



# Domtar Corporation

## Third Quarter 2012 Earnings Call

October 25, 2012

*(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, 2011 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>.



## 3Q'12 OVERVIEW

- **Net earnings of \$1.84 per share**
- **EBITDA before items(\*) of \$207 million**
- **Good performance in pulp and paper and lower costs for planned maintenance**
- **Personal Care segment continued its momentum**
- **\$140 million dollars of free cash flow**
- **Repurchased approximately 578 thousand common shares or 1.7% of our equity.**



## 3Q'12 FINANCIAL HIGHLIGHTS

- **Net earnings of \$1.84 per share**
- **EBITDA before items<sup>(\*)</sup> of \$207 million dollars**
- **Cash flow from operating activities of \$206 million**
- **Capital expenditures of \$66 million**
- **Free cash flow of \$140 million**

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



# EARNINGS STATEMENT

## 3Q'12 vs. 2Q'12

(In millions of dollars)

	2Q'12	3Q'12	Chg	
<b>Sales</b>	<b>1,368</b>	<b>1,389</b>	<b>21</b>	Higher pulp and paper shipments
Cost of sales	1,075	1,100	25	
Depreciation and Amortization	96	96	-	
SG&A	89	80	(9)	Curtailment of certain post-retirement benefit plan
Closure and restructuring costs	-	2	2	
Other operating loss (income), net	2	2	-	
<b>Operating income</b>	<b>106</b>	<b>109</b>	<b>3</b>	
Interest expense	18	20	2	
Income tax expense	27	22	(5)	
Equity loss, net of taxes	2	1	(1)	
<b>Net earnings</b>	<b>59</b>	<b>66</b>	<b>7</b>	



# CASH FLOW STATEMENT

## 3Q'12 vs. 2Q'12

(In millions of dollars)

	2Q'12	3Q'12
<b>Net earnings</b>	<b>59</b>	<b>66</b>
Depreciation and amortization	96	96
Deferred income taxes and tax uncertainties	5	5
Other	2	(5)
<b>Changes in assets and liabilities</b>		
Receivables	62	(27)
Inventories	2	17
Prepaid expenses	(12)	5
Trade and other payables	(33)	40
Income and other taxes	(6)	6
Pension expense over contribution	1	2
Other	(1)	1
<b>Cash flow provided from operating activities</b>	<b>175</b>	<b>206</b>
Additions to PP&E	(76)	(66)
Acquisition of businesses, net of cash acquired	(61)	-
Other	(2)	(1)
<b>Cash flows used for investing activities</b>	<b>(139)</b>	<b>(67)</b>
Dividend payments and stock repurchase, net	(82)	(59)
Net changes in bank indebtedness	9	(7)
Repayment of long-term debt and other	(1)	(2)
Issuance of long-term debt	-	249
Other	(1)	(3)
<b>Cash flows (used for) provided from financing activities</b>	<b>(75)</b>	<b>178</b>



# APPLETON PAPERS / MARLBORO CONVERSION

## Agreement

- **15-year supply agreement**
- **\$3 billion in value**  
(over the life of the agreement)
- **160,000 tons of specialty**  
(incremental business)
- **Second half of 2013**  
(Full run-rate)

## Mill reclassification

### Communication papers

Ashdown, AR  
Windsor, QC  
Hawesville, KY  
Kingsport, TN  
**Marlboro, SC**  
Johnsonburg, PA  
Rothschild, WI

