



# Domtar Corporation

## Second Quarter 2013 Earnings Call

July 25, 2013

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

## FORWARD-LOOKING STATEMENTS / NON-GAAP MEASURES

### 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, 2012 filed with the Securities and Exchange Commission.

### Non-GAAP Financial Measures

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



## OVERVIEW

Second Quarter 2013

- **Busiest maintenance quarter on record with 10 out of our 12 pulp mills taking shutdowns**
- **Operational issues following planned outages resulted in lower productivity in pulp**
- **Paper operations improved with higher paper production quarter over quarter**
- **Announced the acquisition of Associated Hygienic Products**
- **Repurchased over 100 million dollars worth of our equity**



## FINANCIAL HIGHLIGHTS

Second Quarter 2013

- **Net loss of \$1.38 per share, net earnings of \$0.48 per share before items<sup>(\*)</sup>**
- **EBITDA before items<sup>(\*)</sup> of \$135 million dollars**
- **Cash flow provided from operating activities of \$120 million**
- **Capital expenditures of \$62 million**
- **Litigation settlement for \$49 million**
- **Free cash flow<sup>(\*)</sup> of \$58 million**

(\*) Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com).



# EARNINGS STATEMENT

## 2Q'13 vs. 1Q'13

(In millions of dollars)

	1Q'13	2Q'13	Chg	
<b>Sales</b>	<b>1,345</b>	<b>1,312</b>	<b>(33)</b>	Lower paper and pulp shipments
Cost of sales	1,082	1,082	-	
Depreciation and amortization	95	93	(2)	
SG&A	91	95	4	
Impairment and write-down of PP&E & intangibles	10	5	(5)	Impairment of Ariva U.S. fixed assets
Closure and restructuring costs	-	18	18	Pension wind-up and withdrawal
Other operating loss, net	18	49	31	Litigation settlement
<b>Operating income (loss)</b>	<b>49</b>	<b>(30)</b>	<b>(79)</b>	
Interest expense, net	25	21	(4)	
Income tax benefit	(22)	(5)	17	
Equity loss, net of taxes	1	-	(1)	
<b>Net earnings (loss)</b>	<b>45</b>	<b>(46)</b>	<b>(91)</b>	



# CASH FLOW STATEMENT

## 2Q'13 vs. 2Q'12

(In millions of dollars)

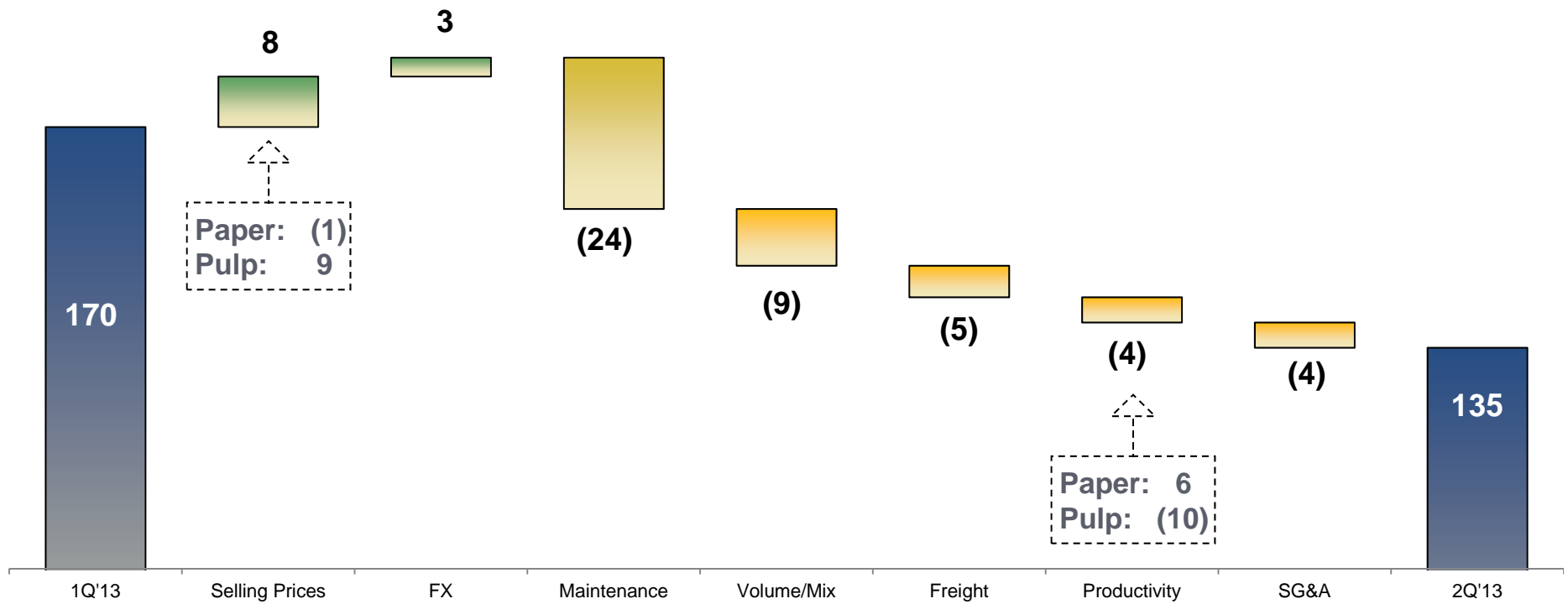
	2Q'12	2Q'13
<b>Net earnings (loss)</b>	<b>59</b>	<b>(46)</b>
Depreciation, amortization & impairment	96	98
Deferred income taxes and tax uncertainties	5	(1)
<b>Changes in assets and liabilities</b>		
Changes in working capital	13	45
Pension expense over contribution	1	21
Other	1	3
<b>Cash flow provided from operating activities</b>	<b>175</b>	<b>120</b>
Additions to PP&E	(76)	(62)
Acquisition of business, net of cash acquired	(61)	(11)
Proceeds from disposals of PP&E & other	(2)	1
<b>Cash flows used for investing activities</b>	<b>(139)</b>	<b>(72)</b>
Dividend payments and stock repurchase, net	(82)	(115)
Net changes in bank indebtedness & long-term debt repayment	8	(15)
Other	(1)	1
<b>Cash flows used for financing activities</b>	<b>(75)</b>	<b>(129)</b>



