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News Release

TICKER SYMBOL
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DOMTAR CORPORATION REPORTS PRELIMINARY FOURTH QUARTER AND FISCAL YEAR 2008 FINANCIAL RESULTS

Profitability affected by impairment charges and costs related to lack-of-order downtime and machine slowdowns

- Fourth quarter net loss of \$1.31 per diluted share, loss before items¹ of \$0.04 per diluted share
- Lack-of-order downtime and machine slowdowns totaling 197 thousand short tons of papers and 100 thousand metric tonnes of pulp
- Synergy program successfully completed

Montreal, February 5, 2009 – Domtar Corporation (NYSE/TSX: UFS) today reported a net loss of \$676 million (\$1.31 per diluted share) for the fourth quarter of 2008 compared to net earnings of \$43 million (\$0.08 per diluted share) for the third quarter of 2008 and a net loss of \$26 million (\$0.05 per diluted share) for the fourth quarter of 2007. Excluding items¹ listed below, the Company lost \$20 million (\$0.04 per diluted share¹) for the fourth quarter of 2008 compared to earnings of \$51 million (\$0.10 per diluted share¹) for the third quarter of 2008 and earnings of \$29 million (\$0.06 per diluted share¹) for the fourth quarter of 2007. Sales for the fourth quarter of 2008 amounted to \$1.5 billion.

Fourth quarter 2008:

- Charge of \$387 million (\$270 million after tax) related to the impairment and write-down of property, plant and equipment and intangible assets;
- Charge of \$321 million (\$321 million after tax) related to the impairment of goodwill;
- Charge of \$52 million related to a valuation allowance on Canadian deferred income tax assets;
- Closure and restructuring costs of \$28 million (\$18 million after tax);
- Gain on debt repurchase of \$12 million (\$8 million after tax); and
- Costs of \$5 million (\$3 million after tax) related to synergies and integration.

Third quarter 2008:

- Costs of \$10 million (\$6 million after tax) related to synergies and integration; and
- Closure and restructuring costs of \$3 million (\$2 million after tax).

¹ Non-GAAP financial measure. Refer to the *Reconciliation of Non-GAAP Financial Measures* in the appendix.

Fourth quarter 2007:

- Charge of \$96 million (\$66 million after tax) related to the impairment of goodwill and property, plant and equipment;
- Gains of \$51 million (\$35 million after tax) for lawsuit and insurance claim settlements;
- Expenses of \$25 million (\$17 million after tax) related to the debt restructuring;
- Costs of \$21 million (\$14 million after tax) related to synergies, integration and optimization;
- Gain of \$11 million related to a change in statutory income tax rates;
- Closure and restructuring costs of \$7 million (\$5 million after tax); and
- Gains of \$2 million (\$1 million after tax) related to financial instruments.

“Balancing our production to customer demand through lack-of-order downtime and machine slowdowns at various mills was very costly, yet prices for our papers held steady in the quarter. Undoubtedly, the economic crisis is a challenge for our business,” said John D. Williams, President and Chief Executive Officer. *“Our organization must continue to execute quickly the right sizing of the manufacturing system to extract costs and preserve production efficiencies. Domtar’s priority is cash flow generation with an immediate focus on reducing discretionary spending, reviewing procurement costs and pursuing the balancing of production and inventory control,”* added Mr. Williams.

FISCAL YEAR 2008 HIGHLIGHTS

For fiscal year 2008, net loss amounted to \$573 million (\$1.11 per diluted share) compared to net earnings of \$70 million (\$0.15 per diluted share) for fiscal year 2007. Excluding items¹, the Company earned \$88 million (\$0.17 per diluted share¹) for fiscal 2008 compared to earnings of \$131 million (\$0.28 per diluted share¹) for fiscal 2007. Domtar pursued its synergy program in 2008 and successfully achieved its revised target of \$250 million on a run-rate basis at the end of December 2008. Sales amounted to \$6.4 billion for fiscal year 2008.

Commenting on the performance, Mr. Williams said, *“The 2008 results were negatively impacted by the weak volumes in our papers business including costs related to lack-of-order downtime and higher costs for wood fiber, chemicals, energy and freight. Despite the difficult operating environment, we were able to raise our selling prices in papers and to reduce costs through the synergy program.”*

SEGMENT REVIEW

Papers

Operating income before items¹ was \$29 million in the fourth quarter of 2008 compared to operating income before items¹ of \$131 million in the third quarter of 2008. Depreciation and amortization totaled \$104 million in the fourth quarter. When compared to the third quarter, paper shipments decreased 9% while pulp shipments increased 9%. The shipments-to-production ratio for papers was

¹ Non-GAAP financial measure. Refer to the *Reconciliation of Non-GAAP Financial Measures* in the appendix.

104% in the fourth quarter, compared to 97% in the third quarter. Paper inventories were 32,000 tons lower at the end of December when compared to end of September levels.

The decrease in operating income before items¹ in the fourth quarter was the result of lower paper shipments, costs related to lack-of-order downtime and machine slowdowns, lower average selling prices for pulp, higher usage for energy and higher costs for chemicals and fiber. These factors were partially offset by lower energy prices, lower freight costs, a favorable exchange rate net of hedging, and higher pulp shipments.

| (In millions of dollars) | 4Q 2008 | 3Q 2008 |
|--|---------|---------|
| Sales | \$1,240 | \$1,364 |
| Operating income (loss) | (\$693) | \$118 |
| Operating income before items ¹ | \$29 | \$131 |
| Depreciation and amortization | \$104 | \$111 |
| Impairment and write-down of PP&E | \$373 | - |
| Impairment of goodwill | \$321 | - |

The carrying value of certain pulp, paper and converting assets has been tested for impairment resulting in a reduction of \$359 million. In addition, some other fixed-assets have been written down for a total of \$14 million.