- 270k tons

### Specialty and packaging papers

**Marlboro, SC**  
Nekoosa, WI  
Port Huron, MI  
Espanola, ON

+ 160k tons

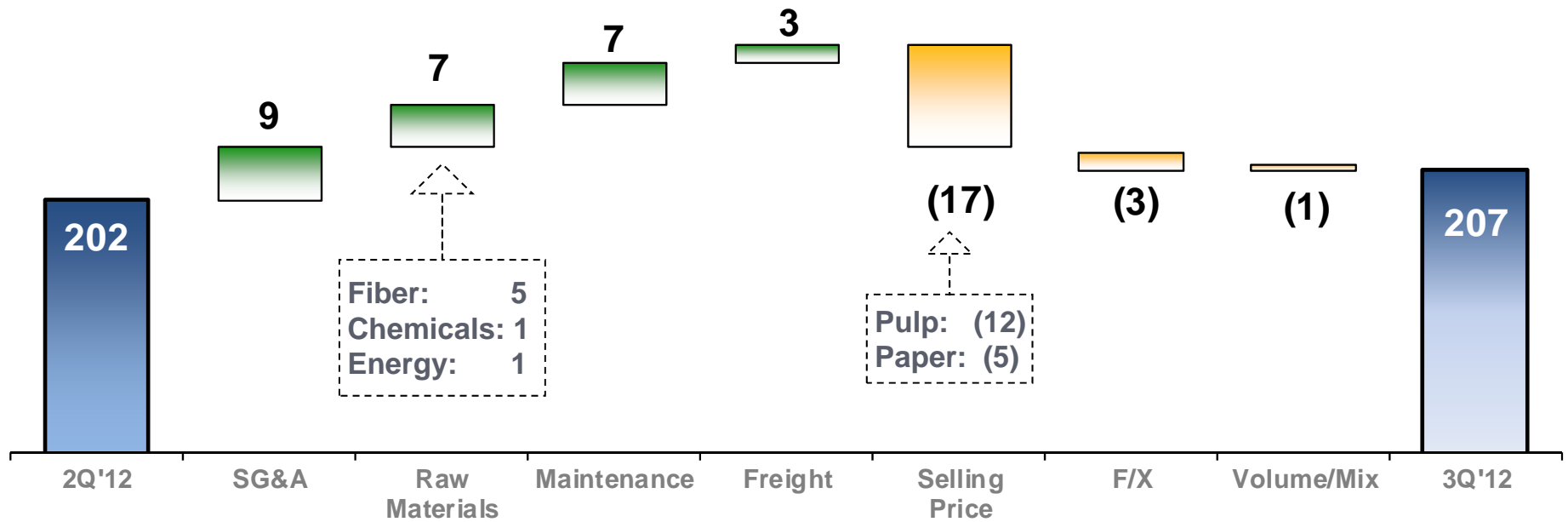
Conversion ratio: 1.7



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

3Q'12 vs. 2Q'12

(In millions of dollars)



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





## BUSINESS SEGMENTS

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

3Q'12

vs 2Q'12

vs 3Q'11

### Sales

Pulp and Paper

1,153

2%

7%

Distribution

167

3%

15%

Personal Care

111

4%

553%\*\*

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

Pulp and Paper

193

\$9

\$92

Distribution

(4)

\$4

\$4

Personal Care

19

\$1

\$17\*\*

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

(\*\*) Results in 3Q'11 included Attends North America for 1 month only



## PULP AND PAPER SEGMENT

### Uncoated Freesheet Paper

(In millions of dollars, unless otherwise noted)

	3Q'12	vs 2Q'12	vs 3Q'11
<b>Sales</b> <i>(incl. sales to Distribution)</i>	\$895	↑ 1%	↓ 8%
<b>EBITDA before items<sup>(*)</sup></b>	\$177	↑ \$9	↓ \$33
	3Q'12	vs 2Q'12	vs 3Q'11
<b>Shipments</b> <i>(in tons, including internal sales)</i>	826	↑ 1%	↓ 7%
<b>Transaction prices</b> <i>(US\$ / ton - net, all regions)</i>		↓ \$7	↓ \$15

(\*) 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'12	vs 2Q'12	vs 3Q'11
<b>Sales</b> <i>(incl. intrasegment sales)</i>	\$309	4%	9%
<b>EBITDA before items<sup>(*)</sup></b>	\$16	-	\$59
	3Q'12	vs 2Q'12	vs 3Q'11
<b>Shipments</b> <i>(in ADMT, excluding internal sales)</i>	415	13%	16%
<b>Transaction prices</b> <i>(US\$ / ADMT - net, all regions)</i>		\$27	\$144