# EBITDA BEFORE ITEMS<sup>(\*)</sup>

2Q'13 vs. 1Q'13

(In millions of dollars)



(\*) Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com).



## BUSINESS SEGMENTS

2Q'13 vs. 1Q'13

*(In millions of dollars, unless otherwise noted)*

2Q'13

vs 1Q'13

vs 2Q'12

### Sales

Pulp and Paper

\$1,097

2%

3%

Distribution

\$153

6%

11%

Personal Care

\$108

3%

1%

### EBITDA before items<sup>(\*)</sup>

Pulp and Paper

\$121

\$32

\$63

Distribution

(\$3)

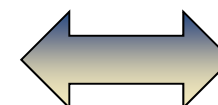
\$3

\$3

Personal Care

\$18

\$1



(\*) Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com)





# PULP AND PAPER SEGMENT

## Uncoated Freesheet Paper

(In millions of dollars, unless otherwise noted)

	2Q'13	vs 1Q'13	vs 2Q'12
<b>Sales</b> <i>(incl. sales to Distribution)</i>	\$860	2%	3%
<b>EBITDA before items<sup>(*)</sup></b>	\$128	\$3	\$40
	2Q'13	vs 1Q'13	vs 2Q'12
<b>Shipments</b> <i>(in tons, including to Distribution)</i>	801	3%	2%
<b>Transaction prices</b> <i>(US\$ / ton - net, all regions)</i>		\$1	\$32

(\*) Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com).



# PULP AND PAPER SEGMENT

## Pulp

(In millions of dollars, unless otherwise noted)

	2Q'13	vs 1Q'13	vs 2Q'12
<b>Sales</b> <i>(incl. intrasegment sales)</i>	\$295	1%	1%
<b>EBITDA before items<sup>(*)</sup></b>	(\$7)	\$29	\$23
	2Q'13	vs 1Q'13	vs 2Q'12
<b>Shipments</b> <i>(in ADMT)</i>	344	8%	7%
<b>Transaction prices</b> <i>(US\$ / ADMT - net, all regions)</i>		\$27	\$10

(\*) Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com).

