

DOMTAR CORPORATION

THIRD QUARTER 2016 EARNINGS CALL

October 27, 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

Third Quarter 2016

- Improved third quarter results driven by better profitability in Pulp and Paper and continued growth in Personal Care
- Meaningful progress with the ramp-up of the Ashdown fluff pulp machine with milestones achieved throughout the quarter
- Announced streamlining measures that will optimize Plymouth mill
- Continued strong sales momentum in Personal Care with year over year sales growth of 8%
- Announced the closing of Home Delivery Incontinent Supplies acquisition, a strategic bolt-on that will support our Personal Care growth strategy going forward

FINANCIAL HIGHLIGHTS

Third Quarter 2016

- Net earnings of \$0.94 per diluted share; earnings before items* of \$1.13 per share
- EBITDA before items* of \$194 million
- Cash flow provided from operating activities of \$95 million
- Capital expenditures of \$83 million
- Dividend payout of \$26 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

3Q'16 vs. 2Q'16 (in millions of dollars)

	2Q'16	3Q'16	
Sales	1,267	1,270	Higher Personal Care sales
Cost of sales	1,013	969	
Depreciation and amortization	87	87	
SG&A	104	107	
Impairment of PP&E	3	5	Accelerated depreciation of Ashdown paper machine
Closure and restructuring costs	21	10	Ashdown conversion and Plymouth optimization related costs
Operating income	39	92	
Interest expense, net	15	17	
Income tax expense	6	16	
Net earnings	18	59	

