



Taking Paper Further

2010
Sustainable Growth Status Report



We are a recognized leader when it comes to sustainability in the pulp and paper industry. As such, we are always looking for ways to integrate sustainable growth ideals into every aspect of our business.

In 2010, we created a new cross-functional Sustainability Committee made up of executives from Environment, Human Resources, Operations, Marketing, Finance, Government Relations and Corporate Communications and Investor Relations. This seasoned team is developing a new and more organic approach to sustainability that will continue to build upon our early leadership and strive to make us a world-class leader in our sector and beyond.



THE SUSTAINABILITY COMMITTEE

From left to right: Pascal Bossé, Thomas Howard, Jack Bray, Jim Mertes, Guy Martin, Peter Martin and Lewis Fix.

In 2010, we progressed in every aspect of the triple bottom line: the economy, the environment and social issues.

Economically, our continuous focus on customers, costs and cash has yielded solid results. This allowed us to bring improved value to our shareholders, make investments to strengthen our existing assets and venture into new businesses, such as nanocrystalline cellulose. We also recorded our best year ever with respect to health and safety.

On the **environmental** front, we continued to meet or surpass all legal requirements and carried out renewable energy and efficiency projects that will improve our performance even further. Domtar's EarthChoice® papers, certified by the Forest Stewardship Council™ (FSC®), were more popular than ever and we extended our licensing agreement with World Wildlife Fund (WWF) to display the "panda" logo on all EarthChoice products. We also launched a bold marketing campaign, *PAPER because*, which aims to dispel negative myths about paper and demonstrate its important role in today's society.

We are continuing to play a pivotal role in our **communities** by providing safe, well-paid jobs and supporting numerous local and national causes through community investments and donations. A new Community Investment Program, developed in 2010, will now govern our activities in this regard.

Highlights from each of these areas are provided in this Status Report, a supplement to the Sustainable Growth Report we publish every two years and to the Annual Report on Form 10-K. More information can also be found in the Sustainability section of www.domtar.com.

I hope that you find this report helpful and that it reflects our commitment to being *The Sustainable Paper Company*.



John D. Williams
President and Chief Executive Officer

Economic achievement

Financially, 2010 was a banner year for Domtar, despite a persistently challenging environment due to the slow economic recovery. We pursued the implementation of our “Perform, Grow, Break Out” strategic roadmap, with a focus on three fundamentals: customers, costs and cash. Our focus on these core priorities has placed us on a solid financial footing and given us the agility needed to capture opportunities ahead.

HIGHLIGHTS

- Posted earnings of \$605 million, generated over \$1 billion in free cash flow and cut our debt by 50% compared to 2009;
- Announced a new capital allocation policy with a \$0.25 quarterly dividend and a \$150-million share buyback program;
- Repurposed the Plymouth, NC mill to 100% fluff pulp production and eliminated the use of coal as a fuel source through this \$74 million investment;
- Expanded the scope of our business by announcing the construction of a new nanocrystalline cellulose demonstration plant in Windsor, QC, in partnership with FPIinnovations;
- Closed our Columbus, MS coated groundwood mill, and sold our Woodland, ME hardwood pulp mill as well as our Forest Products business, as part of our portfolio rationalization initiative.

Selected Financial Figures

(In millions of U.S. dollars, unless otherwise noted)

	2008	2009	2010
Sales	\$6,394	\$5,465	\$5,850
Operating income (loss) per segment			
Papers	(369)	650	667
Paper Merchants	8	7	(3)
Wood ¹	(73)	(42)	(54)
Corporate	(3)	-	(7)
Operating income (loss)	(437)	615	603
Net earnings (loss)	(573)	310	605
Cash flow provided from operating activities	197	792	1,166
Capital expenditures	163	106	153
Free cash flow ²	34	686	1,013
Total assets	6,104	6,519	6,026
Long-term debt, including current portion	2,128	1,712	827
Net debt-to-total capitalization ratio ²	50%	35%	9%
Total shareholders' equity	2,143	2,662	3,202
Weighted average number of common and exchangeable shares outstanding in millions (diluted)	43.0	43.2	43.2

¹ Domtar closed the transaction to sell its Forest Products business on June 30, 2010.

