

DOMTAR CORPORATION

FIRST QUARTER 2016 EARNINGS CALL

April 28, 2016

(All financial information is in U.S. dollars, and all earnings per share results are diluted, unless otherwise noted.)



Domtar

SAFE HARBOR

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, 2015 filed with the Securities and Exchange Commission and as updated by subsequently filed Form 10-Q’s.

Non-GAAP Financial Measures

This presentation refers to non-GAAP financial information. For a reconciliation to GAAP financial measures, please refer to the investors section of the company’s website at <http://www.domtar.com> (Refer to the Analyst Corner of the IR section of the website).

OVERVIEW

First Quarter 2016

- Results affected by higher planned maintenance and related costs
- Price increases announced for softwood pulp and several uncoated freesheet grades
- Closed paper machine at Ashdown mill, reducing annual paper capacity by 364,000 tons
- Ashdown fluff conversion progressing well; expected to be on schedule and on budget
- Strong year-over-year EBITDA* growth in Personal Care
- Successful launch of a partner brand and the ramping up of volume for a major account in Personal Care

*Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to the Analyst Corner of the IR section of the website).

FINANCIAL HIGHLIGHTS

First Quarter 2016

- Net earnings of \$0.06 per diluted share; earnings before items* of \$0.35 per share
- EBITDA before items* of \$130 million
- Cash flow provided from operating activities of \$97 million
- Capital expenditures of \$100 million
- Share repurchases totaling \$10 million

* Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to the Analyst Corner of the IR section of the website).

EARNINGS STATEMENT

1Q'16 vs. 4Q'15 (in millions of dollars)

	4Q'15	1Q'16	
Sales	1,314	1,287	Lower pulp prices; lower pulp and paper volumes
Cost of sales	1,007	1,050	Higher planned maintenance and related costs and seasonally higher raw material costs
Depreciation and amortization	89	89	
SG&A	100	103	Higher mark-to-market on stock-based compensation
Impairment of PP&E	20	21	Accelerated depreciation of Ashdown paper machine
Closure and restructuring costs	1	2	
Other operating loss, net	3	4	
Operating income	94	18	
Interest expense, net	17	17	
Income tax expense (benefit)	20	(3)	R&D state tax credit in the U.S.
Net earnings	57	4	