Paper Merchants

Operating income was \$2 million in the fourth quarter of 2008 compared to operating income of \$1 million in the third quarter of 2008. Depreciation and amortization was \$1 million in the fourth quarter. Deliveries decreased 11% when compared to the third quarter.

The increase in operating income in the fourth quarter was the result of an increase in allowance for doubtful accounts recorded in the third quarter, partially offset by lower paper deliveries.

| (In millions of dollars) | 4Q 2008 | 3Q 2008 |
|--------------------------|---------|---------|
| Sales | \$228 | \$257 |
| Operating income | \$2 | \$1 |

¹ Non-GAAP financial measure. Refer to the *Reconciliation of Non-GAAP Financial Measures* in the appendix.

| | | |
|-------------------------------|-----|-----|
| Depreciation and amortization | \$1 | \$1 |
|-------------------------------|-----|-----|

Wood

Operating loss before items¹ was \$9 million in the fourth quarter of 2008, compared to operating loss before items¹ of \$11 million in the third quarter of 2008. Depreciation and amortization totaled \$5 million in the fourth quarter. When compared to the third quarter, lumber shipments decreased 11%.

The decrease in operating loss before items¹ in the fourth quarter was the result of a favorable exchange rate. This factor was partially offset by lower average selling prices and lower shipments.

| (In millions of dollars) | 4Q 2008 | 3Q 2008 |
|--|---------|---------|
| Sales | \$59 | \$76 |
| Operating loss | (\$28) | (\$11) |
| Operating loss before items ¹ | (\$9) | (\$11) |
| Depreciation and amortization | \$5 | \$7 |
| Impairment and write-down of PP&E | \$10 | - |
| Impairment of intangible assets | \$4 | - |

The carrying value of certain fixed-assets and harvesting rights have been written down as a result of the fourth quarter decision to rationalize operations which resulted in reductions in property, plant and equipment and intangible assets of \$10 million and \$4 million, respectively.

LIQUIDITY AND CAPITAL

During the fourth quarter, Domtar made early contributions to its pension trust funds of \$96 million that reduces the Company's future funding requirements. Also, Domtar repurchased a notional amount of \$60 million of the 7 7/8% Notes due 2011 for a total cash consideration of \$51 million.

Including the aforementioned early contributions to pension trust funds, cash flow from operations amounted to 197 million dollars and free cash flow¹ amounted to \$34 million in 2008. Domtar's net debt-to-total capitalization ratio¹ increased to 50% at year end compared to 41% as at December 30, 2007. Long-term debt decreased by \$102 million over the same period. Amounts drawn on our revolving credit facility amounted to \$60 million at December 31, 2008 compared to \$50 million at December 30, 2007.

¹ Non-GAAP financial measure. Refer to the *Reconciliation of Non-GAAP Financial Measures* in the appendix.

OUTLOOK

In the midst of a recession, the high level of uncertainty makes it difficult to predict sales volumes as none of our markets are showing any signs of demand recovery as of yet. Nonetheless, prices remain stable for Domtar's uncoated freesheet paper products. Depending on customer demand, we expect to continue to take lack-of-order downtime and machine slowdowns in papers and pulp in the first half of 2009 while all efforts will be made to manage and reduce costs.

EARNINGS CONFERENCE CALL

The Company will hold a conference call today at 10:00 a.m. (ET) to discuss its fourth quarter 2008 financial results. Financial analysts are invited to participate in the call by dialing at least 10 minutes before start time 1 (866) 321-8231 (toll free - North America) or 1 (416) 642-5213 (International), while media and other interested individuals are invited to listen to the live webcast on the Domtar Corporation website at www.domtar.com.

About Domtar

Domtar Corporation (NYSE/TSX:UFS) is the largest integrated manufacturer and marketer of uncoated freesheet paper in North America and the second largest in the world based on production capacity, and is also a manufacturer of papergrade, fluff and specialty pulp. The Company designs, manufactures, markets and distributes a wide range of business, commercial printing and publication as well as converting and specialty papers including recognized brands such as Cougar[®], Lynx[®] Opaque, Husky[®] Offset, First Choice[®] and Domtar EarthChoice[®] Office Paper, part of a family of environmentally and socially responsible papers. Domtar owns and operates Domtar Distribution Group, an extensive network of strategically located paper distribution facilities. Domtar also produces lumber and other specialty and industrial wood products. The Company employs nearly 11,500 people. To learn more, visit www.domtar.com.

Forward-Looking Statements

All statements in this news release that are not based on historical fact are "forward-looking statements." While management has based any forward-looking statements contained herein on its current expectations, the information on which such expectations were 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 such statements. Such risks, uncertainties, and other factors include, but are not necessarily limited to, those set forth under the captions "Forward-Looking Statements" and "Risk Factors" of the latest Form 10-K filed with the SEC as periodically updated by subsequently filed Form 10-Q's. Unless specifically required by law, we assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances.