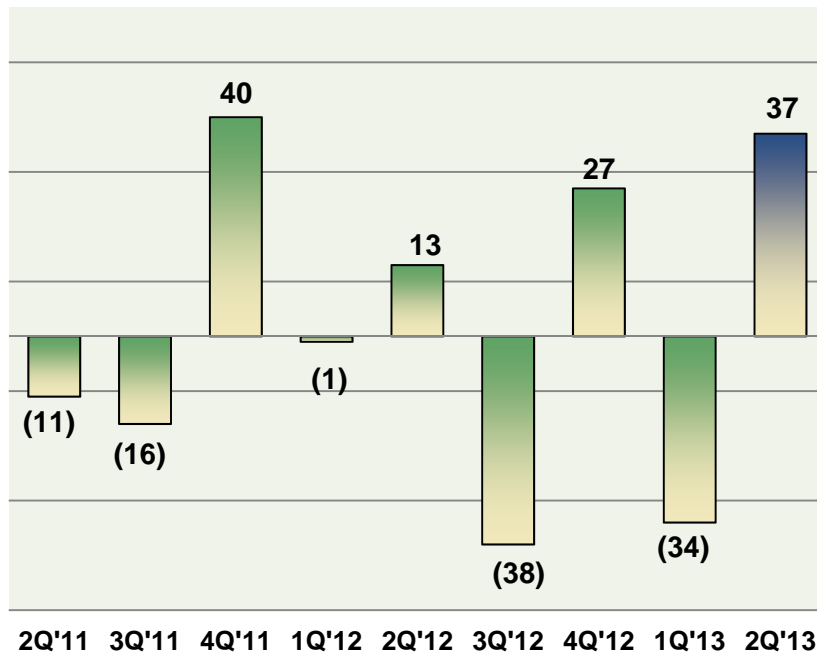


# PULP AND PAPER SEGMENT

## Inventories

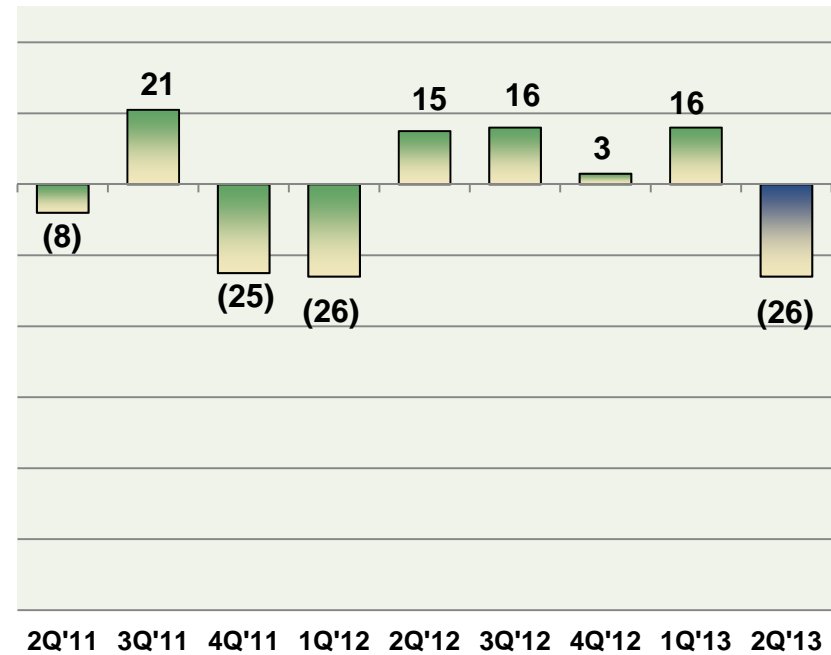
### Paper

*(Sequential variations in thousands of tons)*



### Pulp

*(Sequential variations in thousands of metric tons)*

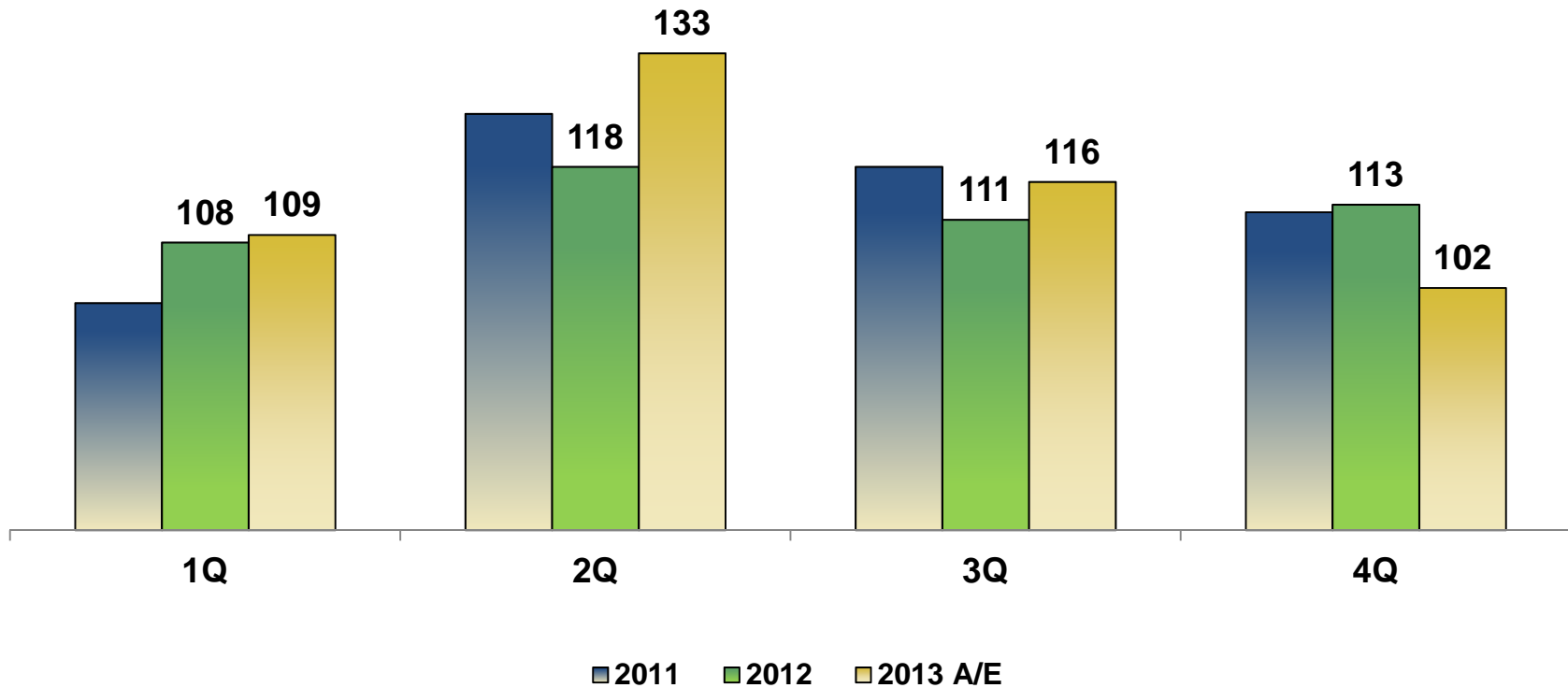




# MAINTENANCE COSTS<sup>(1)</sup>

## Actual 2011-2012 and Actual/Estimates 2013

(In millions of dollars)



(<sup>1</sup>)Total maintenance costs includes planned maintenance, maintenance over \$100k outside of planned shutdown period, and day-to-day maintenance expenses.



# MANAGEMENT'S FINANCIAL ASSUMPTIONS

Estimates 2013

*(In millions of dollars, unless otherwise noted)*

## Selected Financial Assumptions

	Original	Revised	Variation
<b>CAPEX</b>	\$260-280	\$260-280	
<b>Contribution to pension fund over pension expense</b>	\$0-30	\$0-30	
<b>Depreciation and amortization</b>	\$380-390	\$380-390	
<b>Interest expense</b>	\$90	\$90	
<b>Income tax rate</b>	28-30%	28-30%	

## OUTLOOK



- **Earnings from pulp are expected to benefit from lower planned maintenance costs, higher productivity and higher sales volumes**
- **Earnings in paper are expected to benefit from higher productivity**
- **The AHP acquisition will be accretive to the Personal Care segment's earnings in the third quarter of 2013**