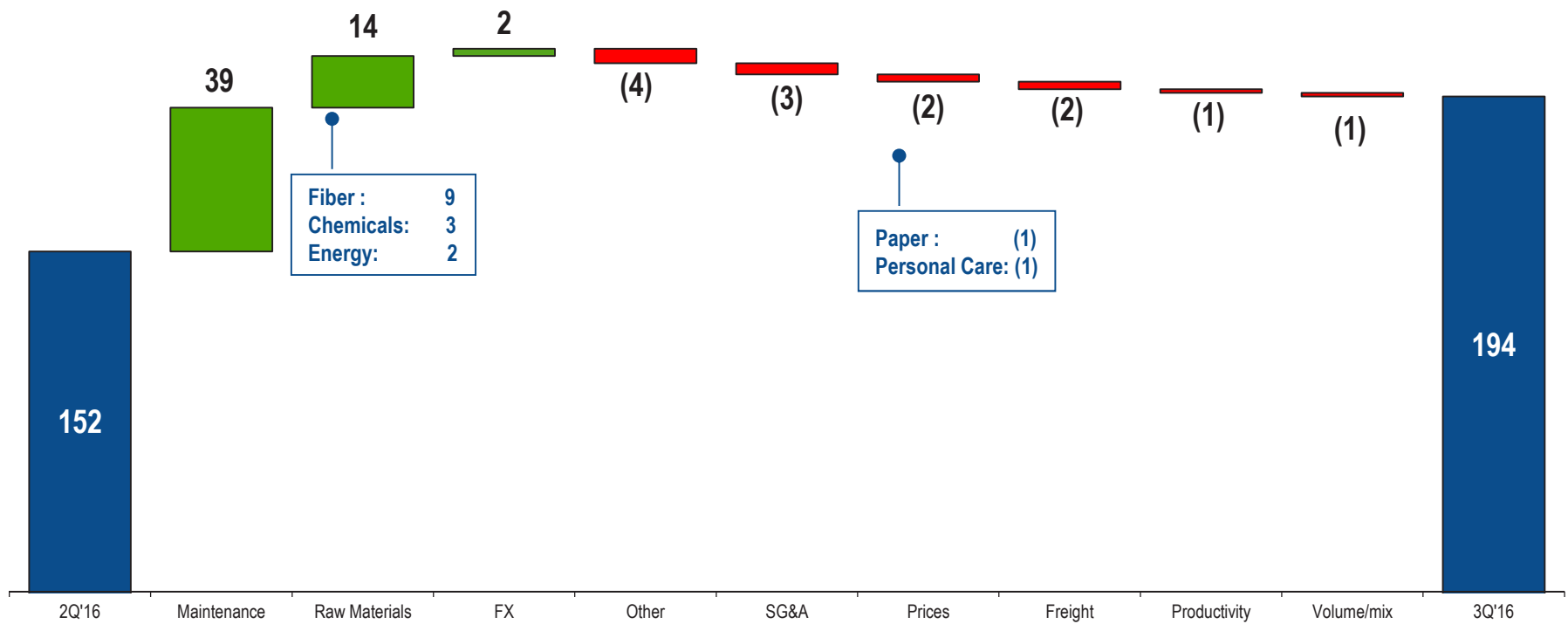
CASH FLOW STATEMENT

3Q'16 vs. 3Q'15 *(in millions of dollars)*

	3Q'15	3Q'16
Net earnings	11	59
Depreciation and amortization	89	87
Deferred income taxes and tax uncertainties	(18)	11
Impairment of PP&E	20	5
Changes in assets and liabilities		
Changes in working capital	(41)	(57)
Pension expense over contribution	(1)	(13)
Other	7	3
Cash flows provided from operating activities	67	95
Additions to PP&E	(66)	(83)
Proceeds from disposals of PP&E	28	-
Other	-	1
Cash flows used for investing activities	(38)	(82)
Dividend payments and stock repurchases	(45)	(26)
Changes in borrowings	(62)	71
Other	-	(2)
Cash flows (used for) provided from financing activities	(107)	43

EBITDA BEFORE ITEMS*


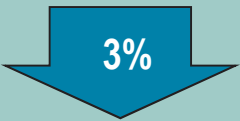

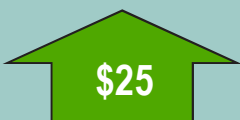
3Q'16 vs. 2Q'16 (in millions of dollars)



* 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)

	3Q'16	vs. 2Q'16	vs. 3Q'15
Sales	\$1,054		
EBITDA before items *	\$175		

- Lower planned maintenance downtime resulted in higher pulp productivity and lower unit costs
- Average cost per ton of slush and dry pulp production at lowest level in recent years
- Lack-of-order downtime totaling 39,000 tons in paper
- Continuous improvement and reliability programs driving strong execution and operating efficiencies

* 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)*

	3Q'16	vs. 2Q'16	vs. 3Q'15
Sales	\$810	↓ 1%	↓ 5%
EBITDA before items *	\$140	↑ \$26	↑ \$37
	3Q'16	vs. 2Q'16	vs. 3Q'15
Shipments <i>(manufactured, in thousands of short tons)</i>	744	↓ 1%	↓ 4%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		↓ \$1	↓ \$12