Domtar Corporation

Highlights

(In millions of dollars, unless otherwise noted)

| | Thirteen weeks ended December 31 2008 | Thirteen weeks ended December 30 2007 | Fifty-two weeks ended December 31 2008 | Fifty-two weeks ended December 30 2007 ⁽¹⁾ |
|---|--|--|---|--|
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | \$ | \$ | \$ | \$ |
| Selected Segment Information | | | | |
| Sales | | | | |
| Papers | 1,240 | 1,401 | 5,440 | 5,116 |
| Paper Merchants | 228 | 262 | 990 | 813 |
| Wood | 59 | 79 | 268 | 304 |
| Total for reportable segments | 1,527 | 1,742 | 6,698 | 6,233 |
| Intersegment sales - Papers | (56) | (73) | (276) | (235) |
| Intersegment sales - Paper Merchants | - | - | - | (1) |
| Intersegment sales - Wood | (6) | (16) | (28) | (50) |
| Consolidated sales | 1,465 | 1,653 | 6,394 | 5,947 |
| Depreciation and amortization | | | | |
| Papers | 104 | 124 | 435 | 444 |
| Paper Merchants | 1 | 1 | 3 | 2 |
| Wood | 5 | 8 | 25 | 25 |
| Total for reportable segments | 110 | 133 | 463 | 471 |
| Impairment and write-down of property, plant and equipment | 383 | 92 | 383 | 92 |
| Impairment of goodwill and intangible assets | 325 | 4 | 325 | 4 |
| Consolidated depreciation and amortization | 818 | 229 | 1,171 | 567 |
| Operating income (loss) | | | | |
| Papers | (693) | 25 | (369) | 321 |
| Paper Merchants | 2 | 1 | 8 | 13 |
| Wood | (28) | (26) | (73) | (63) |
| Total for reportable segments | (719) | - | (434) | 271 |
| Corporate | - | 7 | (3) | (1) |
| Consolidated operating income (loss) | (719) | 7 | (437) | 270 |
| Interest expense | 22 | 65 | 133 | 171 |
| Earnings (loss) before income taxes | (741) | (58) | (570) | 99 |
| Income tax expense (benefit) | (65) | (32) | 3 | 29 |
| Net earnings (loss) | (676) | (26) | (573) | 70 |
| Per common share (in dollars) | | | | |
| Net earnings (loss) | | | | |
| Basic | (1.31) | (0.05) | (1.11) | 0.15 |
| Diluted | (1.31) | (0.05) | (1.11) | 0.15 |
| Weighted average number of common and exchangeable shares outstanding (millions) | | | | |
| Basic | 515.5 | 515.4 | 515.5 | 474.1 |
| Diluted | 515.5 | 515.4 | 515.5 | 475.9 |
| Cash flows provided from (used for) operating activities | (74) | 182 | 197 | 606 |
| Additions to property, plant and equipment | 49 | 51 | 163 | 116 |

⁽¹⁾ The results for 2007 included the results of Domtar Inc., following the acquisition, starting on March 7, 2007. (See Note 1 in the 2007 Annual Report on Form 10-K filed with the SEC)

Domtar Corporation
Consolidated Statements of Earnings

(In millions of dollars, unless otherwise noted)

| | Thirteen weeks ended | Thirteen weeks ended | Fifty-two weeks ended | Fifty-two weeks ended |
|---|-------------------------|-------------------------|--------------------------|--------------------------|
| | December 31 | December 30 | December 31 | December 30 |
| | 2008 | 2007 | 2008 | 2007 ⁽¹⁾ |
| | (Unaudited) | | (Unaudited) | |
| | \$ | \$ | \$ | \$ |
| Sales | 1,465 | 1,653 | 6,394 | 5,947 |
| Operating expenses | | | | |
| Cost of sales, excluding depreciation and amortization | 1,254 | 1,319 | 5,225 | 4,757 |
| Depreciation and amortization | 110 | 133 | 463 | 471 |
| Selling, general and administrative | 92 | 136 | 407 | 408 |
| Impairment and write-down of property, plant and equipment | 383 | 92 | 383 | 92 |
| Impairment of goodwill and intangible assets | 325 | 4 | 325 | 4 |
| Closure and restructuring costs | 28 | 7 | 43 | 14 |
| Other operating income | (8) | (45) | (15) | (69) |
| | 2,184 | 1,646 | 6,831 | 5,677 |
| Operating income (loss) | (719) | 7 | (437) | 270 |
| Interest expense | 22 | 65 | 133 | 171 |
| Earnings (loss) before income taxes | (741) | (58) | (570) | 99 |
| Income tax expense (benefit) | (65) | (32) | 3 | 29 |
| Net earnings (loss) | (676) | (26) | (573) | 70 |
| Per common share (in dollars) | | | | |
| Net earnings (loss) | | | | |
| Basic | (1.31) | (0.05) | (1.11) | 0.15 |
| Diluted | (1.31) | (0.05) | (1.11) | 0.15 |
| Weighted average number of common and exchangeable shares outstanding (millions) | | | | |
| Basic | 515.5 | 515.4 | 515.5 | 474.1 |
| Diluted | 515.5 | 515.4 | 515.5 | 475.9 |

⁽¹⁾ The results for 2007 included the results of Domtar Inc., following the acquisition, starting on March 7, 2007.
(See Note 1 in the 2007 Annual Report on Form 10-K filed with the SEC)