² Non-GAAP financial measure.

Safety improvement

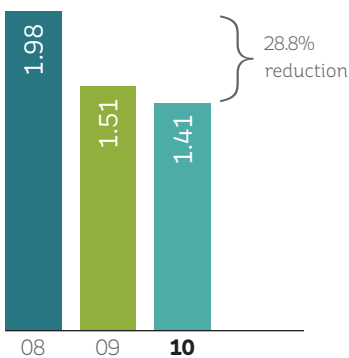
2010 was our best year yet in health and safety, as we exceeded our target for recordable injury frequency rate. In 2011, our focus will remain on continuous improvement as well as the safety training of our front line supervisors. Our goal for this year is to lower the total incident frequency rate to 1.28 across the company.

HIGHLIGHTS

- With 141 recordable injuries per 200,000 hours worked, we achieved a 28.8% reduction compared to 2008.
- Recorded a lost-time incident rate of 0.49, a 26% improvement over 2009;
- Performed 14 safety compliance and management system audits at various locations;
- Were awarded Platinum status at the Fort Mill, SC Operations Center as a Start! Fit-Friendly Company that goes "above and beyond" for the health of its employees;
- Earned the National Maintenance Agreements Policy Committee Zero Injury Safety Award at our Johnsonburg, PA mill, along with our partners Minnotte Contracting Corp. and the North Central Pennsylvania Building Trades Council;
- Set new safety records for consecutive safe work days during 2010 at five of Domtar's mills. Of these, the Plymouth mill led the way with 406 consecutive safe days.

NUMBER OF RECORDABLE INJURIES

(Per 200,000 work hours)



Environmental performance

We made significant strides this year to improve our environmental performance, increase our energy efficiency and reduce the impact of our activities on the environment. Major projects were completed at our facilities, as we continue to invest the \$143-million in credits available to us under the Government of Canada's Pulp and Paper Green Transformation Program (PPGTP). We also refined our protocols for calculating and reporting Scope 1 and Scope 2 emissions, which are now aligned with GHG Protocol guidelines.



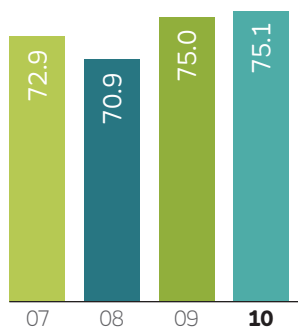
Inauguration of the new biomass fired steam turbine generator at our Marlboro, SC mill

Renewable energy and GHG emissions

We pursued our efforts to reduce our reliance on fossil fuels and decrease our greenhouse gas (GHG) emissions to further improve our overall carbon footprint.

USE OF RENEWABLE ENERGY

(In percentage of total energy)



