



# Domtar Corporation

## Third Quarter 2013 Earnings Call

October 24, 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**

**Third Quarter 2013**

- **Improved financial performance in pulp and paper and continued growth in personal care earnings**
- **Announced price increases for several uncoated freesheet grades**
- **Completed the acquisition of Associated Hygienic Products**
- **Closed the sale of the Ariva U.S. business**

## FINANCIAL HIGHLIGHTS

Third Quarter 2013



- **Net earnings of \$0.82 per share, earnings before items<sup>(\*)</sup> of \$1.25 per share**
- **EBITDA before items<sup>(\*)</sup> of \$163 million dollars**
- **Cash flow provided from operating activities of \$104 million**
- **Capital expenditures of \$62 million**
- **Free cash flow<sup>(\*)</sup> of \$42 million**

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



# EARNINGS STATEMENT

## 3Q'13 vs. 2Q'13

(In millions of dollars)

	2Q'13	3Q'13	Chg	
<b>Sales</b>	<b>1,312</b>	<b>1,375</b>	<b>63</b>	Full quarter of AHP sales
Cost of sales	1,082	1,116	34	
Depreciation and amortization	93	93	-	
SG&A	95	95	-	
Impairment and write-down of PP&E & intangibles	5	-	(5)	
Closure and restructuring costs	18	-	(18)	
Other operating loss, net	49	22	(27)	Loss on sale of Ariva U.S. business in Q3'13
<b>Operating income (loss)</b>	<b>(30)</b>	<b>49</b>	<b>79</b>	
Interest expense, net	21	21	-	
Income tax (benefit) expense	(5)	1	6	
<b>Net earnings (loss)</b>	<b>(46)</b>	<b>27</b>	<b>73</b>	

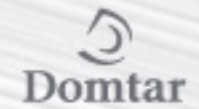


# CASH FLOW STATEMENT

## 3Q'13 vs. 3Q'12

(In millions of dollars)

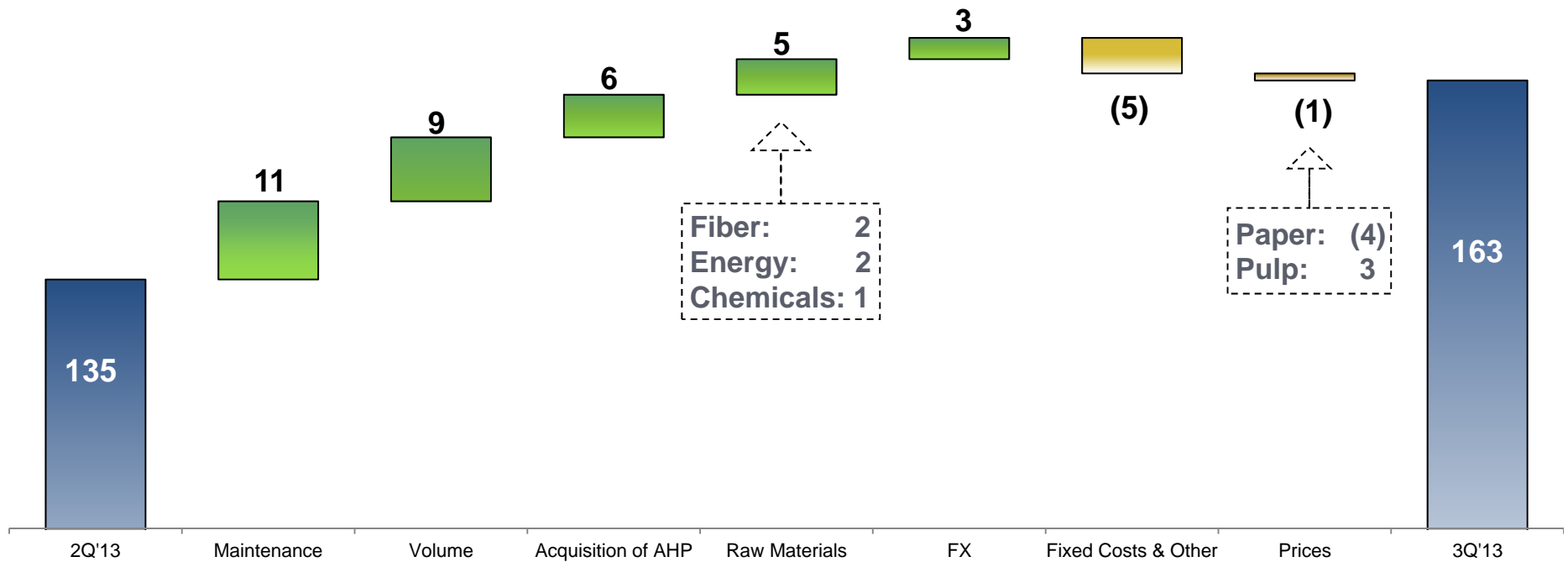
	3Q'12	3Q'13
<b>Net earnings</b>	<b>66</b>	<b>27</b>
Depreciation, amortization & impairment	96	93
Deferred income taxes and tax uncertainties	5	(9)
Net losses on disposals of PPE and sale of business	-	19
<b>Changes in assets and liabilities</b>		
Changes in working capital	41	(29)
Pension expense over contribution	2	(3)
Other	(4)	6
<b>Cash flow provided from operating activities</b>	<b>206</b>	<b>104</b>
Additions to PP&E	(66)	(62)
Acquisition of business, net of cash acquired	-	(276)
Proceeds from disposals of PP&E & other	(1)	45
<b>Cash flows used for investing activities</b>	<b>(67)</b>	<b>(293)</b>
Dividend payments and stock repurchase, net	(59)	(55)
Net changes in bank indebtedness & long-term debt	240	2
Other	(3)	1
<b>Cash flows provided from (used for) financing activities</b>	<b>178</b>	<b>(52)</b>



