Domtar Corporation

Third Quarter 2014 Earnings Call

October 23, 2014

(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

Domtar

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, 2013 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 (Refer to the Analyst Corner of the IR section of the website).

OVERVIEW
Third Quarter 2014

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- **Solid results and very strong free cash flow driven by a strong performance in Pulp and Paper**
- **Significant improvement in Pulp due to lower maintenance costs and higher shipments**
- **Stable shipments in Paper with pricing remaining firm in a very competitive environment**
- **Good performance in Personal Care despite some seasonality in our European business and a lower Euro**

FINANCIAL HIGHLIGHTS
Third Quarter 2014

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- **Net earnings of $4.33 per diluted share; earnings before items(*) of $0.94 per share**
- **EBITDA before items(*) of $200 million**
- **Cash flow provided from operating activities of $203 million**
- **Capital expenditures of $56 million**
- **Free cash flow(*) of $147 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'14 vs. 2Q'14

(In millions of dollars)

	2Q'14	3Q'14	Chg
Sales	**1,385**	**1,405**	**20**
Cost of sales	1,108	1,105	(3)
Depreciation and amortization	96	96	-
SG&A	100	99	(1)
Closure and restructuring costs	-	2	2
Other operating loss (income), net	2	(17)	(19)
Operating income	**79**	**120**	**41**
Interest expense, net	26	25	(1)
Income tax expense (benefit)	13	(186)	(199)
Net earnings	**40**	**281**	**241**

Recognition of Alternative Fuel Tax Credits following conclusion of IRS audits

Deferred tax benefit for settlement of IRS audits primarily related to Alternative Fuel Tax Credits

CASH FLOW STATEMENT
3Q'14 vs. 3Q'13

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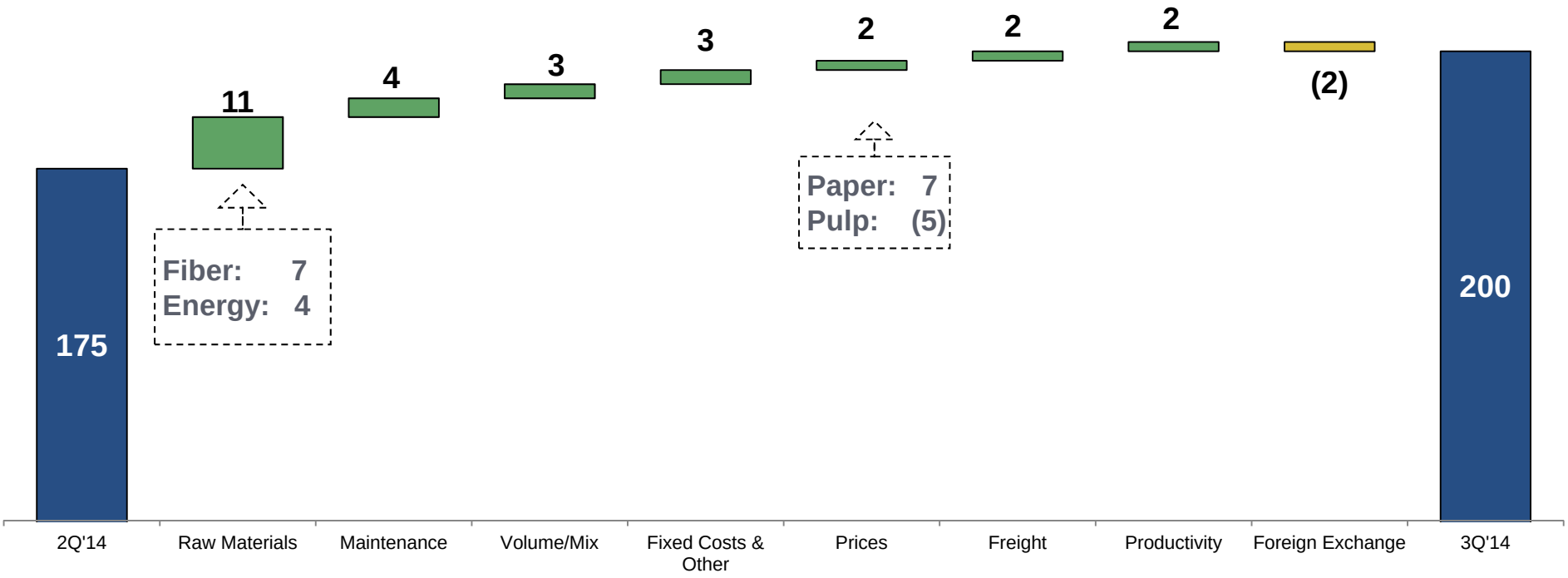
(In millions of dollars)	3Q'13	3Q'14
Net earnings	**27**	**281**
Depreciation & amortization	93	96
Deferred income taxes and tax uncertainties	(9)	(196)
Net losses on disposals of PP&E and sale of business	19	-
Changes in assets and liabilities		
Changes in working capital	(29)	18
Pension expense over contribution	(3)	6
Other	6	(2)
Cash flows provided from operating activities	**104**	**203**
Additions to PP&E	(62)	(56)
Acquisition of businesses, net of cash acquired	(276)	-
Proceeds from disposals of PP&E & other	45	5
Cash flows used for investing activities	**(293)**	**(51)**
Dividend payments and stock repurchases	(55)	(43)
Net changes in bank indebtedness & borrowings	2	(58)
Other	1	-
Cash flows used for financing activities	**(52)**	**(101)**