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

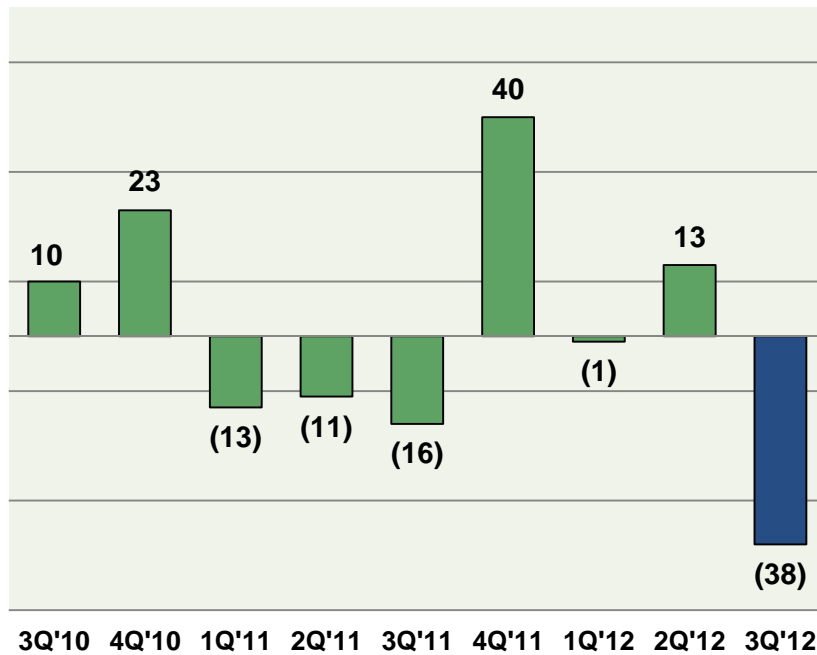
# PULP AND PAPER SEGMENT

## Inventories



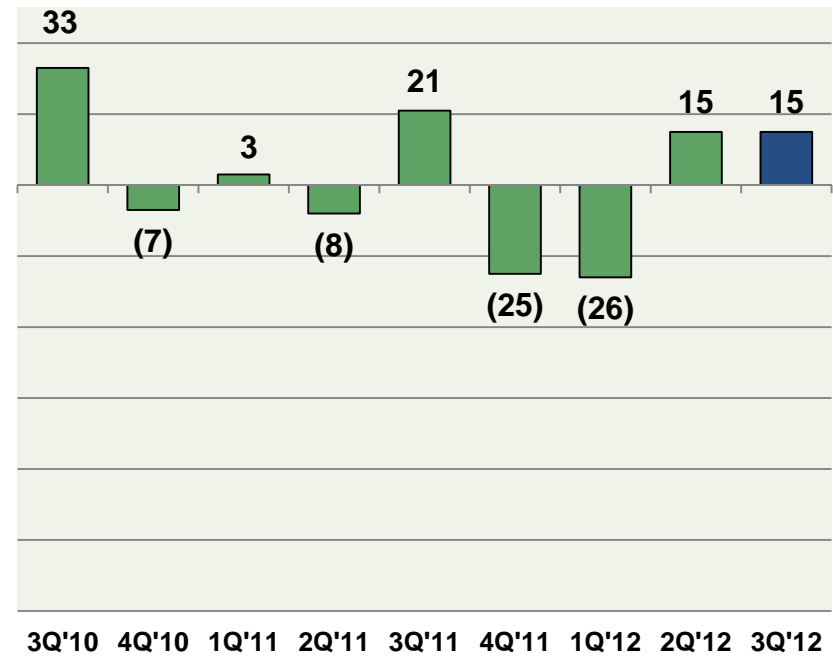
### Paper

*(Sequential variations in thousands of tons)*



### Pulp

*(Sequential variations in thousands of metric tons)*

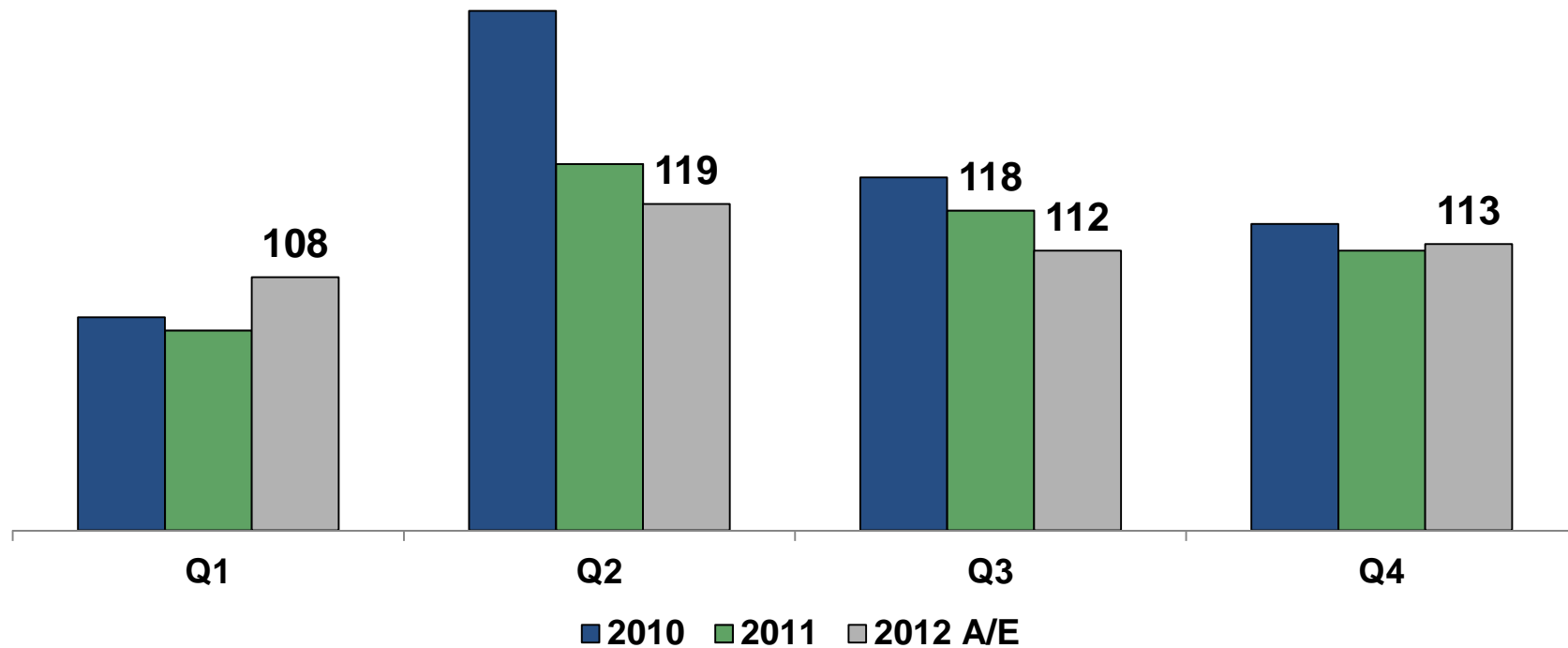




# MAINTENANCE COSTS(\*)

## Actual 2010, 2011 and Actual/Estimates 2012

(In millions of dollars)



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



## OUTLOOK

- **Due to seasonal factors, Domtar paper shipments are expected to decline in the fourth quarter when compared to the third quarter.**
- **In pulp, we anticipate that prices will begin to gradually increase in the medium term due to favorable market dynamics and low softwood inventory levels.**
- **Input costs, notably energy and chemicals are expected to increase slightly in the fourth quarter.**

# THE FIBER *of* Domtar

AGILE | CARING | INNOVATIVE



  
Domtar