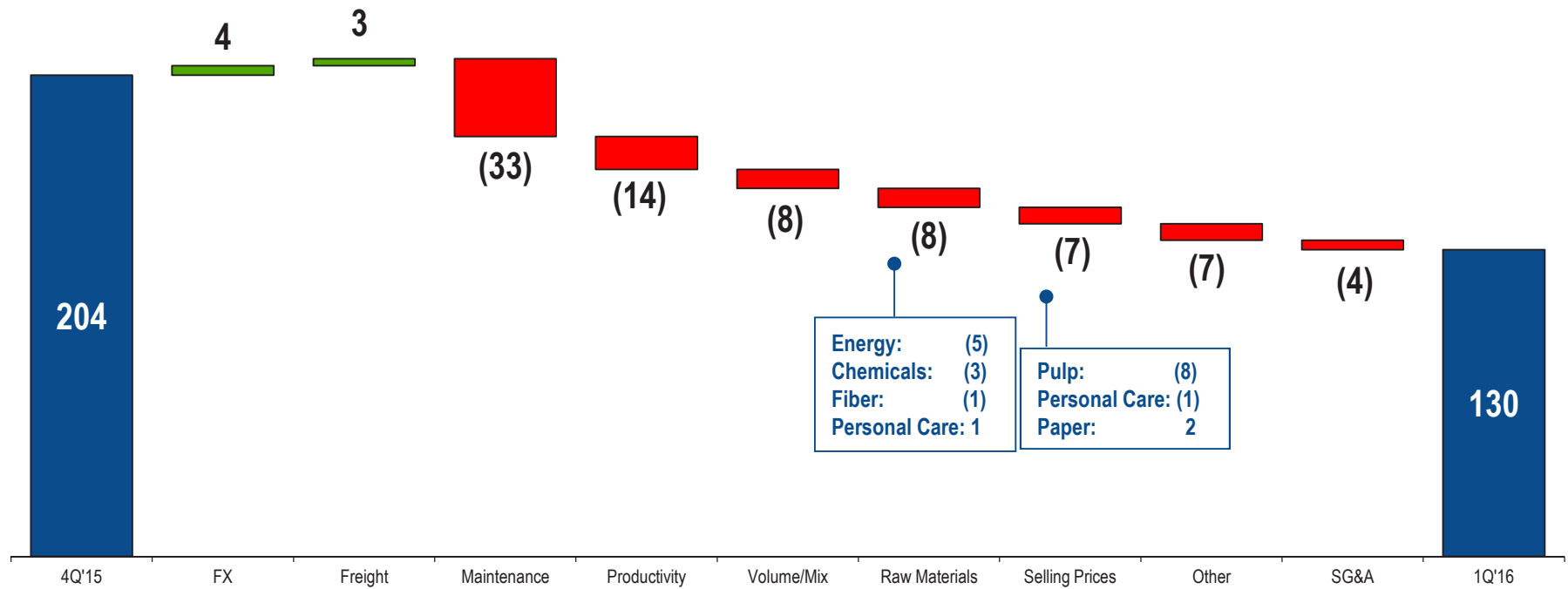
CASH FLOW STATEMENT

1Q'16 vs. 1Q'15 *(in millions of dollars)*

	1Q'15	1Q'16
Net earnings	36	4
Depreciation and amortization	90	89
Deferred income taxes and tax uncertainties	(15)	(3)
Impairment of PP&E	19	21
Changes in assets and liabilities		
Changes in working capital	(9)	(15)
Pension expense over contribution	2	(1)
Other	4	2
Cash flows provided from operating activities	127	97
Additions to PP&E	(70)	(100)
Other	1	-
Cash flows used for investing activities	(69)	(100)
Dividend payments and stock repurchases	(37)	(35)
Changes in borrowings	(4)	6
Cash flows used for financing activities	(41)	(29)

EBITDA BEFORE ITEMS*

1Q'16 vs. 4Q'15 (in millions of dollars)



* Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to the Analyst Corner of the IR section of the website).

PULP AND PAPER SEGMENT

(in millions of dollars)

	1Q'16	vs. 4Q'15	vs. 1Q'15
Sales	\$1,085	↓ 2%	↓ 5%
EBITDA before items *	\$115	↓ \$65	↓ \$53

- Results affected by higher planned maintenance and related costs
- Closed paper machine at Ashdown mill, reducing annual paper capacity by 364,000 tons
- Price increases announced for softwood pulp and several uncoated freesheet grades
- Ashdown fluff conversion project expected to be on time, on budget

* Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to the Analyst Corner of the IR section of the website).

PULP AND PAPER SEGMENT

PAPER *(in millions of dollars)*

	1Q'16	vs. 4Q'15	vs. 1Q'15
Sales	\$844	↓ 1%	↓ 5%
EBITDA before items *	\$109	↓ \$26	↓ \$23
	1Q'16	vs. 4Q'15	vs. 1Q'15
Shipments <i>(manufactured, in thousands of short tons)</i>	786	↓ 1%	↓ 2%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		↑ \$3	↓ \$31