Domtar Corporation
Consolidated Balance Sheets at

(In millions of dollars)

| | December 31 2008 | December 30 2007 |
|---|---------------------|---------------------|
| | (Unaudited) | |
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 16 | 71 |
| Receivables, less allowances of \$11 and \$9 | 477 | 504 |
| Inventories | 963 | 936 |
| Prepaid expenses | 27 | 14 |
| Income and other taxes receivable | 56 | 69 |
| Deferred income taxes | 116 | 182 |
| Total current assets | 1,655 | 1,776 |
| Property, plant and equipment, at cost | 8,963 | 9,685 |
| Accumulated depreciation | (4,662) | (4,323) |
| Net property, plant and equipment | 4,301 | 5,362 |
| Goodwill | - | 372 |
| Intangible assets, net of amortization | 81 | 111 |
| Other assets | 67 | 105 |
| Total assets | 6,104 | 7,726 |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Bank indebtedness | 43 | 63 |
| Trade and other payables | 646 | 765 |
| Income and other taxes payable | 36 | 28 |
| Long-term debt due within one year | 38 | 17 |
| Total current liabilities | 763 | 873 |
| Long-term debt | 2,090 | 2,213 |
| Deferred income taxes | 824 | 1,003 |
| Other liabilities and deferred credits | 284 | 440 |
| Shareholders' equity | | |
| Common stock | 5 | 5 |
| Exchangeable shares | 138 | 293 |
| Additional paid-in capital | 2,743 | 2,573 |
| (Deficit) retained earnings | (526) | 47 |
| Accumulated other comprehensive income | (217) | 279 |
| Total shareholders' equity | 2,143 | 3,197 |
| Total liabilities and shareholders' equity | 6,104 | 7,726 |

Domtar Corporation
Consolidated Statements of Cash Flows

(In millions of dollars)

| | Thirteen weeks ended December 31 2008 | Thirteen weeks ended December 30 2007 | Fifty-two weeks ended December 31 2008 | Fifty-two weeks ended December 30 2007 ⁽¹⁾ |
|---|--|--|---|--|
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | \$ | \$ | \$ | \$ |
| Operating activities | | | | |
| Net earnings (loss) | (676) | (26) | (573) | 70 |
| Adjustments to reconcile net earnings (loss) to cash flows from operating activities | | | | |
| Depreciation and amortization | 110 | 133 | 463 | 471 |
| Deferred income taxes | (88) | (48) | (42) | (73) |
| Impairment and write-down of property, plant and equipment | 383 | 92 | 383 | 92 |
| Impairment of goodwill and intangible assets | 325 | 4 | 325 | 4 |
| Gain on repurchase of long-term debt and debt restructuring costs | (12) | 25 | (12) | 25 |
| Net gains on disposals of property, plant and equipment and sale of trademarks | - | - | (9) | - |
| Stock-based compensation expense | 3 | 8 | 16 | 12 |
| Other | 5 | (4) | 13 | (2) |
| Changes in assets and liabilities, net of effects of acquisitions | | | | |
| Receivables | 91 | 40 | 7 | (39) |
| Inventories | (17) | 7 | (85) | 38 |
| Prepaid expenses | 29 | 10 | 3 | 6 |
| Trade and other payables | (143) | 2 | (139) | 68 |
| Income and other taxes | 14 | (30) | 13 | 13 |
| Difference between employer pension and other post-retirement contributions and pension and other post-retirement expense | (89) | (27) | (141) | (69) |
| Other assets and other liabilities | (9) | (4) | (25) | (10) |
| Cash flows provided from (used for) operating activities | (74) | 182 | 197 | 606 |
| Investing activities | | | | |
| Additions to property, plant and equipment | (49) | (51) | (163) | (116) |
| Proceeds from disposals of property, plant and equipment and sale of trademarks | 5 | 6 | 35 | 29 |
| Business acquisition - cash acquired | - | - | - | 573 |
| Business acquisition | - | - | (12) | - |
| Other | - | - | - | (1) |
| Cash flows provided from (used for) investing activities | (44) | (45) | (140) | 485 |
| Financing activities | | | | |
| Net change in bank indebtedness | 3 | (12) | (24) | (21) |
| Change of revolving bank credit facility | 60 | 50 | 10 | 50 |
| Issuance of short-term debt | - | - | - | 1,350 |
| Issuance of long-term debt | - | - | - | 800 |
| Repayment of short-term debt | - | - | - | (1,350) |
| Repayment of long-term debt | (54) | (155) | (95) | (311) |
| Debt issue costs | - | (15) | - | (39) |
| Premium on redemption of long-term debt | - | (40) | - | (40) |
| Repurchase of minority interest | - | (28) | - | (28) |
| Distribution to Weyerhaeuser prior to March 7, 2007 | - | - | - | (1,431) |
| Other | - | - | - | (5) |
| Cash flows provided from (used for) financing activities | 9 | (200) | (109) | (1,025) |
| Net (decrease) increase in cash and cash equivalents | (109) | (63) | (52) | 66 |
| Translation adjustments related to cash and cash equivalents | (2) | (2) | (3) | 4 |
| Cash and cash equivalents at beginning of period | 127 | 136 | 71 | 1 |
| Cash and cash equivalents at end of period | 16 | 71 | 16 | 71 |
| Supplemental cash flow information | | | | |
| Net cash payments for: | | | | |
| Interest | 39 | 67 | 120 | 155 |
| Income taxes | 3 | 74 | 49 | 112 |

⁽¹⁾ The cash flows for 2007 included the cash flows of Domtar Inc., following the acquisition, starting on March 7, 2007. (See Note 1 in the 2007 Annual Report on Form 10-K filed with the SEC)

Domtar Corporation

Reconciliation of Non-GAAP Financial Measures

(In millions of dollars, unless otherwise noted)

The following table sets forth certain non-U.S. generally accepted accounting principles ("GAAP") financial metrics identified in bold as "Earnings (Loss) Before Items," "EBITDA," "EBITDA Before Items," "Free Cash Flow," "Net Debt" and "Net Debt-to-Total Capitalization." Management believes that the financial metrics presented are frequently used by investors and are useful to evaluate our ability to service debt and the overall credit profile. Management believes these metrics are also useful to measure the operating performance and benchmark with peers within the industry. These metrics are presented as a complement to enhance the understanding of operating results but not in substitution for GAAP results.