* 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

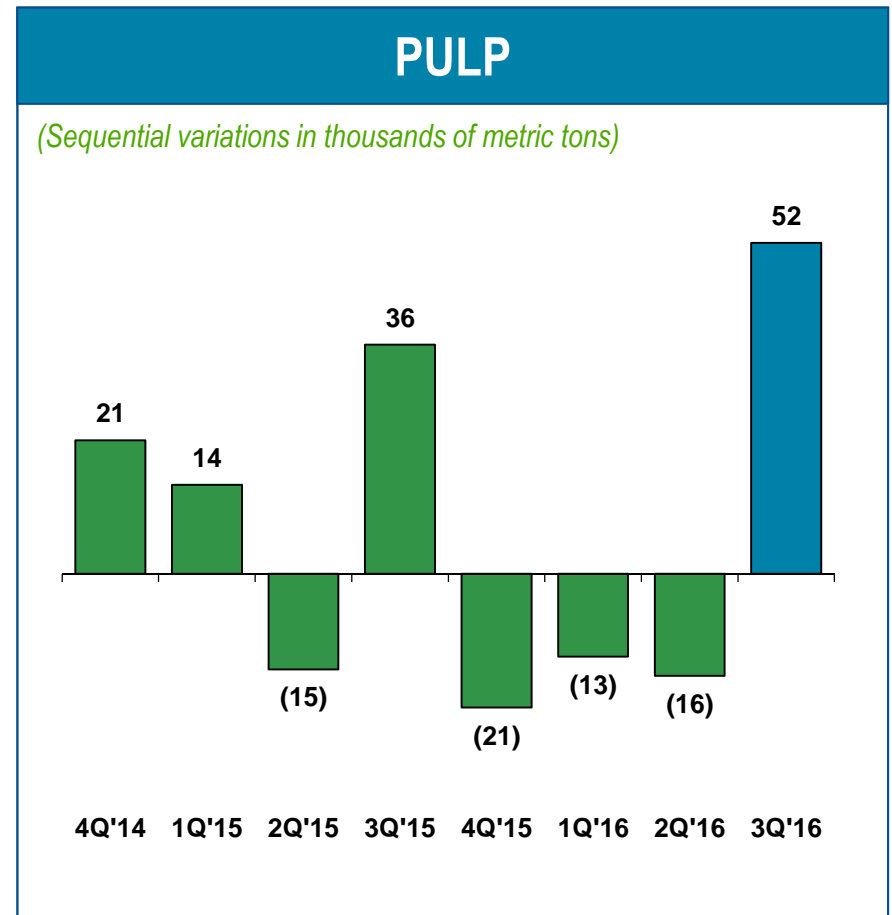
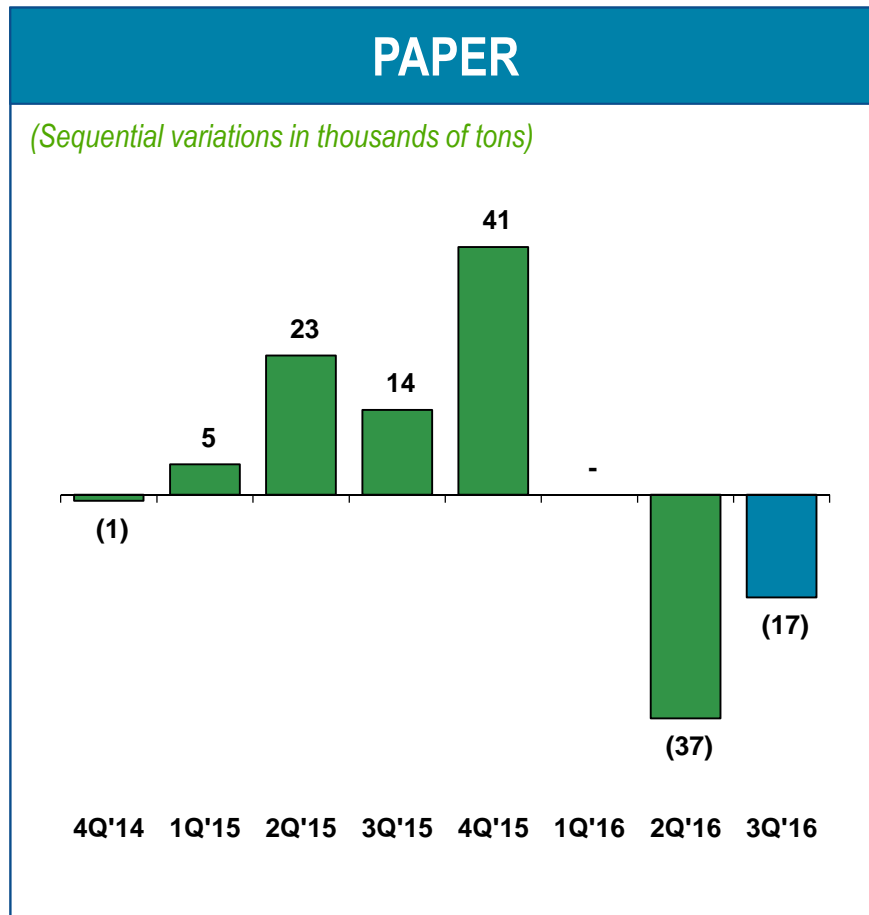
PULP *(in millions of dollars)*