## SALES AND EBITDA\* BY SEGMENT

### PULP & PAPER SEGMENT

<i>(In millions of dollars)</i>	3Q'11	4Q'11	1Q'12	2Q'12	3Q'12
Paper (incl. sales to Distribution)	969	905	937	886	895
Pulp (incl. intrasegment sales)	338	339	308	297	309
Intrasegment sales – Pulp	(61)	(67)	(54)	(51)	(51)
Pulp	277	272	254	246	258
<b>SALES</b>	<b>1,246</b>	<b>1,177</b>	<b>1,191</b>	<b>1,132</b>	<b>1,153</b>
Paper	210	190	198	168	177
Pulp	75	41	5	16	16
<b>EBITDA before items<sup>(*)</sup></b>	<b>285</b>	<b>231</b>	<b>203</b>	<b>184</b>	<b>193</b>

### DISTRIBUTION SEGMENT

<i>(In millions of dollars)</i>	3Q'11	4Q'11	1Q'12	2Q'12	3Q'12
<b>SALES</b>	<b>197</b>	<b>177</b>	<b>189</b>	<b>172</b>	<b>167</b>
<b>EBITDA before items<sup>(*)</sup></b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>(4)</b>

### PERSONAL CARE SEGMENT

<i>(In millions of dollars)</i>	3Q'11	4Q'11	1Q'12	2Q'12	3Q'12
<b>SALES</b>	<b>17</b>	<b>54</b>	<b>70</b>	<b>107</b>	<b>111</b>
<b>EBITDA before items<sup>(*)</sup></b>	<b>2</b>	<b>10</b>	<b>12</b>	<b>18</b>	<b>19</b>

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