HIGHLIGHTS

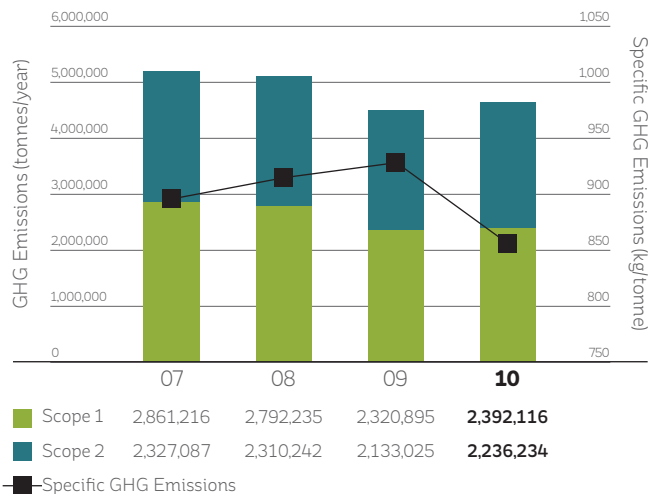
- Achieved ISO 14001 certification at our Windsor, QC mill;
- Completed seven environmental compliance audits at our pulp and paper mills and converting sites, and five Environmental Management System ISO 14001 gap analyses at facilities that are not currently certified;
- Currently implementing boiler upgrades at our Kamloops, BC mill and improvements in Dryden and Espanola, ON as part of the PPGTP to improve the facilities' overall environmental performance. Additional sustainability projects will be carried out in Dryden, Kamloops and Windsor in 2011 and 2012;
- Started up a new steam turbine generator at our Marlboro, SC mill, which generates enough green electricity to supply close to 31,000 homes across the state;
- Created "Green Teams" at our Montreal, QC and Fort Mill, SC offices to promote environmental awareness among employees and reduce the environmental footprint of our two largest offices;
- Preserved valuable wetlands near our Windsor mill through an ecological donation and transfer of 2,011 acres (814 hectares) of land to Ducks Unlimited;
- Were named one of the Top 100 Greenest Companies by *Newsweek*. Domtar was the only company from the pulp and paper sector in the Top 100;
- Combined social and environmental commitments by becoming a founding partner of the Green My Parents youth sustainability initiative;
- Recognized for leadership and transparency in environmental reporting through WWF's Paper Company Environmental Index. We were the only North American company to voluntarily disclose our environmental performance and demonstrate what we are doing to reduce our global ecological footprint;
- Paid a total of \$10,416 in environmental fines in 2010, which is a considerable decrease over previous years. The most significant (\$4,826) of these fines was associated with two opacity exceedences at our Johnsonburg mill. These exceedences had occurred in 2009 and corrective measures have been implemented since then. As a result, no further opacity exceedences occurred at that facility.

Greenhouse gas emissions

HIGHLIGHTS

- Reported Scope 2 emissions from continuing operations for the first time;
- Developing reduction targets for Scope 1 and Scope 2 emissions;
- Reduced Scope 1 and Scope 2 emissions by 10.8% compared to 2007, mainly due to:
 - increased use of renewable energy and better energy efficiency throughout the company
 - phasing out the use of coal at the Plymouth mill as part of its conversion to fluff pulp production
 - the start-up of the biomass-fired steam turbine generator at the Marlboro mill
- Began developing a protocol for Scope 3 emissions;
- Implemented a policy that takes the potential sale of Renewable Energy Credits (RECs) into account in the calculation of our renewable energy use. This approach eliminates the risk of double accounting for environmental benefits, and ensures that the claims made with respect to our use of renewable energy are accurate regardless of whether or not RECs are sold.

EVOLUTION OF SCOPE 1 AND 2 GHG EMISSIONS



Air emissions

All our mills are in compliance with applicable air emissions limits. Marked improvements in all monitored parameters were observed in 2010, mainly with respect to SO₂ emissions.

HIGHLIGHT

- As part of its conversion to 100% fluff pulp production, the Plymouth mill has implemented numerous measures to eliminate coal combustion, contributing significantly to the overall SO₂ emissions reduction across Domtar.

Water use

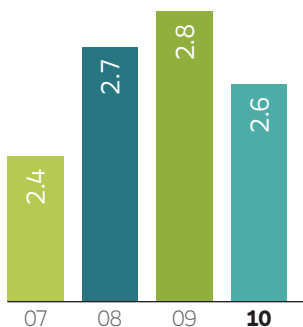
We understand that reducing water use is one of our toughest challenges. Despite the operating issues associated with lack-of-order downtime in our mills and the permanent closure of some paper machines, both of which reduce our ability to recycle and reuse process water, our mills are to be commended for taking the steps required to reduce their overall water use in 2010.

HIGHLIGHTS

- Achieved a 6% reduction over 2009 by implementing water management measures such as repairing leaks more quickly and reusing water where feasible;
- About 90% of the water used in the pulp and paper manufacturing process is returned, after treatment, to receiving waters. Additional information on this process can be obtained at www.paperenvironment.org/ and by consulting the following reports on the water use profile of the pulp and paper industry in Canada at www.ncasi.org/Publications/Detail.aspx?id=3280 and the U.S. at www.ncasi.org/Publications/Detail.aspx?id=3150.