# EBITDA BEFORE ITEMS\*

3Q'13 vs. 2Q'13

(In millions of dollars)



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

# PULP AND PAPER SEGMENT



(In millions of dollars, unless otherwise noted)

	3Q'13	vs 2Q'13	vs 3Q'12
Sales <sup>(*)</sup>	\$1,204		6%
EBITDA before items <sup>(*)(**)</sup>	\$145	\$27	\$44

- Lower level of maintenance downtime in pulp resulting in better productivity
- Completed the reconfiguration of the Kamloops pulp mill
- Announced price increases covering a number of paper grades

(\*) The historical results of the former Distribution segment have been reclassified under the Pulp and Paper segment  
 (\*\*) Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com)





# PULP AND PAPER SEGMENT

## Paper

(In millions of dollars, unless otherwise noted)

	3Q'13	vs 2Q'13	vs 3Q'12
<b>Sales<sup>(*)</sup></b>	\$963	1%	5%
<b>EBITDA before items<sup>(*)(**)</sup></b>	\$116	\$9	\$57
<b>Shipments</b> <i>(manufactured, in tons)</i>	814	2%	1%
<b>Transaction prices</b> <i>(US\$ / ton - net, all regions)</i>		\$5	\$30

(\*) The historical results of the former Distribution segment have been reclassified under the Pulp and Paper segment  
 (\*\*) 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)

	3Q'13	vs 2Q'13	vs 3Q'12
<b>Sales</b> <i>(incl. intrasegment sales)</i>	\$294		
<b>EBITDA before items<sup>(*)</sup></b>	\$29		
	3Q'13	vs 2Q'13	vs 3Q'12
<b>Shipments</b> <i>(in ADMT)</i>	352		
<b>Transaction prices</b> <i>(US\$ / ADMT - net, all regions)</i>			

