



Domtar Corporation

Annual Reconciliation of Non-GAAP Financial Measures

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 Margin", "EBITDA Before Items", "EBITDA Margin 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) and Cash flow provided from (used for) operating activities are the most directly comparable GAAP measures.

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

			2009	2008	2007
Reconciliation of "Earnings (Loss) Before Items" to Net earnings (loss)					
	Net earnings (loss)	(\$)	310	(573)	70
(-)	Alternative fuel tax credits	(\$)	(336)		
(-)	(Gains) Losses on sale of property, plant and equipment	(\$)	(9)		
(+)	Write-down of PP&E / Impairment of PP&E and intangible assets	(\$)	43	270	62
(+)	Closure and restructuring costs	(\$)	44	28	9
(-)	Gain on debt repurchase	(\$)	(6)	(8)	
(+)	Impairment of goodwill	(\$)		321	4
(+)	Valuation allowance on Canadian deferred income tax assets	(\$)		52	
(+)	Costs related to synergies, integration and optimization	(\$)		19	30
(-)	Reversal of a provision for unfavorable contract	(\$)		(17)	
(-)	Gain related to the sale of trademarks	(\$)		(4)	
(-)	Gains for lawsuit and insurance claim settlements	(\$)			(35)
(+)	Expenses related to the debt restructuring	(\$)			17
(-)	Gain related to change in statutory income tax rate	(\$)			(15)
(-)	Gains related to financial instruments	(\$)			(11)
(=)	Earnings (Loss) Before Items	(\$)	46	88	131
(/)	Weighted avg. number of common shares outstanding (diluted)	(millions)	43.2	43.0	39.7
(=)	Earnings (Loss) Before Items per diluted share	(\$)	1.06	2.05	3.30
Reconciliation of "EBITDA" and "EBITDA Before Items" to Net earnings (loss)					
	Net earnings (loss)	(\$)	310	(573)	70
(+)	Income tax expense (benefit)	(\$)	180	3	29
(+)	Interest expense	(\$)	125	133	171
(=)	Operating income (loss)	(\$)	615	(437)	270
(+)	Depreciation and amortization	(\$)	405	463	471
(+)	Write-down of PP&E / Impairment of goodwill, PP&E and intangible assets	(\$)	62	708	96
(=)	EBITDA	(\$)	1,082	734	837
(/)	Sales	(\$)	5,465	6,394	5,947
(=)	EBITDA Margin	(%)	20%	11%	14%
(-)	Alternative fuel tax credits	(\$)	(498)		
(-)	(Gains) Losses on sale of property, plant and equipment	(\$)	(7)		
(+)	Closure and restructuring costs	(\$)	63	43	14
(-)	Reversal of a provision for unfavorable contract	(\$)		(23)	
(+)	Costs related to synergies, integration and optimization	(\$)		32	48
(-)	Gain related to the sale of trademarks	(\$)		(6)	
(-)	Gains for lawsuit and insurance claim settlements	(\$)			(51)
(-)	Gains related to financial instruments	(\$)			(18)
(=)	EBITDA Before Items	(\$)	640	780	830
(/)	Sales	(\$)	5,465	6,394	5,947
(=)	EBITDA Margin Before Items	(%)	12%	12%	14%

Annual Reconciliation of Non-GAAP Financial Measures (continued)

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

		2009	2008	2007	
Reconciliation of "Free Cash Flow" to Cash flow from operating activities					
	Cash flow provided from (used for) operating activities	(\$)	792	197	606
(-)	Additions to property, plant and equipment	(\$)	(106)	(163)	(116)
(=)	Free Cash Flow	(\$)	686	34	490
	Cash received from alternative fuel tax credits	(\$)	140		
"Net Debt-to-Total Capitalization" Computation					
	Bank indebtedness	(\$)	43	43	63
(+)	Current portion of long-term debt	(\$)	11	18	17
(+)	Long-term debt	(\$)	1,701	2,110	2,213
(=)	Debt	(\$)	1,755	2,171	2,293
(-)	Cash and cash equivalents	(\$)	(324)	(16)	(71)
(=)	Net Debt	(\$)	1,431	2,155	2,222
(+)	Shareholders' equity	(\$)	2,662	2,143	3,197
(=)	Total capitalization	(\$)	4,093	4,298	5,419
	Net debt	(\$)	1,431	2,155	2,222
(/)	Total capitalization	(\$)	4,093	4,298	5,419
(=)	Net Debt-to-Total Capitalization	(%)	35%	50%	41%

"Earnings (Loss) Before Items", "EBITDA", "EBITDA Margin", "EBITDA Before Items", "EBITDA Margin 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.

Annual Reconciliation of Non-GAAP Financial Measures – By Segment

The following table sets forth certain non-U.S. generally accepted accounting principles ("GAAP") financial metrics identified as "Operating Income (Loss) Before Items", "EBITDA Before Items" and "EBITDA Margin 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 (Loss) 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		
		2009	2008	2009	2008	2009	2008	2009	2008	
Reconciliation of Operating income to "Operating Income Before Items"										
	Operating income (loss)	(\$)	650	(369)	7	8	(42)	(73)	(3)	
(-)	Alternative fuel tax credits	(\$)	(498)							
(+)	Impairment and write-down of goodwill, PP&E and intangible assets	(\$)	62	694			14			
(+)	Closure and restructuring costs	(\$)	52	38	2		9	5		
(-)	(Gains) Losses on sale of property, plant and equipment	(\$)	4				(8)		(3)	
(+)	Costs related to synergies, integration and optimization	(\$)		32						
(-)	Reversal of a provision for unfavorable contract	(\$)		(23)						
(-)	Gain related to the sale of trademarks	(\$)		(6)						
(=)	Operating Income (Loss) Before Items	(\$)	270	366	9	8	(41)	(54)	(3)	(3)
Reconciliation of "Operating Income Before Items" to "EBITDA Before Items"										
	Operating Income (Loss) Before Items	(\$)	270	366	9	8	(41)	(54)	(3)	(3)
(+)	Depreciation and amortization	(\$)	382	435	3	3	20	25		
(=)	EBITDA Before Items	(\$)	652	801	12	11	(21)	(29)	(3)	(3)
(/)	Sales	(\$)	4,632	5,440	873	990	211	268		
(=)	EBITDA Margin Before Items	(%)	14%	15%	1%	1%				

"Operating Income (Loss) Before Items", "EBITDA Before Items" and "EBITDA Margin 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.