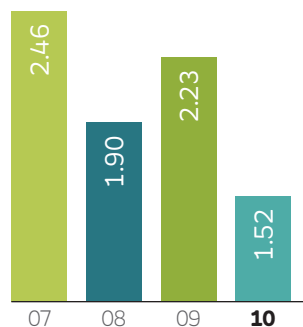
NITROGEN OXIDES (NO_x) SPECIFIC EMISSIONS FROM CONTINUING OPERATIONS

NO_x (kg/tonne)



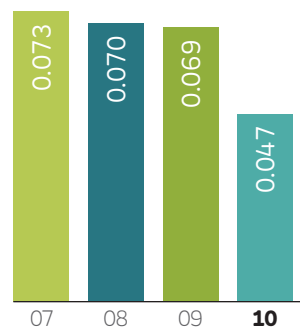
SULFUR DIOXIDE (SO₂) SPECIFIC EMISSIONS FROM CONTINUING OPERATIONS

SO₂ (kg/tonne)



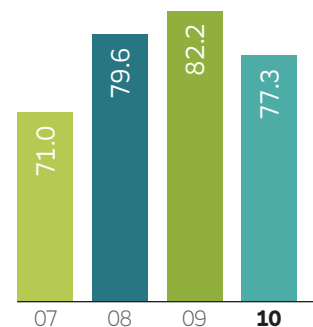
TOTAL REDUCED SULFUR (TRS) SPECIFIC EMISSIONS FROM CONTINUING OPERATIONS

Excluding emissions from treatment plants (kg/tonne)



SPECIFIC WATER USE FROM CONTINUING OPERATIONS

Specific water use (m³/tonne)



Effluent quality criteria

All our mills are in compliance with applicable Biological Oxygen Demand (BOD₅), Total Suspended Solids (TSS) and Adsorbable Organic Halides (AOX) discharge limits.

HIGHLIGHTS

- The conversion of our Plymouth mill to 100% fluff pulp production has significantly reduced its water use, BOD discharge and chemical use;
- Operational issues at some of our mills' wastewater treatment plants have resulted in slight increases in both BOD and TSS discharges. These issues are being addressed and these two parameters should trend downwards in 2011.

Waste landfilled

Since 2008, the average amount of waste material going to landfill has continually decreased. At 46.4 kg/tonne, we are nearly 45% below the 2009 industry average of 84.2 kg/tonne (Source: AF&PA). To achieve these reductions, we continue to focus on the reuse of by-products, such as the land application of biosolids.

HIGHLIGHTS

- The Johnsonburg mill was recognized by the Pennsylvania Game Commission in 2010 for its land application program and its contribution towards improving wildlife habitat in the region that is home to Pennsylvania's elk herd;
- As part of our on-going commitment to find the highest value for our by-products, the Ashdown mill recently received approval by the Plant Board for land application of boiler ash as a soil amendment on pasture land.

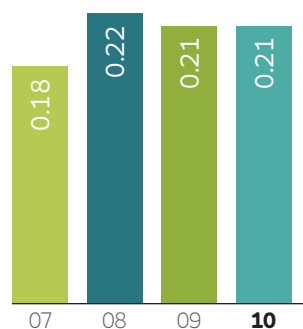
BIOLOGICAL OXYGEN DEMAND (BOD₅) DISCHARGES FROM CONTINUING OPERATIONS

Strictest regulation to be met: 4.1 kg/tonne
BOD₅ (kg/tonne)



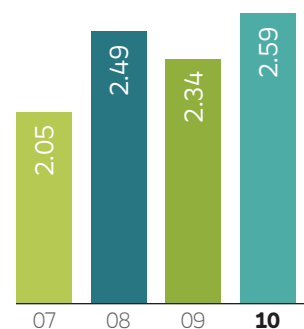
ADSORBABLE ORGANIC HALIDES (AOX) DISCHARGES FROM CONTINUING OPERATIONS

Strictest regulation to be met: 0.48 kg/tonne
AOX (kg/tonne)