The Company calculates "Earnings (Loss) Before Items" and "EBITDA Before Items" by excluding the after-tax (pre-tax) effect of items considered by management as not typifying the Net earnings (loss) reported under U.S. GAAP. Management uses these measures, as well as EBITDA and Free Cash Flow, to focus on ongoing operations and believes that it is useful to investors because it enables them to perform meaningful comparisons between periods. Domtar believes that using this information along with Net earnings (loss) provides for a more complete analysis of the results of operations. Net earnings (loss) is the most directly comparable GAAP measure.

| | 2008 | | | | | 2007 | | | | |
|--|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|-------------|
| | Q1 | Q2 | Q3 | Q4 | YTD | Q1 | Q2 | Q3 | Q4 | YTD |
| Reconciliation of "Earnings (Loss) Before Items" to Net Earnings (Loss) | | | | | | | | | | |
| Net earnings (loss) | | | | | | | | | | |
| (+) Impairment of goodwill | 36 | 24 | 43 | (676) | (573) | 49 | 11 | 36 | (26) | 70 |
| (+) Impairment of property, plant and equipment and intangible assets | | | | 321 | 321 | | | | 4 | 4 |
| (+) Valuation allowance on Canadian deferred income tax assets | | | | 270 | 270 | | | | 62 | 62 |
| (+) Closure and restructuring costs | | | | 52 | 52 | | | | | |
| (+) Costs related to synergies, integration and optimization | 1 | 7 | 2 | 18 | 28 | 2 | 1 | 1 | 5 | 9 |
| (-) Reversal of a provision for unfavorable contract | 5 | 5 | 6 | 3 | 19 | 4 | 4 | 8 | 14 | 30 |
| (-) Gain on debt repurchase | (17) | | | (8) | (17) | | | | | |
| (-) Gain related to the sale of trademarks | | (4) | | | (4) | | | | | |
| (-) Gains for lawsuit and insurance claim settlements | | | | | | | | | (35) | (35) |
| (+) Expenses related to the debt restructuring | | | | | | | | | 17 | 17 |
| (-) Gain related to change in statutory income tax rate | | | | | | (6) | (1) | 3 | (11) | (15) |
| (-) Gains related to financial instruments | | | | | | | (6) | (4) | (1) | (11) |
| (= Earnings (Loss) Before Items | 25 | 32 | 51 | (20) | 88 | 49 | 9 | 44 | 29 | 131 |
| (/) Weighted avg. number of common shares outstanding (diluted) | 515.9 | 515.8 | 515.7 | 515.5 | 515.5 | 348.4 | 516.3 | 517.8 | 515.4 | 475.9 |
| (= Earnings (Loss) Before Items per diluted share | 0.05 | 0.06 | 0.10 | (0.04) | 0.17 | 0.14 | 0.02 | 0.09 | 0.06 | 0.28 |
| Reconciliation of "EBITDA" and "EBITDA Before Items" to Net Earnings (Loss) | | | | | | | | | | |
| Net earnings (loss) | 36 | 24 | 43 | (676) | (573) | 49 | 11 | 36 | (26) | 70 |
| (+) Income tax expense (benefit) | 19 | 19 | 30 | (65) | 3 | 11 | 11 | 39 | (32) | 29 |
| (+) Interest expense | 39 | 37 | 35 | 22 | 133 | 11 | 47 | 48 | 65 | 171 |
| (= Operating income (loss) | 94 | 80 | 108 | (719) | (437) | 71 | 69 | 123 | 7 | 270 |
| (+) Depreciation and amortization | 116 | 118 | 119 | 110 | 463 | 78 | 132 | 128 | 133 | 471 |
| (+) Impairment of goodwill, PP&E and intangible assets | | | | 708 | 708 | | | | 96 | 96 |
| (= EBITDA | 210 | 198 | 227 | 99 | 734 | 149 | 201 | 251 | 236 | 837 |
| (-) Reversal of a provision for unfavorable contract | (23) | | | | (23) | | | | | |
| (+) Costs related to synergies, integration and optimization | 8 | 9 | 10 | 5 | 32 | 7 | 6 | 14 | 21 | 48 |
| (+) Closure and restructuring costs | 1 | 11 | 3 | 28 | 43 | 3 | 2 | 2 | 7 | 14 |
| (-) Gain related to the sale of trademarks | | (6) | | | (6) | | | | | |
| (-) Gains for lawsuit and insurance claim settlements | | | | | | | | | (51) | (51) |
| (-) Gains related to financial instruments | | | | | | | (10) | (6) | (2) | (18) |
| (= EBITDA Before Items | 196 | 212 | 240 | 132 | 780 | 159 | 199 | 261 | 211 | 830 |
| Reconciliation of "Free Cash Flow" to Cash Flow from Operating Activities | | | | | | | | | | |
| Cash flow provided from operating activities | 27 | 113 | 131 | (74) | 197 | 91 | 189 | 144 | 182 | 606 |
| (-) Additions to property, plant and equipment | (29) | (36) | (49) | (49) | (163) | (14) | (32) | (19) | (51) | (116) |
| (= Free Cash Flow | (2) | 77 | 82 | (123) | 34 | 77 | 157 | 125 | 131 | 490 |
| "Net Debt-to-Total Capitalization" Computation | | | | | | | | | | |
| Bank indebtedness | 86 | 38 | 36 | 43 | | 89 | 74 | 75 | 63 | |
| (+) Current portion of long-term debt | 17 | 19 | 19 | 38 | | 21 | 19 | 19 | 17 | |
| (+) Long-term debt | 2,155 | 2,122 | 2,118 | 2,090 | | 2,577 | 2,425 | 2,356 | 2,213 | |
| (-) Cash and cash equivalents | (57) | (61) | (127) | (16) | | (110) | (80) | (136) | (71) | |
| (= Net Debt | 2,201 | 2,118 | 2,046 | 2,155 | | 2,577 | 2,438 | 2,314 | 2,222 | |
| (+) Shareholders' equity | 3,172 | 3,217 | 3,194 | 2,143 | | 2,941 | 3,094 | 3,212 | 3,197 | |
| (= Total capitalization | 5,373 | 5,335 | 5,240 | 4,298 | | 5,518 | 5,532 | 5,526 | 5,419 | |
| Net debt | 2,201 | 2,118 | 2,046 | 2,155 | | 2,577 | 2,438 | 2,314 | 2,222 | |
| (/) Total capitalization | 5,373 | 5,335 | 5,240 | 4,298 | | 5,518 | 5,532 | 5,526 | 5,419 | |
| (= Net Debt-to-Total Capitalization | 41% | 40% | 39% | 50% | | 47% | 44% | 42% | 41% | |