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

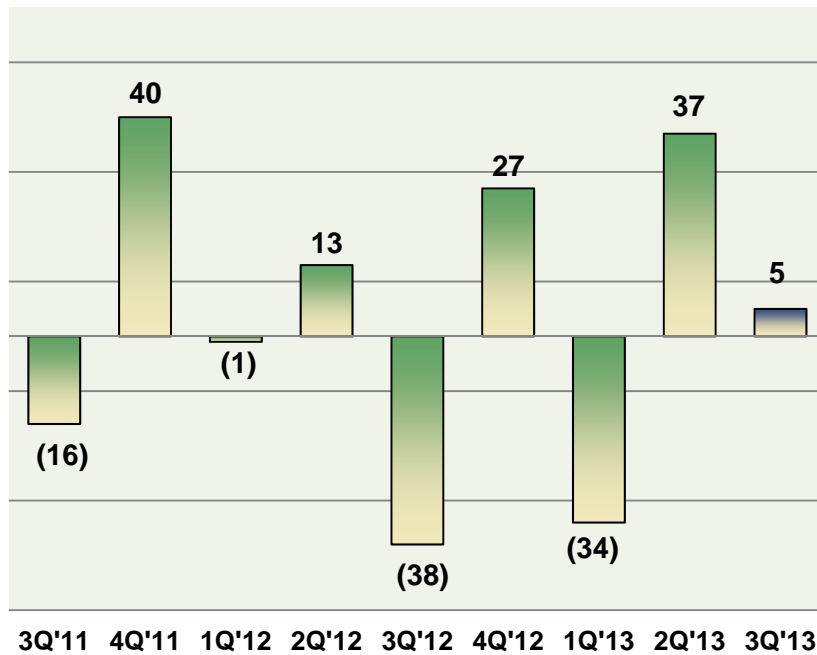
# PULP AND PAPER SEGMENT

## Inventories



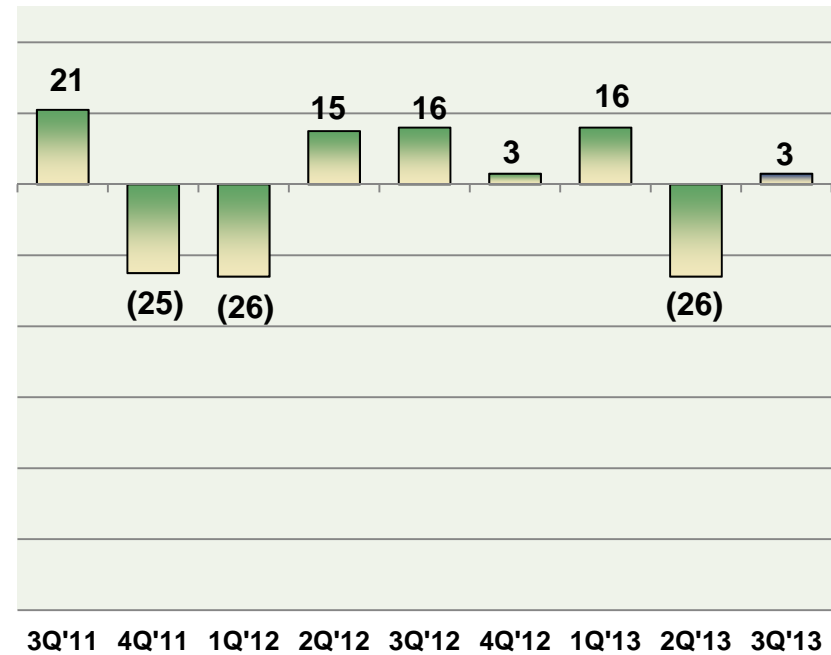
### Paper

*(Sequential variations in thousands of tons)*



### Pulp

*(Sequential variations in thousands of metric tons)*



# PERSONAL CARE SEGMENT



(In millions of dollars, unless otherwise noted)

	3Q'13	vs 2Q'13	vs 3Q'12
Sales	\$175	 62%	 58%
EBITDA before items <sup>(*)</sup>	\$22	 \$4	 \$3

- Acquisition and integration of Associated Hygienic Products (“AHP”)
- Inventory adjustment at a large retail customer