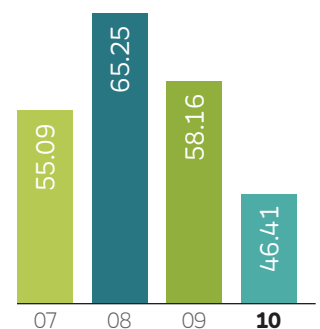
TOTAL SUSPENDED SOLIDS (TSS) DISCHARGES FROM CONTINUING OPERATIONS

Strictest regulation to be met: 8.4 kg/tonne
TSS (kg/tonne)



SPECIFIC GENERATION OF WASTE MATERIAL GOING TO LANDFILL

Waste to landfill (kg/tonne of production)



Forest certification

Domtar manages all its owned and licensed forests in a sustainable manner, favoring forest certification by the FSC and, when this is not possible, adopting the standards of the Sustainable Forestry Initiative® (SFI®) and Canadian Standards Association (CSA). Any purchased fiber is procured from suppliers who also harvest their forests using responsible management practices.

HIGHLIGHTS

- In 2010, Domtar finalized the sale of its Forest Products business to EACOM Timber Corporation. As a result, our total licensed forestland decreased by 50% to 16 million acres (6.4 million hectares) from 32 million acres (13 million hectares) in 2009;
- Even though the overall area of land certified by the FSC, SFI and CSA was less at the end of 2010, the percentage of Domtar licensed forests that are certified increased to 69% for FSC (compared to 58% in 2009) and 20% for CSA (compared to 14% in 2009);
- An additional 2.3 million acres (0.9 million hectares) of direct Domtar licensed area is scheduled for FSC certification by the end 2012;
- An updated list of our forest certifications and copies of our certificates are available at www.domtar.com/en/sustainability/certification-domtar.asp.

FOREST CERTIFICATION

(as of December 31, 2010)

JURISDICTION	DOMTAR OWNED		% CERTIFIED		DOMTAR LICENSED (DIRECTLY AND CO-OPERATIVE)		% CERTIFIED	
	HECTARES	ACRES	FSC	SFI	HECTARES	ACRES	FSC	CSA
Ontario	174,422	430,997	0%*	0%*	5,032,992	12,436,522	73%	19%
Quebec	159,000	392,889	100%	100%	1,442,269	3,563,847	57%	26%
Total	333,422	823,886	48%	48%	6,475,261	16,000,369	69%	20%

*Domtar owned forests in Ontario are in the process of being sold or not in operation.

2009/2010 – DELIVERY OF WOOD FROM CERTIFIED FORESTS TO PULP AND PAPER MILLS*

	FSC	SFI	CSA	TOTAL CERTIFIED
2009	14%	8%	6.5%	28.5%
2010	16%	6%	6%	28%

* 2009 numbers have been adjusted mainly to reflect the sale of the Forest Products business and the Woodland mill, as well as to comply with WWF's Global Forest & Trade Network reporting format.

This page differs from the printed copy. The forest data covered under the Domtar License agreement in Ontario was revised in this version dated May 31, 2011.

Social commitment

HIGHLIGHTS

- The amount of FSC certified fiber deliveries to our pulp and paper mills increased by 12% compared to 2009;
- This percentage is expected to continue to grow as we pursue our efforts to promote FSC certification among private landowners through various national and international initiatives (learn more about these projects below).

INCREASING FSC-CERTIFIED FIBER SUPPLY

Domtar supports several initiatives to promote FSC certification among private forest landowners. The objective is to increase the availability of FSC-certified fiber in our markets to meet the growing demand for sustainable papers. The Carbon Canopy, launched in collaboration with Staples, conservation groups and other forest products companies, targets landowners in the Southern U.S. The Working Woodlands, a responsible forest management project led by Domtar, The Nature Conservancy and Blue Source, aims to enroll 20,000 acres of land in the U.S. Northeast. We also participate in the Responsible Procurement Program of the National Wood Flooring Association as a member of its FSC Procurement Group. Finally, Domtar has been participating in WWF's Global Forest & Trade Network since 2008 to drive responsible forestry and trade and increase the volume of FSC-certified fiber within supply chains around the world.