EBITDA BEFORE ITEMS*

3Q'14 vs. 2Q'14

(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

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(In millions of dollars, unless otherwise noted)

	3Q'14	vs 2Q'14	vs 3Q'13
Sales(*)	$1,186	↑ 2%	↓ 2%
EBITDA before items(*)(**)	$172	↑ $24	↑ $27

- Lower maintenance activity in our pulp mills and lower raw material costs
- Lack-of-order downtime totaling 51 thousand tons of paper; reduced paper inventories by 18 thousand tons
- Made key updates to Xerox® Paper and Specialty Media Line
- Sold five millionth ton of FSC certified paper

(*) 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 (Refer to the Analyst Corner of the IR section of the website)

PULP AND PAPER SEGMENT

Paper

(In millions of dollars, unless otherwise noted)

	3Q'14	vs 2Q'14	vs 3Q'13
Sales(*)	$914	↑ 1%	↓ 5%
EBITDA before items(*)(**)	$131	↓ $7	↑ $15

	3Q'14	vs 2Q'14	vs 3Q'13
Shipments *(manufactured, in tons)*	776	↔	↓ 5%
Transaction prices *(US$ / ton - net, all regions)*		↑ $9	↑ $36

(*) 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 (Refer to the Analyst Corner of the IR section of the website)

PULP AND PAPER SEGMENT

Pulp

(In millions of dollars, unless otherwise noted)

	3Q'14	vs 2Q'14	vs 3Q'13
Sales *(incl. intrasegment sales)*	$322	↑ 4%	↑ 10%
EBITDA before items(*)	$41	↑ $31	↑ $12

	3Q'14	vs 2Q'14	vs 3Q'13
Shipments *(in ADMT)*	367	↑ 9%	↑ 4%
Transaction prices *(US$ / ADMT - net, all regions)*		↓ $12	↑ $35

