PAPER SEGMENT

<i>(In millions of dollars)</i>	4Q'10	1Q'11	2Q'11	3Q'11	4Q'11
Paper (incl. sales to Distribution)	922	978	965	969	905
Pulp (incl. intrasegment sales)	350	356	363	338	339
Intrasegment sales – Pulp	(60)	(65)	(67)	(61)	(67)
Pulp	290	291	296	277	272
SALES	1,212	1,269	1,261	1,246	1,177
Paper	198	243	206	210	190
Pulp	57	68	55	75	41
EBITDA before items^(*)	255	311	261	285	231

DISTRIBUTION SEGMENT

<i>(In millions of dollars)</i>	4Q'10	1Q'11	2Q'11	3Q'11	4Q'11
SALES	212	217	190	197	177
EBITDA before items^(*)	(1)	1	(1)	-	2

PERSONAL CARE SEGMENT

<i>(In millions of dollars)</i>	4Q'10	1Q'11	2Q'11	3Q'11	4Q'11
SALES	-	-	-	17	54
EBITDA before items^(*)	-	-	-	2	10

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

THE FIBER *of* Domtar

AGILE | CARING | INNOVATIVE




Domtar