"Earnings (Loss) Before Items," "EBITDA," "EBITDA Before Items," "Free Cash Flow", "Net Debt" and "Net Debt-to-Total Capitalization" have no standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures presented by other companies and therefore should not be considered in isolation or as a substitute for Net earnings (loss), Operating income (loss) or any other earnings statement, cash flow statement or balance sheet financial information prepared in accordance with GAAP. It is important for readers to understand that certain items may be presented in different lines by different companies on their financial statements thereby leading to different measures for different companies.

Domtar Corporation

Reconciliation of Non-GAAP Financial Measures - By Segment 2008

(In millions of dollars, unless otherwise noted)

The following table sets forth certain non-U.S. generally accepted accounting principles ("GAAP") financial metrics identified as "Operating Income Before Items" and "EBITDA Before Items" by reportable segment. Management believes that the financial metrics presented are frequently used by investors and are useful to measure the operating performance and benchmark with peers within the industry. These metrics are presented as a complement to enhance the understanding of operating results but not in substitution for GAAP results.

The company calculates the segmented "Operating Income Before Items" by excluding the pre-tax effect of items considered by management as not typifying the segment Operating income (loss) reported under U.S. GAAP. Management uses these measures to focus on ongoing operations and believes that it is useful to investors because it enables them to perform meaningful comparisons between periods. Domtar believes that using this information along with Operating Income (loss) provides for a more complete analysis of the results of operations. Operating Income (loss) by segment is the most directly comparable GAAP measure.

| | Papers | | | | | Paper Merchants | | | | | Wood | | | | | Corporate | | | | |
|---|------------|------------|------------|--------------|------------|-----------------|----------|----------|----------|-----------|-------------|-------------|-------------|-------------|-------------|------------|------------|-------|-------|------------|
| | Q1'08 | Q2'08 | Q3'08 | Q4'08 | YTD | Q1'08 | Q2'08 | Q3'08 | Q4'08 | YTD | Q1'08 | Q2'08 | Q3'08 | Q4'08 | YTD | Q1'08 | Q2'08 | Q3'08 | Q4'08 | YTD |
| Reconciliation of Operating Income to "Operating Income Before Items" | | | | | | | | | | | | | | | | | | | | |
| Operating Income (loss) (\$) | 114 | 92 | 118 | (693) | (369) | 3 | 2 | 1 | 2 | 8 | (22) | (12) | (11) | (28) | (73) | (1) | (2) | | | (3) |
| (+) Impairment of goodwill, PP&E and intangible assets (\$) | | | | 694 | 694 | | | | | | | | | 14 | 14 | | | | | |
| (+) Closure and restructuring costs (\$) | 1 | 11 | 3 | 23 | 38 | | | | | | | | | 5 | 5 | | | | | |
| (+) Costs related to synergies, integration and optimization (\$) | 8 | 9 | 10 | 5 | 32 | | | | | | | | | | | | | | | |
| (-) Reversal of a provision for unfavorable contract (\$) | (23) | | | | (23) | | | | | | | | | | | | | | | |
| (-) Gain related to the sale of trademarks (\$) | | (6) | | | (6) | | | | | | | | | | | | | | | |
| (=) Operating Income Before Items (\$) | 100 | 106 | 131 | 29 | 366 | 3 | 2 | 1 | 2 | 8 | (22) | (12) | (11) | (9) | (54) | (1) | (2) | | | (3) |
| Reconciliation of "Operating Income Before Items" to "EBITDA Before Items" | | | | | | | | | | | | | | | | | | | | |
| Operating Income Before Items (\$) | 100 | 106 | 131 | 29 | 366 | 3 | 2 | 1 | 2 | 8 | (22) | (12) | (11) | (9) | (54) | (1) | (2) | | | (3) |
| (+) Depreciation and amortization (\$) | 110 | 110 | 111 | 104 | 435 | | 1 | 1 | 1 | 3 | 6 | 7 | 7 | 5 | 25 | | | | | |
| (=) EBITDA Before Items (\$) | 210 | 216 | 242 | 133 | 801 | 3 | 3 | 2 | 3 | 11 | (16) | (5) | (4) | (4) | (29) | (1) | (2) | | | (3) |

"Operating Income Before Items" and "EBITDA Before Items" have no standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures presented by other companies and therefore should not be considered in isolation or as a substitute for Operating income (loss), or any other earnings statement, cash flow statement or balance sheet financial information prepared in accordance with GAAP. It is important for readers to understand that certain items may be presented in different lines by different companies on their financial statements thereby leading to different measures for different companies.