(*) 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

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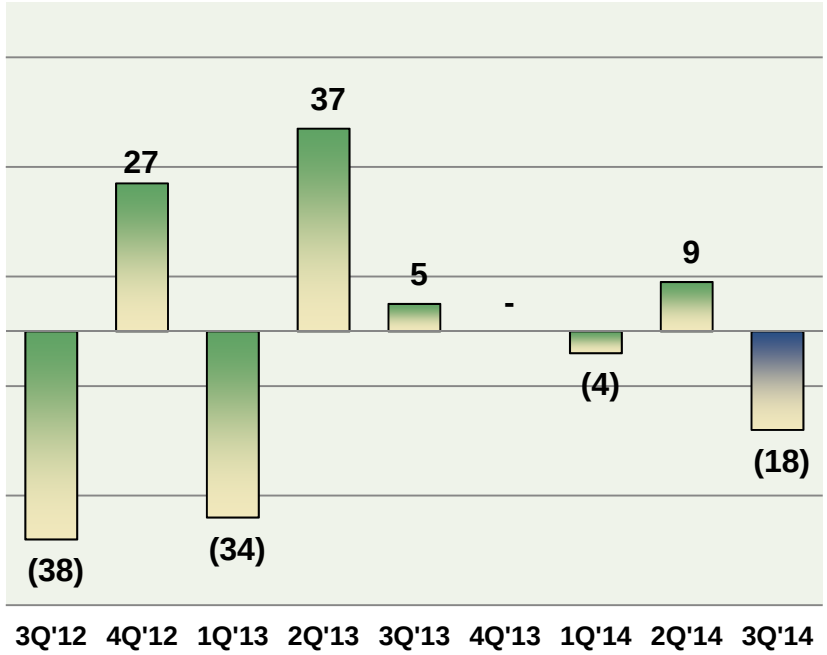
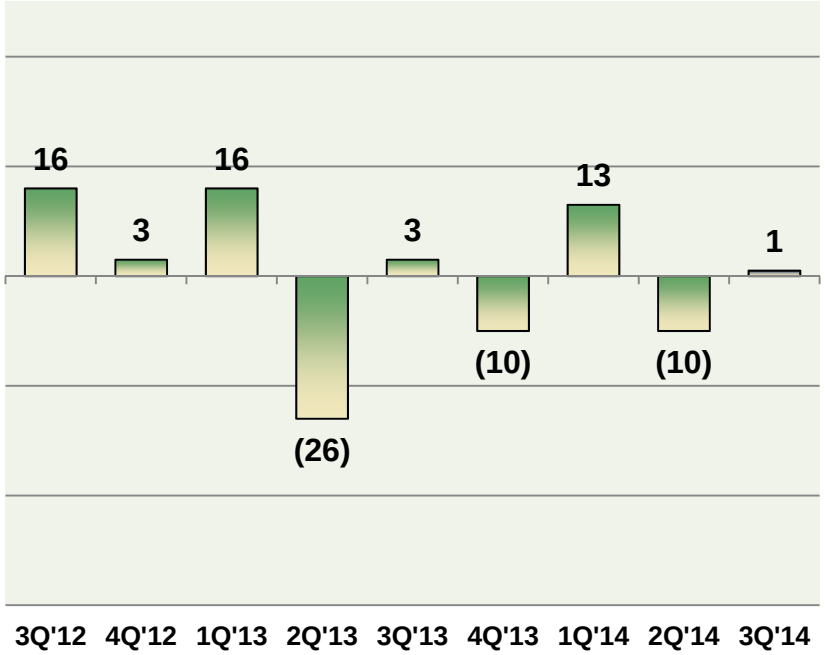
Paper

(Sequential variations in thousands of tons)



Pulp

(Sequential variations in thousands of metric tons)



PERSONAL CARE SEGMENT

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(In millions of dollars, unless otherwise noted)

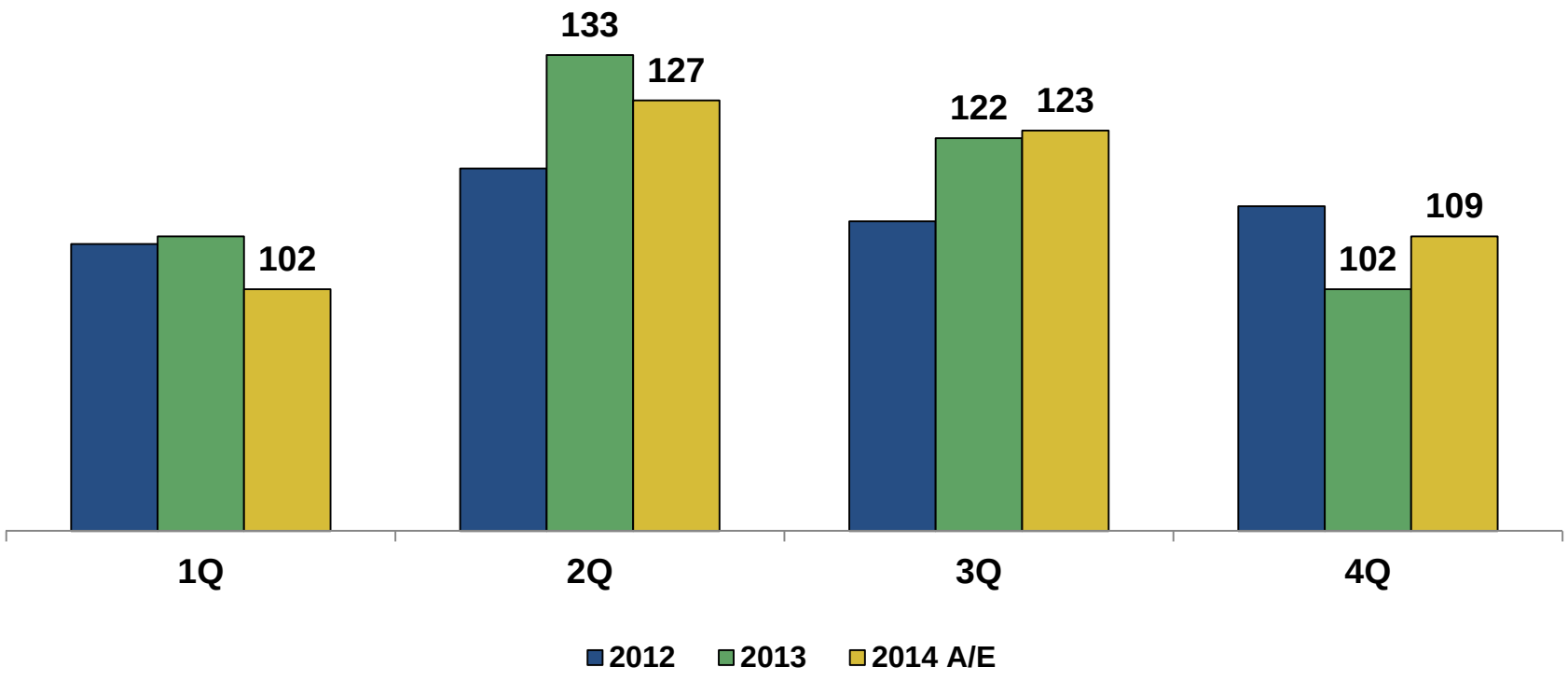
	3Q'14	vs 2Q'14	vs 3Q'13
Sales	$231	↓ 1%	↑ 32%
EBITDA before items(*)	$30	↓ $1	↑ $8