- **Input costs are expected to stay relatively stable for the second half of 2013**

# THE FIBER *of* Domtar

AGILE | CARING | INNOVATIVE



  
Domtar



## SALES AND EBITDA BEFORE ITEMS\* BY SEGMENT

### PULP & PAPER SEGMENT

<i>(In millions of dollars)</i>	1Q'12	2Q'12	3Q'12	4Q'12	1Q'13	2Q'13
Paper (incl. sales to Distribution)	937	886	891	858	880	860
Pulp (incl. intrasegment sales)	308	297	313	289	292	295
Intrasegment sales – Pulp	(54)	(51)	(51)	(48)	(49)	(58)
Pulp	254	246	262	241	243	237
<b>SALES</b>	<b>1,191</b>	<b>1,132</b>	<b>1,153</b>	<b>1,099</b>	<b>1,123</b>	<b>1,097</b>
Paper	198	168	177	169	131	128
Pulp	5	16	16	(4)	22	(7)
<b>EBITDA before items<sup>(*)</sup></b>	<b>203</b>	<b>184</b>	<b>193</b>	<b>165</b>	<b>153</b>	<b>121</b>

### DISTRIBUTION SEGMENT

<i>(In millions of dollars)</i>	1Q'12	2Q'12	3Q'12	4Q'12	1Q'13	2Q'13
<b>SALES</b>	<b>189</b>	<b>172</b>	<b>167</b>	<b>157</b>	<b>162</b>	<b>153</b>
<b>EBITDA before items<sup>(*)</sup></b>	<b>-</b>	<b>-</b>	<b>(4)</b>	<b>(1)</b>	<b>-</b>	<b>(3)</b>

### PERSONAL CARE SEGMENT

<i>(In millions of dollars)</i>	1Q'12	2Q'12	3Q'12	4Q'12	1Q'13	2Q'13
<b>SALES</b>	<b>70</b>	<b>107</b>	<b>111</b>	<b>111</b>	<b>111</b>	<b>108</b>
<b>EBITDA before items<sup>(*)</sup></b>	<b>12</b>	<b>18</b>	<b>19</b>	<b>18</b>	<b>19</b>	<b>18</b>

(\*) Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com)