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PULP AND PAPER SEGMENT

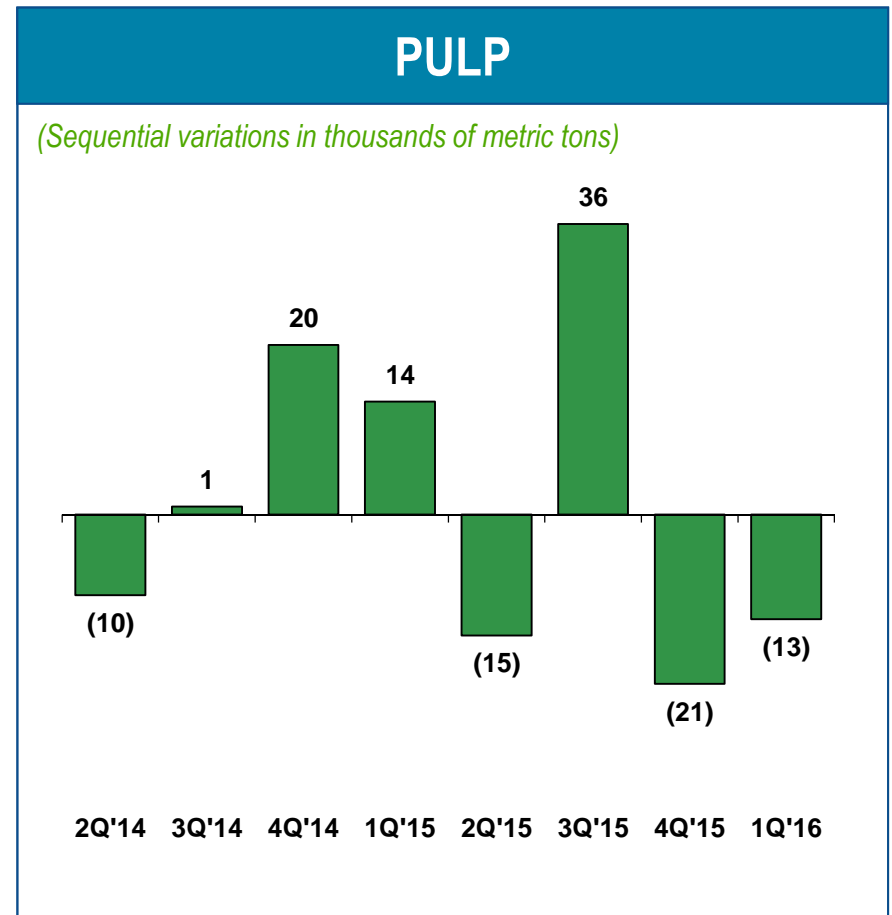
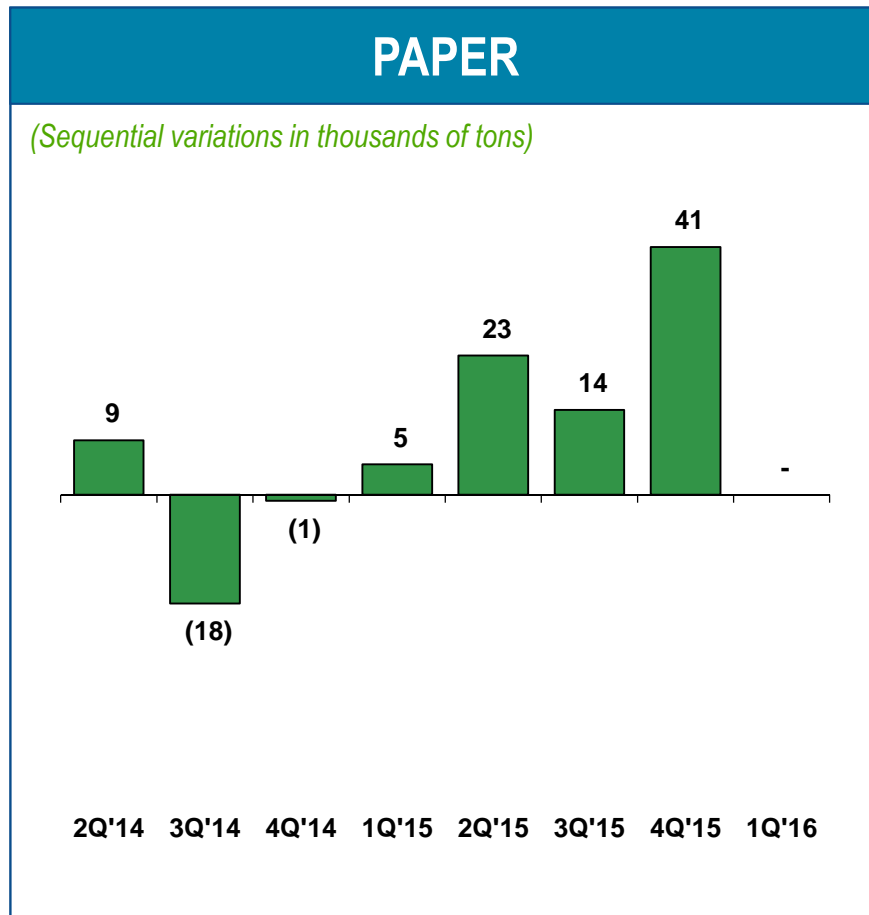
PULP *(in millions of dollars)*

	1Q'16	vs. 4Q'15	vs. 1Q'15
Sales <i>(incl. intersegment sales)</i>	\$241	7%	6%
EBITDA before items *	\$6	\$39	\$30
	1Q'16	vs. 4Q'15	vs. 1Q'15
Shipments <i>(in thousands of ADMT)</i>	369	4%	5%
Transaction prices <i>(US\$ / ADMT – net, all regions)</i>		\$20	\$81

* Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to the Analyst Corner of the IR section of the website).