Domtar Corporation

Reconciliation of Non-GAAP Financial Measures - By Segment 2007

(In millions of dollars, unless otherwise noted)

The following table sets forth certain non-U.S. generally accepted accounting principles ("GAAP") financial metrics identified as "Operating Income Before Items" and "EBITDA Before Items" by reportable segment. Management believes that the financial metrics presented are frequently used by investors and are useful to measure the operating performance and benchmark with peers within the industry. These metrics are presented as a complement to enhance the understanding of operating results but not in substitution for GAAP results.

The company calculates the segmented "Operating Income Before Items" by excluding the pre-tax effect of items considered by management as not typifying the segment Operating income (loss) reported under U.S. GAAP. Management uses these measures to focus on ongoing operations and believes that it is useful to investors because it enables them to perform meaningful comparisons between periods. Domtar believes that using this information along with Operating Income (loss) provides for a more complete analysis of the results of operations. Operating Income (loss) by segment is the most directly comparable GAAP measure.

| | Papers | | | | | Paper Merchants | | | | | Wood | | | | | Corporate | | | | |
|---|------------|------------|------------|------------|------------|-----------------|----------|----------|----------|-----------|------------|-------------|-------------|-------------|-------------|-----------|------------|------------|------------|-------------|
| | Q1'07 | Q2'07 | Q3'07 | Q4'07 | YTD | Q1'07 | Q2'07 | Q3'07 | Q4'07 | YTD | Q1'07 | Q2'07 | Q3'07 | Q4'07 | YTD | Q1'07 | Q2'07 | Q3'07 | Q4'07 | YTD |
| Reconciliation of Operating Income to "Operating Income Before Items" | | | | | | | | | | | | | | | | | | | | |
| Operating Income (loss) (\$) | 71 | 92 | 133 | 25 | 321 | 4 | 2 | 6 | 1 | 13 | (4) | (20) | (13) | (26) | (63) | | (5) | (3) | 7 | (1) |
| (+) Impairment of goodwill and property, plant and equipment (\$) | | | | 92 | 92 | | | | | | | | | 4 | 4 | | | | | |
| (+) Costs related to synergies, integration and optimization (\$) | 7 | 6 | 14 | 21 | 48 | | | | | | | | | | | | | | | |
| (-) Gains for lawsuit and insurance claim settlements (\$) | | | | (39) | (39) | | | | | | | | | | | | | | (12) | (12) |
| (-) Gains related to financial instruments (\$) | | (10) | (6) | (2) | (18) | | | | | | | | | | | | | | | |
| (+) Closure and restructuring costs (\$) | 2 | 2 | 2 | 7 | 13 | | | | | | 1 | | | | 1 | | | | | |
| (=) Operating Income Before Items (\$) | 80 | 90 | 143 | 104 | 417 | 4 | 2 | 6 | 1 | 13 | (3) | (20) | (13) | (22) | (58) | | (5) | (3) | (5) | (13) |
| Reconciliation of "Operating Income Before Items" to "EBITDA Before Items" | | | | | | | | | | | | | | | | | | | | |
| Operating Income Before Items (\$) | 80 | 90 | 143 | 104 | 417 | 4 | 2 | 6 | 1 | 13 | (3) | (20) | (13) | (22) | (58) | | (5) | (3) | (5) | (13) |
| (+) Depreciation and amortization (\$) | 72 | 126 | 122 | 124 | 444 | 1 | | | 1 | 2 | 5 | 6 | 6 | 8 | 25 | | | | | |
| (=) EBITDA Before Items (\$) | 152 | 216 | 265 | 228 | 861 | 5 | 2 | 6 | 2 | 15 | 2 | (14) | (7) | (14) | (33) | | (5) | (3) | (5) | (13) |

"Operating Income Before Items" and "EBITDA Before Items" have no standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures presented by other companies and therefore should not be considered in isolation or as a substitute for Operating income (loss), or any other earnings statement, cash flow statement or balance sheet financial information prepared in accordance with GAAP. It is important for readers to understand that certain items may be presented in different lines by different companies on their financial statements thereby leading to different measures for different companies.

Domtar Corporation
Supplemental Segmented Information

(In millions of dollars, unless otherwise noted)