	3Q'16	vs. 2Q'16	vs. 3Q'15
Sales <i>(incl. intersegment sales)</i>	\$244	3%	3%
EBITDA before items *	\$35	\$18	\$12
	3Q'16	vs. 2Q'16	vs. 3Q'15
Shipments <i>(in thousands of ADMT)</i>	369	3%	11%
Transaction prices <i>(US\$ / ADMT – net, all regions)</i>		\$2	\$44

* 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)

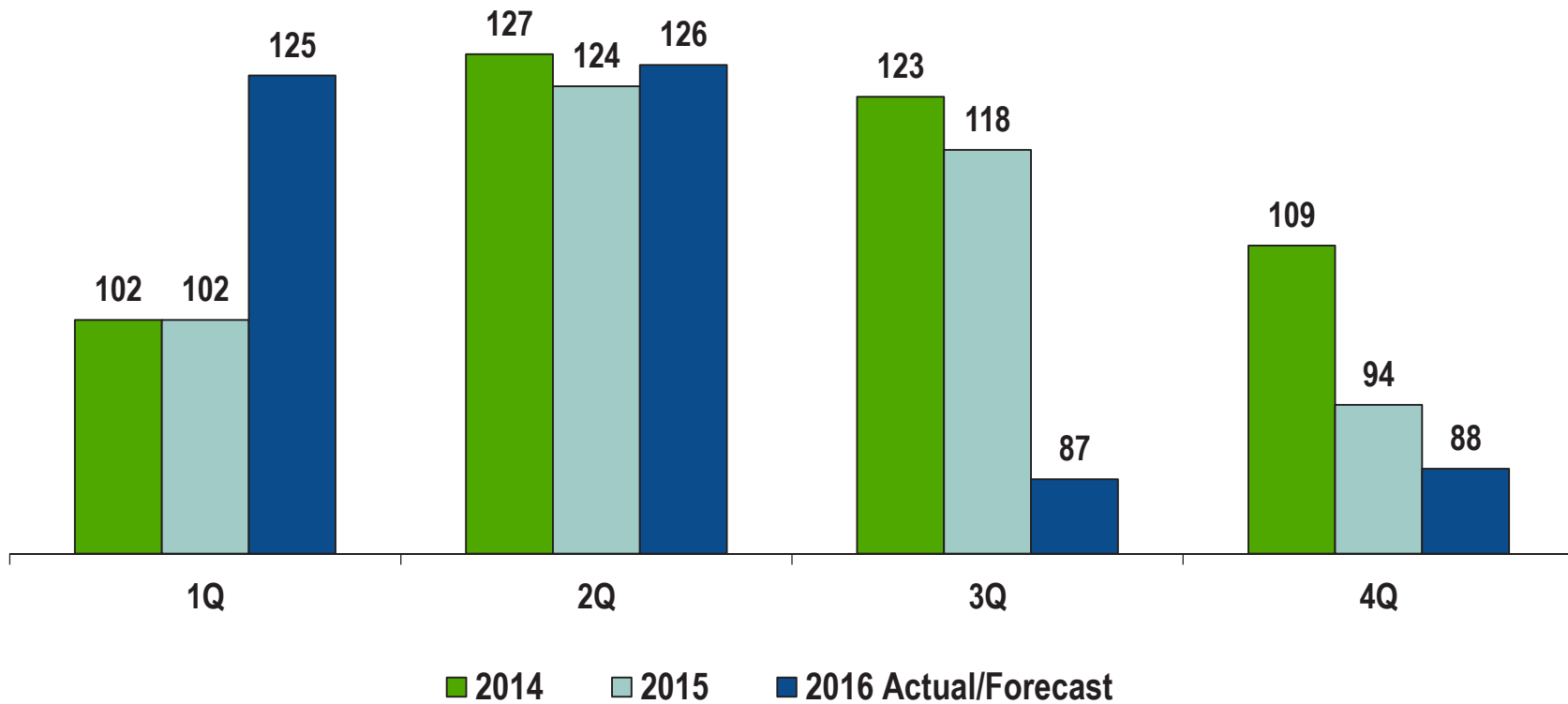
	3Q'16	vs. 2Q'16	vs. 3Q'15
Sales	\$231	1%	8%
EBITDA before items*	\$31	\$1	\$1
Same Currency Sales (@2Q'16FX rate)	\$232	2%	-
Same Currency Sales (@3Q'15 FX rate)	\$231	-	8%