PULP AND PAPER SEGMENT

INVENTORIES



PERSONAL CARE SEGMENT

(in millions of dollars)

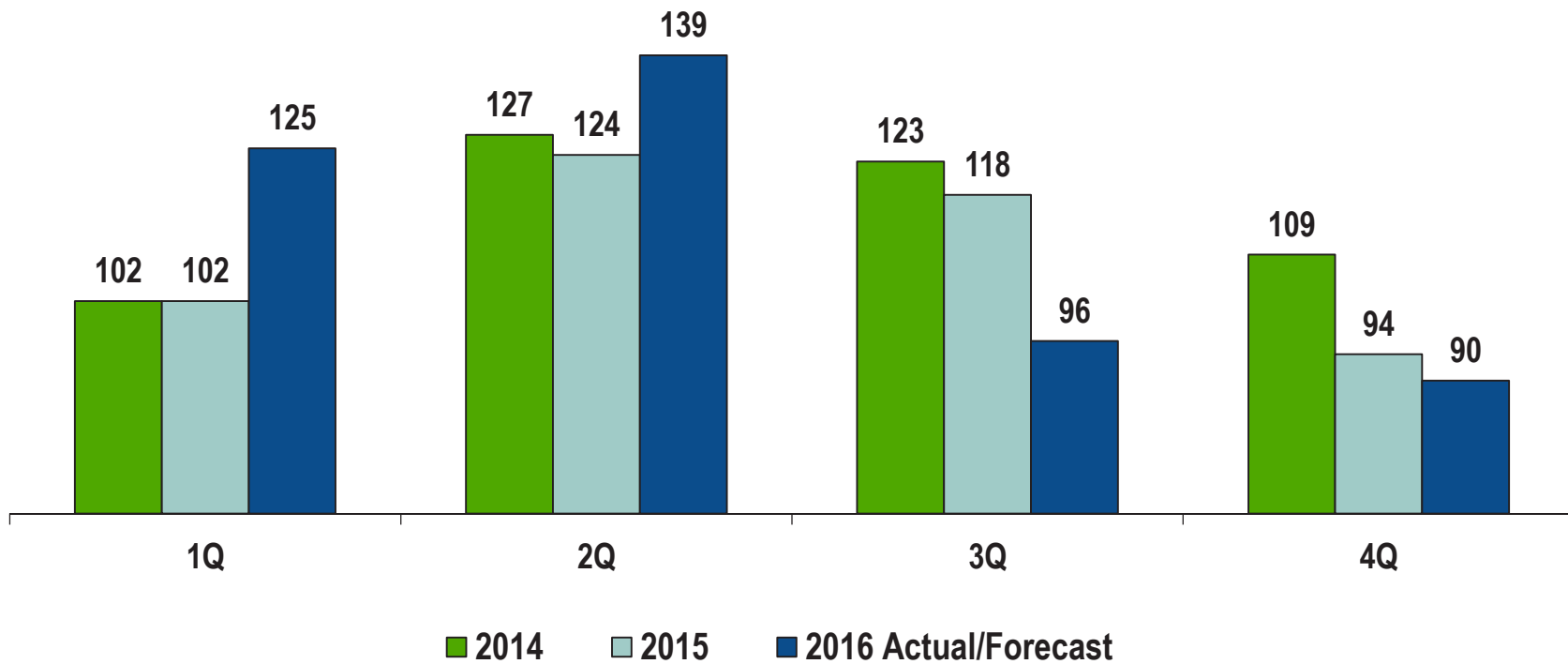
	1Q'16	vs. 4Q'15	vs. 1Q'15
Sales	\$216	 2%	 1%
EBITDA before items*	\$30	 \$2	 \$3
Same Currency Sales (@4Q'15 FX rate)	\$215	 3%	-
Same Currency Sales (@1Q'15 FX rate)	\$218	-	

- EBITDA before items* increased 11% when compared to same quarter last year
- Began delivering on new sales growth wins at quarter-end; included the successful launch of a partner brand and the ramping up of volume for a major account
- Secured some additional wins and retained two existing key accounts that were up for bid

*Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to the Analyst Corner of the IR section of the website).

MAINTENANCE COSTS*

(in millions of dollars)



* Total maintenance costs includes planned maintenance, maintenance over \$100k outside of planned shutdown period, and day-to-day maintenance expenses in Pulp and Paper.