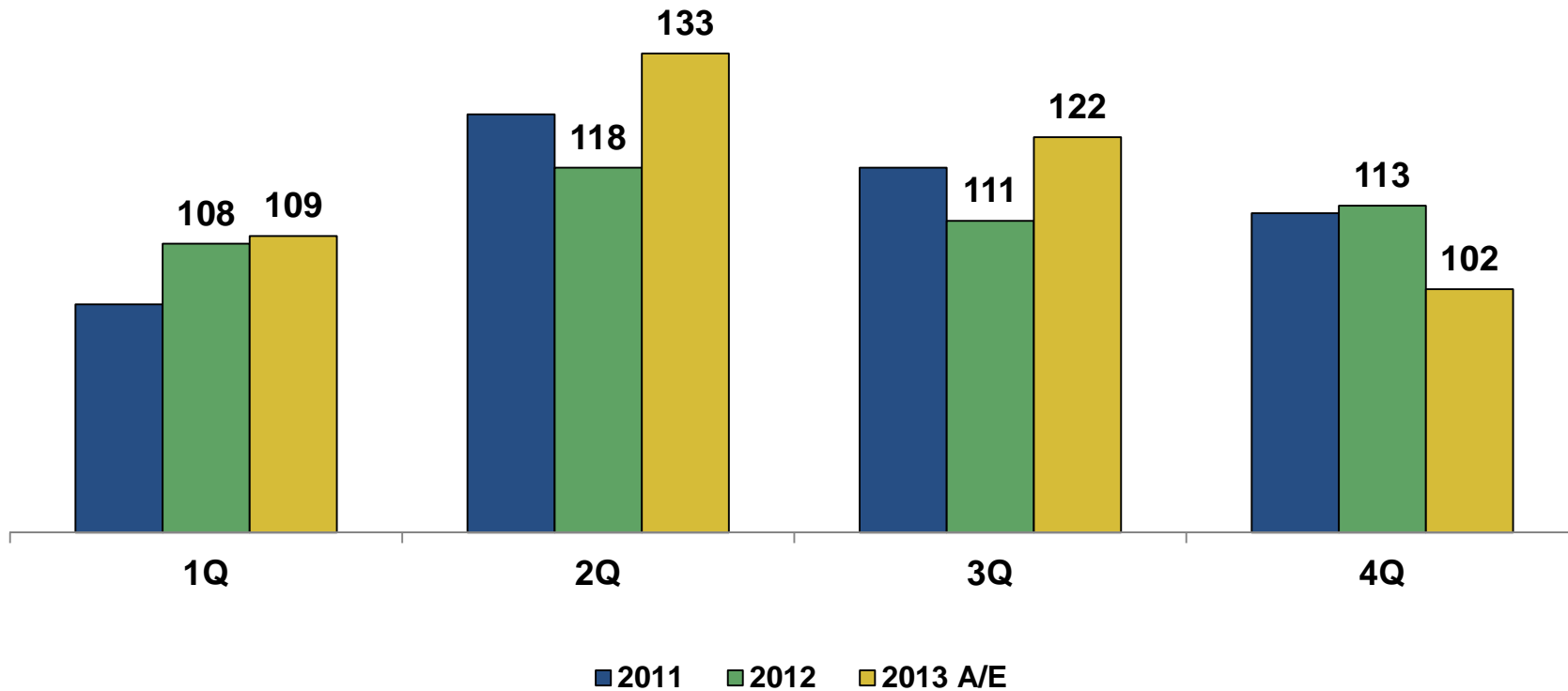
(\*) Non-GAAP financial measure. Refer to reconciliation available at [www.domtar.com](http://www.domtar.com)



# 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.

## OUTLOOK



- **Pulp should benefit from accelerating momentum in global demand, notably in China**
- **Recently announced price increases for several paper grades expected to positively impact 4<sup>th</sup> quarter results**
- **Higher input costs due to higher usage in the winter months**
- **Lower paper sales volumes due to seasonality**

# THE FIBER *of* Domtar

AGILE | CARING | INNOVATIVE



  
Domtar



## SUPPLEMENTAL SEGMENTED INFORMATION

### PULP & PAPER SEGMENT

<i>(In millions of dollars)</i>	2Q'12	3Q'12	4Q'12	1Q'13	2Q'13	3Q'13
Paper	1,015	1,018	977	995	971	963
Pulp (incl. intrasegment sales)	297	313	289	292	295	294
Intrasegment sales – Pulp	(51)	(51)	(48)	(49)	(58)	(53)
Pulp	246	262	241	243	237	241
<b>SALES<sup>(*)</sup></b>	<b>1,261</b>	<b>1,280</b>	<b>1,218</b>	<b>1,238</b>	<b>1,208</b>	<b>1,204</b>
Paper	168	173	168	131	125	116
Pulp	16	16	(4)	22	(7)	29
<b>EBITDA before items<sup>(*)(**)</sup></b>	<b>184</b>	<b>189</b>	<b>164</b>	<b>153</b>	<b>118</b>	<b>145</b>
Paper Shipments – Manufactured	819	826	805	828	801	814
Paper Shipments - Sourced from 3 <sup>rd</sup> parties	92	91	78	83	85	73
<b>PAPER SHIPMENTS</b>	<b>911</b>	<b>917</b>	<b>883</b>	<b>911</b>	<b>886</b>	<b>887</b>
<b>PULP SHIPMENTS</b>	<b>368</b>	<b>415</b>	<b>385</b>	<b>372</b>	<b>344</b>	<b>352</b>
<b>PERSONAL CARE SEGMENT</b>						
<i>(In millions of dollars)</i>	2Q'12	3Q'12	4Q'12	1Q'13	2Q'13	3Q'13
<b>SALES</b>	<b>107</b>	<b>111</b>	<b>111</b>	<b>111</b>	<b>108</b>	<b>175</b>
<b>EBITDA before items<sup>(**)</sup></b>	<b>18</b>	<b>19</b>	<b>18</b>	<b>19</b>	<b>18</b>	<b>22</b>

(\*) The historical results of the former Distribution segment have been reclassified under the Pulp and Paper segment  
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