- **Results impacted by seasonality in European business and an unfavorable Euro**
- **Made good progress with the ramp up of newly installed machines and further integrated operational and product improvements**
- **Good volume growth in North American baby and AI business**

(*) 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, unless otherwise noted)



(*) Total maintenance costs includes planned maintenance, maintenance over $100k outside of planned shutdown period, and day-to-day maintenance expenses.

OUTLOOK

- **Our paper shipments are expected to decline in the fourth quarter when compared to the third quarter due largely to seasonality**
- **We will continue to closely monitor our inventory levels and balance our production with our customer demand**
- **We are slightly more cautious on the short-term pulp outlook due to the recent strengthening of the U.S. dollar but we remain optimistic with long-term market dynamics**
- **We expect higher input costs due to increased raw material usage in the winter months**
- **The fourth quarter will benefit from lower maintenance activities in our network**

Appendix

SUPPLEMENTAL SEGMENTED INFORMATION

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PULP & PAPER SEGMENT

(In millions of dollars)	4Q'12	1Q'13	2Q'13	3Q'13	4Q'13	1Q'14	2Q'14	3Q'14
Paper	977	995	971	963	928	936	906	914
Pulp (incl. intrasegment sales)	289	292	295	294	321	289	309	322
Intrasegment sales – Pulp	(48)	(49)	(58)	(53)	(56)	(57)	(55)	(50)
Pulp	241	243	237	241	265	232	254	272
SALES(*)	**1,218**	**1,238**	**1,208**	**1,204**	**1,193**	**1,168**	**1,160**	**1,186**
Paper	168	131	125	116	129	124	138	131
Pulp	(4)	22	(7)	29	37	28	10	41
EBITDA before items(*)(**)	**164**	**153**	**118**	**145**	**166**	**152**	**148**	**172**
Paper Shipments – Manufactured	805	828	801	814	817	804	779	776
Paper Shipments - Sourced from 3rd parties	78	83	85	73	41	50	42	47
PAPER SHIPMENTS	**883**	**911**	**886**	**887**	**858**	**854**	**821**	**823**
PULP SHIPMENTS	**385**	**372**	**344**	**352**	**377**	**318**	**336**	**367**

PERSONAL CARE SEGMENT

(In millions of dollars)	4Q'12	1Q'13	2Q'13	3Q'13	4Q'13	1Q'14	2Q'14	3Q'14
SALES	**111**	**111**	**108**	**175**	**172**	**233**	**234**	**231**
EBITDA before items(**)	**18**	**19**	**18**	**22**	**21**	**35**	**31**	**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 (Refer to the Analyst Corner of the IR section of the website)

THE FIBER *of* Domtar

AGILE | CARING | INNOVATIVE

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