- Strong sales momentum with year over year sales growth of 8%
- Strong sales quarter in North America; higher adult incontinence and baby diaper volume drive 12% year over year sales volume growth
- Accelerated growth in pull-up and bladder control categories in Europe
- Closed the acquisition of Home Delivery Incontinent Supplies

*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

- The fourth quarter will be negatively impacted by the usual seasonality and mix in paper
- Input costs are expected to be higher, notably energy and chemicals, due to seasonally higher usage and prices
- Fiber costs in the U.S. South should be higher due to wet weather following Hurricane Matthew
- We are optimistic with long-term market dynamics in softwood and fluff but we remain cautious on the mid-term outlook
- Personal Care results are expected to continue to benefit from underlying market growth, cost savings and productivity improvements from our new manufacturing platform



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Appendix

SUPPLEMENTAL SEGMENTED INFORMATION

PULP & PAPER SEGMENT									
<i>(In millions of dollars)</i>	3Q'14	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15	1Q'16	2Q'16	3Q'16
Paper	914	889	889	860	855	850	844	816	810
Pulp (incl. intrasegment sales)	322	316	301	298	277	301	284	275	277
Intrasegment sales – Pulp	(50)	(45)	(44)	(48)	(40)	(41)	(43)	(37)	(33)
Pulp	272	271	257	250	237	260	241	238	244
SALES	1,186	1,160	1,146	1,110	1,092	1,110	1,085	1,054	1,054
Paper	139	148	132	123	103	135	109	114	140
Pulp	43	47	36	12	47	45	6	17	35
EBITDA before items*	182	195	168	135	150	180	115	131	175
Paper Shipments – Manufactured	777	785	804	783	779	797	786	752	744
Paper Shipments – Sourced from 3rd parties	46	35	35	29	35	28	32	29	35
Paper Shipments	823	820	839	812	814	825	818	781	779
Pulp Shipments	367	370	350	345	333	386	369	360	369
PERSONAL CARE SEGMENT									
<i>(In millions of dollars)</i>	3Q'14	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15	1Q'16	2Q'16	3Q'16
SALES	231	230	218	216	214	221	216	228	231
EBITDA before items*	29	26	27	33	32	32	30	30	31
CORPORATE									
<i>(In millions of dollars)</i>	3Q'14	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15	1Q'16	2Q'16	3Q'16
EBITDA before items*	(11)	(13)	(15)	(10)	(11)	(8)	(15)	(9)	(12)

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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

\$16

Commercial Print & Publishing Papers

\$10

Specialty & Packaging Papers

\$3

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

Softwood

\$11

Fluff

\$4

Hardwood

\$1

Foreign exchange

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

\$9

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

\$1

Energy

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

\$6

Annualized impact on EBITDA

THE FIBER of Domtar

AGILE | CARING | INNOVATIVE



 Domtar