We remain actively engaged in our communities through support for local initiatives and national campaigns that benefit our neighbors in need.

HIGHLIGHTS

- Implemented a new Community Investment Program to govern our efforts to advance education, culture and literacy, support health causes, improve the environment and support the economic development of our communities;
- Gave a record of nearly \$750,000 to United Way/Centraide in the U.S. and Canada in 2010 through employee donations and a \$0.50 on the dollar matching contribution from the Company;
- Inaugurated the Regional Center for Advanced Manufacturing, a technical training facility built on land donated by the Kingsport, TN mill;
- Donated toys, food and other essentials to those in need during the Holiday Season, with employees volunteering their time and giving funds to support numerous local drives;
- Became the 2010-2011 Season Partner for the Montreal Chamber Orchestra;
- Supported Haiti earthquake relief by donating nearly \$72,000 through dollar-for-dollar matching of employee donations to the American and Canadian Red Cross.



Domtar is supporting the Montreal Chamber Orchestra.
John D. Williams
Domtar President and CEO
Wanda Kaluzny, Conductor of the MCO
and Tamàs Balla, Oboist

Sustainable and purposeful products

Our Domtar EarthChoice line of papers remained a strong performing, sustainable choice for consumers and continued to evolve to meet their changing needs. Our *PAPER because* campaign brought our industry to the forefront in the national media by conveying the message that paper can be used responsibly and that it has an important part to play in modern society.

HIGHLIGHTS

- Broadened our licensing agreement with World Wildlife Fund to cover all Domtar EarthChoice papers, further promoting forest conservation and environmentally responsible paper use;
- Launched the *PAPER because* campaign, with positive messages about paper broadcast on-line and on the radio in the U.S., and appearing in prestigious publications across North America. This campaign received the Environmental Award for Best Management Practices from the National Association of Major Mail Users (NAMMU);
- Garnered the Staples Supplier Soul Award and the Environmental Supplier of the Year Award from Office Depot, and named Top Supplier by Independent Printers Worldwide.



ABOUT THIS STATUS REPORT

Energy data were externally reviewed as part of various GHG reduction commitments in 2010.

DATA

This Sustainable Growth Status Report covers the activities of Domtar Corporation in 2010. The information reported in this document covers our pulp and paper mills and forest operations. The environmental data provided in this report deals strictly with Domtar's pulp and paper manufacturing operations, as they represent the company's most significant environmental footprint. Financial results are for the fiscal year 2010.

DEFINITIONS

Scope 1 emissions: GHG emissions that occur directly from sources owned or controlled by a facility;

Scope 2 emissions: Indirect GHG emissions associated with the generation of electricity purchased from the grid by a facility;

Scope 3 emissions: All other indirect emissions that are a consequence of a facility's activities but generated by sources it does not own or control (e.g.: product distribution, use and disposal).

Data quality: The environmental data presented in this report are accurate to within normal standards of error for process and engineering data.

REPORT CONTENT

Environmental data are gathered at our mills throughout the year and consolidated for reporting. Financial highlights, were gathered from Domtar's 2010 Annual Report on Form 10-K. Other data, such as environmental and occupational health and safety performance, are compiled throughout the year by the Domtar Corporate Environmental Group in consultation with Operations.

CONTACT

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REPORT FEEDBACK

We would like to hear from you. Please provide feedback on this status report and write us at: sustainability@domtar.com

Production Notes

Paper

Printed on 100 lb. Cougar® Text,
Smooth Finish, FSC® certified.

Printing

Printed on a Komori Lithrone 28×40, 5-color
press with in line waterbase varnish unit and
end of press extended delivery drying systems.



Domtar is pleased to make
an annual contribution of
\$350,000 to WWF from the
sale of EarthChoice® products.

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