| | | 2008 | | | | | 2007 | | | | |
|---|----------------|-------|-------|-------|--------------|-------|-------|-------|-------|-------|-------|
| | | Q1 | Q2 | Q3 | Q4 | YTD | Q1 | Q2 | Q3 | Q4 | YTD |
| Papers Segment | | | | | | | | | | | |
| Sales | (\$) | 1,429 | 1,407 | 1,364 | 1,240 | 5,440 | 955 | 1,349 | 1,411 | 1,401 | 5,116 |
| Intersegment sales - Papers | (\$) | (83) | (73) | (64) | (56) | (276) | (24) | (66) | (72) | (73) | (235) |
| Operating income (loss) | (\$) | 114 | 92 | 118 | (693) | (369) | 71 | 92 | 133 | 25 | 321 |
| Depreciation & amortization | (\$) | 110 | 110 | 111 | 104 | 435 | 72 | 126 | 122 | 124 | 444 |
| Impairment of goodwill and PP&E | (\$) | | | | 694 | 694 | | | | 92 | 92 |
| Papers | | | | | | | | | | | |
| Papers Production | ('000 ST) | 1,173 | 1,146 | 1,115 | 951 | 4,385 | 826 | 1,216 | 1,187 | 1,182 | 4,411 |
| Papers Shipments | ('000 ST) | 1,205 | 1,137 | 1,079 | 985 | 4,406 | 871 | 1,209 | 1,261 | 1,160 | 4,501 |
| Uncoated freesheet | ('000 ST) | 1,149 | 1,096 | 1,044 | 952 | 4,241 | 814 | 1,163 | 1,194 | 1,104 | 4,275 |
| Coated groundwood | ('000 ST) | 56 | 41 | 35 | 33 | 165 | 57 | 46 | 67 | 56 | 226 |
| 20-lb repro bond, 92 bright (copy) ^(a) list price | (\$/ton) | 1,007 | 1,050 | 1,103 | 1,101 | 1,065 | 930 | 963 | 990 | 990 | 968 |
| 50-lb offset, rolls ^(a) list price | (\$/ton) | 860 | 907 | 944 | 945 | 914 | 810 | 810 | 803 | 847 | 818 |
| Coated publication No. 5, 40-lb offset, rolls ^(a) list price | (\$/ton) | 900 | 975 | 1,000 | 988 | 966 | 778 | 748 | 782 | 840 | 787 |
| Pulp | | | | | | | | | | | |
| Pulp Shipments ^(b) | ('000 ADMT) | 347 | 347 | 325 | 353 | 1,372 | 249 | 335 | 334 | 411 | 1,329 |
| Hardwood Kraft Pulp | (%) | 44% | 43% | 41% | 37% | 41% | 21% | 46% | 48% | 45% | 42% |
| Softwood Kraft Pulp | (%) | 47% | 46% | 47% | 50% | 48% | 61% | 41% | 40% | 46% | 46% |
| Fluff Pulp | (%) | 9% | 11% | 12% | 13% | 11% | 18% | 13% | 12% | 9% | 12% |
| Pulp NBSK - U.S. market ^(a) list price | (\$/ADMT) | 880 | 880 | 882 | 789 | 858 | 790 | 810 | 837 | 858 | 824 |
| Pulp NBHK - Japan market ^{(a)(c)} list price | (\$/ADMT) | 715 | 755 | 785 | 673 | 732 | 640 | 640 | 658 | 683 | 655 |
| Paper Merchants Segment | | | | | | | | | | | |
| Sales | (\$) | 262 | 243 | 257 | 228 | 990 | 76 | 226 | 249 | 262 | 813 |
| Intersegment sales - Paper Merchants | (\$) | | | | | | | (1) | | | (1) |
| Operating income | (\$) | 3 | 2 | 1 | 2 | 8 | 4 | 2 | 6 | 1 | 13 |
| Depreciation & amortization | (\$) | | 1 | 1 | 1 | 3 | 1 | | | 1 | 2 |
| Wood Segment | | | | | | | | | | | |
| Sales | (\$) | 63 | 70 | 76 | 59 | 268 | 47 | 90 | 88 | 79 | 304 |
| Intersegment sales - Wood | (\$) | (6) | (8) | (8) | (6) | (28) | (3) | (15) | (16) | (16) | (50) |
| Operating loss | (\$) | (22) | (12) | (11) | (28) | (73) | (4) | (20) | (13) | (26) | (63) |
| Depreciation & amortization | (\$) | 6 | 7 | 7 | 5 | 25 | 5 | 6 | 6 | 8 | 25 |
| Impairment of goodwill, PP&E and intangible assets | (\$) | | | | 14 | 14 | | | | 4 | 4 |
| Lumber Production | (Millions FBM) | 168 | 155 | 163 | 181 | 667 | 68 | 152 | 164 | 158 | 542 |
| Lumber Shipments | (Millions FBM) | 160 | 181 | 178 | 158 | 677 | 88 | 227 | 197 | 172 | 684 |
| Lumber G.L. 2x4x8 studs ^(a) prices | (\$/MFBM) | 277 | 306 | 290 | 246 | 280 | 317 | 335 | 336 | 294 | 321 |
| Lumber G.L. 2x4 R/L, no. 1 & no. 2 ^(a) prices | (\$/MFBM) | 291 | 309 | 346 | 272 | 304 | 332 | 332 | 343 | 308 | 329 |
| Average Exchange Rates | | | | | | | | | | | |
| CAN | | 1.004 | 1.010 | 1.042 | 1.212 | 1.067 | 1.172 | 1.098 | 1.044 | 0.981 | 1.074 |
| US | | 0.996 | 0.990 | 0.960 | 0.825 | 0.937 | 0.854 | 0.911 | 0.958 | 1.019 | 0.931 |

(a) Source: Pulp & Paper Week and Random Lengths.

(b) Figures are gross of market pulp purchased from other producers on the open market for some of our paper making operations. Pulp shipments represents the amount of pulp produced in excess of our internal requirement.

(c) Based on Pulp & Paper Week's Southern Bleached Hardwood Kraft pulp prices for Japan, increased by an average differential of \$15/ADMT between Northern and Southern Bleached Hardwood Kraft pulp prices.

Note: the term "ST" refers to a short ton, the term "ADMT" refers to an air dry metric ton, and the term "FBM" refers to foot board measure.