OUTLOOK

- Domtar paper shipments are expected to trend with market demand
- Recently announced price increases should positively impact Pulp and Paper
- Personal Care results should benefit from the new customer wins, market growth and cost savings from the new manufacturing platform
- Costs for raw materials are expected to marginally increase
- The second quarter is expected to be affected by seasonally higher maintenance activity in our pulp and paper business in addition to costs of approximately \$23 million related to the fluff pulp conversion outage at our Ashdown mill



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Appendix

SUPPLEMENTAL SEGMENTED INFORMATION

PULP & PAPER SEGMENT									
<i>(In millions of dollars)</i>	1Q'14	2Q'14	3Q'14	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15	1Q'16
Paper	936	906	914	889	889	860	855	850	844
Pulp (incl. intrasegment sales)	289	309	322	316	301	298	277	301	284
Intrasegment sales – Pulp	(57)	(55)	(50)	(45)	(44)	(48)	(40)	(41)	(43)
Pulp	232	254	272	271	257	250	237	260	241
SALES	1,168	1,160	1,186	1,160	1,146	1,110	1,092	1,110	1,085
Paper	140	142	139	148	132	123	103	135	109
Pulp	32	11	43	47	36	12	47	45	6
EBITDA before items*	172	153	182	195	168	135	150	180	115
Paper Shipments – Manufactured	807	779	777	785	804	783	779	797	786
Paper Shipments – Sourced from 3rd parties	47	42	46	35	35	29	35	28	32
Paper Shipments	854	821	823	820	839	812	814	825	818
Pulp Shipments	318	336	367	370	350	345	333	386	369
PERSONAL CARE SEGMENT									
<i>(In millions of dollars)</i>	1Q'14	2Q'14	3Q'14	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15	1Q'16
SALES	233	234	231	230	218	216	214	221	216
EBITDA before items*	34	29	29	26	27	33	32	32	30
CORPORATE									
<i>(In millions of dollars)</i>	1Q'14	2Q'14	3Q'14	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15	1Q'16
EBITDA before items*	(24)	(7)	(11)	(13)	(15)	(10)	(11)	(8)	(15)

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SENSITIVITY ANALYSIS

(in millions of dollars)

Papers *(Each \$10/ton change in the selling price of the following products)*

Business Papers

Commercial Print & Publishing Papers

Specialty & Packaging Papers

Annualized impact on EBITDA

\$16

\$10

\$3

Pulp – net position *(Each \$10/tonne change in the selling price of the following products)*

Softwood

Fluff

Hardwood

\$11

\$5

-

Foreign exchange

US \$0.01 change in relative value to the Canadian dollar before hedging

US \$0.01 change in relative value to the Euro before hedging

\$9

\$1

Energy



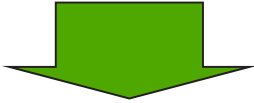
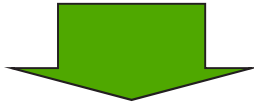
Natural gas: \$0.25/MMBtu change in price before hedging

\$6

MANAGEMENT'S FINANCIAL ASSUMPTIONS

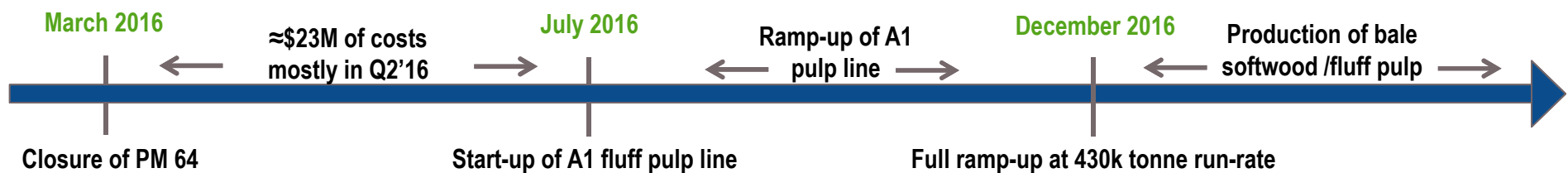
ACTUAL 2015/ ESTIMATES 2016

(in millions of dollars)

	2015A	2016E	Variation
Planned maintenance costs	\$438	\$450	
Negative impact from Ashdown conversion outage	-	\$23	
CAPEX	\$289	\$330-350	
Depreciation and amortization*	\$359	\$345-355	
Interest expense	\$132	\$68-72	
Income tax rate	9%	22-24%	

* Excludes accelerated depreciation of \$77 million in 2015 and approximately \$25 million in 2016 related to the conversion of the Ashdown paper machine to fluff pulp.

ASHDOWN CONVERSION UPDATE



- Negative impact of approximately \$23 million related to the outage at our Ashdown mill
- Fluff pulp line is scheduled to start-up in early Q3'16
- Expected full ramp-up to be completed over a six month period
- Target is to produce 50% fluff output by early 2017

THE FIBER of Domtar

AGILE | CARING | INNOVATIVE



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